

PART I**AGENDA**

**ASSEMBLY BUDGET SUBCOMMITTEE NO. 4
ON STATE ADMINISTRATION
Assemblymember Juan Arambula, Chair**

**WEDNESDAY, MAY 23, 2007
STATE CAPITOL, ROOM 447
UPON CALL OF THE CHAIR**

| ITEM | DESCRIPTION | PAGE |
|-------------------------------|---|-------------|
| OPEN ITEMS (Vote Only) | | |
| 1760 | DEPARTMENT OF GENERAL SERVICES (DGS) | 3 |
| ISSUE 1 | APRIL 1 ST DOF LETTER: PRISON CONSTRUCTION INSPECTION, SAN QUENTIN | 3 |
| ISSUE 2 | CAPITOL MAINTENANCE AND REPAIRS (BCP# 27) | 4 |
| 2240 | DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT | 5 |
| ISSUE 1 | PROPOSITION 1C BUDGET CHANGE PROPOSAL (BCP#3) | 5 |
| ITEMS TO BE HEARD | | |
| 0520 | SECRETARY FOR BUSINESS TRANSPORTATION AND HOUSING | 8 |
| ISSUE 1 | SMALL BUSINESS LOAN GUARANTEE PROGRAM/UNDERCAPITALIZED FINANCIAL DEVELOPMENT CORPORATIONS | 8 |
| ISSUE 2 | FEDERAL FUNDING FOR ECONOMIC DEVELOPMENT CORPORATIONS | 9 |
| 1760 | DEPARTMENT OF GENERAL SERVICES (DGS) | 11 |
| ISSUE 1 | MAY REVISE LETTER CAPITAL OUTLAY: FOOD AND AGRICULTURE BUILDING RENOVATION | 11 |
| ISSUE 2 | MAY REVISE LETTER CAPITAL OUTLAY: RETROFIT PROJECT AUGMENTATION | 12 |
| ISSUE 3 | MAY REVISE LETTER CAPITAL OUTLAY: CENTRAL PLANT RENOVATION PROJECT | 13 |
| ISSUE 4 | STATE CAPITOL SECURITY FUNDING | 14 |

| | | |
|-------------|---|-----------|
| 7100 | EMPLOYMENT DEVELOPMENT DEPARTMENT | 15 |
| ISSUE 1 | MAY REVISE LETTER: WORKFORCE INVESTMENT ACT (WIA) ADJUSTMENTS | 15 |
| 9210 | LOCAL GOVERNMENT FINANCING | 17 |
| ISSUE 1 | INFORMATIONAL-ERAF PROPERTY TAX SHIFTS FROM LOCAL PARK DISTRICTS | 17 |
| | CONTROL SECTIONS | 18 |
| CS 4.30 | MAY REVISE LETTER | 18 |
| CS 4.85 | MAY REVISE LETTER | 19 |

OPEN ITEMS (VOTE ONLY)

ITEM 1760 DEPARTMENT OF GENERAL SERVICES (DGS)

| |
|---|
| ISSUE 1: APRIL 1ST DOF LETTER: PRISON CONSTRUCTION INSPECTION, SAN QUENTIN. |
|---|

In an April 1st letter, Department of Finance (DOF) proposes the following amendments to the January 10th budget:

Amendment to Budget Bill Item 1760-001-0602. Support, Department of General Services

Increase Item 1760-001-0602 by \$1,802,000 and 10.3 personnel years to reflect the revised construction schedule for the condemned inmate complex.

| |
|------------------|
| COMMENTS: |
|------------------|

Budget staff understands that DGS submitted an "informational request" to DOF regarding the expansion of the Condemned Inmate Complex. In reviewing the proposal, it appears that DGS submitted the request in anticipation of the Legislature's approval of additional resources for the expansion of the project. Since the Legislature has not provided additional resources, staff understands that the project is at a stand still and DGS is not in need of these funding or staffing resources.

**ISSUE 2: STATE CAPITOL AND GROUNDS MAINTENANCE AND REPAIRS
(BCP#27)**

The issue for the subcommittee to consider is the department's request of an augmentation of \$947,000 (General Fund) to fund maintenance, special repairs, and utilities for the State Capitol and \$267,000 (General Fund) and 4.5 positions to maintain and service the security barrier system within Capitol Park.

BACKGROUND:

The DGS budget includes a General Fund baseline of \$7.7 million for the maintenance of the State Capitol. This amount includes an augmentation to the baseline of \$1.2 million, which was included in the *2006-07 Budget Act* to support the Capitol infrastructure and security maintenance.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**ISSUE 1: PROPOSITION 1C BCP#3**

The Department is requesting \$6.4 million (various funds) and 45.0 new positions to perform workload associated with Proposition 1C in 2007-08. The request includes out-year budget adjustments for annual changes in workload (the 2008-09 request is for \$10.5 million and 71.0 positions).

Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C). Prop 1C provides for a general obligation bond issuance not to exceed \$2.85 billion. The Governor proposes to expend \$653.0 million of Prop 1C revenues in 2007-08 (excluding \$6.4 million and 45 new positions for administration). Using existing expenditure authority, the department plans to spend \$160 million in 2006-07 (excluding \$1 million for administrative costs), for a combined two year total of \$820 million. Some Prop 1C programs are already continuously appropriated and other programs require expenditure authorization.

The chart below outlines proposed Prop 1C expenditures by category and indicates whether each program will be administered by the Housing and Community Development (HCD) Department, or by the California Housing Finance Authority. Dollars are in thousands and 2006-07 and 2007-08 allocations exclude administrative costs.

| PROPOSITION 1C Category | 2006-07 Allocations | 2007-08 Allocations | Total Proposition 1C | Appropriation | Budget |
|---|---------------------|---------------------|----------------------|---------------------|--------|
| Home Ownership Programs | | | | | |
| CalHome | \$35,000 | \$55,000 | \$290,000 | Continuous | HCD |
| CA Homeownership Program (BEGIN) | 0 | 40,000 | 125,000 | Needs Appropriation | HCD |
| Self-Help Housing Program | 0 | 3,000 | 10,000 | Continuous | HCD |
| CA Homebuyers Down-payment Assistance Program | 0 | 15,000 | 100,000 | Continuous | CalHFA |
| Residential Development Loan Program | 0 | 15,000 | 100,000 | Continuous | CalHFA |
| Affordable Housing Innovation Fund | 0 | 15,000 | 100,000 | Needs Appropriation | HCD |

| PROPOSITION 1C Category | 2006-07 Allocations | 2007-08 Allocations | Total Proposition 1C | Appropriation | Budget |
|---|---------------------|---------------------|----------------------|---------------------|--------|
| Multi-Family Rental Housing Program | | | | | |
| General | 70,000 | 140,000 | 345,000 | Continuous | HCD |
| Supportive Housing | 20,000 | 80,000 | 195,000 | Continuous | HCD |
| Homeless Youths | 15,000 | 15,000 | 50,000 | Continuous | HCD |
| Other Programs | | | | | |
| Joe Serna Jr. Farmworker Housing Loans/Grants | 20,000 | 40,000 | 135,000 | Continuous | HCD |
| Emergency Housing Assistance | 0 | 10,000 | 50,000 | Continuous | HCD |
| Infill Incentive Grants | 0 | 100,000 | 850,000 | Needs Appropriation | HCD |
| Transit Oriented Development | 0 | 95,000 | 300,000 | Needs Appropriation | HCD |
| Housing Urban-Suburban and Rural Parks | 0 | 30,000 | 200,000 | Needs Appropriation | HCD |
| TOTAL | \$160,000 | \$653,000 | \$2,850,000 | | |

COMMENTS:

Staff recommends the following actions for 2007-08 proposals:

- \$40 million allocation for Building Equity in Neighborhoods Program (BEGIN). This program provides grants to cities and counties to make deferred –payment second mortgage loans to qualified buyers of newly constructed homes.

Recommendation: Appropriate funding for one year.

- \$15 million allocation for Affordable Housing Innovation Fund (AHI). This is a new category of funding and subject to legislation.

Recommendation: Reject proposed appropriation.

- \$30 million allocation for Housing Urban-Suburban and Rural Parks. These funds are available upon appropriation by the Legislature for housing-related park grants in urban, suburban and rural areas, subject to the conditions and criteria that the Legislature may provide in statute.

Recommendation: Reject proposed appropriation.

- \$95 million allocation for Transit-Related Development (TOD). Proposition 1C creates a new transit-oriented development program to be used for developing or facilitating the development of higher density uses (infill development) within close proximity to transit stations that will increase public transit ridership.

Recommendation: Reject proposed appropriation.

- \$100 million to the Regional Planning, Housing, and Infill Incentive Account. Funds would provide incentive grants for capital outlay related to infill housing development.

Recommendation: Appropriate funding for one year.

ITEMS TO BE HEARD**ITEM 0520 SECRETARY FOR BUSINESS TRANSPORTATION AND HOUSING****ISSUE 1: SMALL BUSINESS LOAN GUARANTEE PROGRAM -
UNDERCAPITALIZED FINANCIAL DEVELOPMENT CORPORATIONS**

The Small Business Loan Guarantee Program is administered by 11 non-profit Financial Development Corporations (FDCs). To fund loan guarantees, FDCs leverage their trust funds at up to a 3/1 ratio to provide loans guarantees to small businesses. Among the individual FDCs there is a great variance of the capitalization levels and subsequently the volume of loan guarantees that the FDCs are able to provide.

STAFF COMMENTS

As noted in the chart above, the levels at which FDCs are capitalized (which drives the volume of loan guarantees issued) varies greatly between each FDC. Staff has heard concerns from the FDCs that capitalization levels are not adequate to provide for the total demand that they encounter from their local small business community. At the hearing, the Office of the Secretary should be prepared to discuss what options the legislature has to increase loan guarantee volume in those regions that are undercapitalized and statewide.

Staff is recommending that the subcommittee approve \$7.5 million for the small business loan guarantee program.

ISSUE 2: FEDERAL FUNDING FOR ECONOMIC DEVELOPMENT PROGRAMS

Since the demise of the Technology Trade and Commerce Agency, the Secretary for Business Transportation and Housing has managed many of the state's small business assistance and economic development programs. The programs that are housed in BTH were specifically transferred to the agency via trailer bill in the 2002/03 while those that were not transferred were deleted from code.

STAFF COMMENTS

Federal Technology Centers. The Federal Technology Center was established in 1985 in response to DOD's interest in increasing the number of contracts with small business suppliers. Due to the federal government's complex procurement laws and regulations and the limited procurement assistance available to small businesses, a specific technical assistance program was established. There are now 93 Federal Technology Centers in the United States that provide training and assistance to small businesses regarding competitive contracts with federal, state, and local governments.

These government contracts focus on the creation and retention of jobs in California and increasing the state's share of federal spending. The California Center was established in October 2000 in 10 Northern California counties. Since its inception, 1,641 clients have been assisted, resulting in 5,282 contract awards for a total of \$260.8 million and the creation or retention of 6,136 jobs. The FTC services a wide variety of industries and client bases. Client locations are throughout California with 35% in the Bay Area, 34% in the Greater Sacramento area, 14% in Northern California, 10% in Southern California, and 7% in Central California.

LAO Recommended Supplemental Report Language.

As was discussed when this item was previously heard, the LAO was going to return to the Legislature with supplemental reporting language that requires BTH to report to the subcommittee on federal funding that exists for economic development programs:

ITEM 0520-001-0001—SECRETARY FOR BUSINESS, TRANSPORTATION AND HOUSING

Federal Funds for Economic Development. The Business, Transportation and Housing Agency shall report to the Joint Legislative Budget Committee and appropriate fiscal committees of the Legislature by March 31, 2008, on the availability of federal funds for economic development programs. Specifically, the report should provide information on the source and amount of federal funds available for economic development programs, the specific type of program(s) supported by each federal grant, and whether and to what extent there is a requirement for state matching funds. The report shall also indicate whether state application is required to access the funds, or whether the funds could be directly granted by the federal government to local governments and/or non-governmental entities.

Staff Comments. Currently there is no funding available for the FTC programs to access federal matching dollars. In prior years, funding has been included in the Technology Trade and Commerce Agency for this program, however funding ceased when the agency was dissolved. It has been requested of staff by FTC's that the budget include \$300,000 for the Business Transportation and Housing agency for use as a match to federal funds allocated to the California Statewide Technical Assistance Center (FTC), as designated to the federal Department of Defense (DOD), for the operation of its procurement assistance program to help small businesses compete for government contracts.

Staff is recommending that the subcommittee: 1) approve trailer bill language that provides the Secretary for Business Transportation and Housing with the Authority to provide economic development grants to leverage federal dollars. 2) Approve LAO proposed supplemental report language; 3) Approve \$300,000 (General Fund) augmentation to the Office of the Secretary to provide grants to the Federal Technology Center to leverage Department of Defense funds; and 4) Approve \$85,000 (General Fund) and 1 PY to administer the grant and supplemental report workload

ITEM 1760 DEPARTMENT OF GENERAL SERVICES (DGS)**ISSUE 1: MAY REVISE LETTER CAPITAL OUTLAY: FOOD AND AGRICULTURE BUILDING RENOVATION**

In a May Revise letter, DOF proposed to make the following changes to the January 10th budget:

Add Item 1760-491 to extend the liquidation period for the Food and Agriculture Building Renovation until June 30, 2008. Construction of this facility was completed and the building was occupied in August 2005. However, a contractor's claim has been filed and the department does not anticipate resolution on the claim prior to expiration of the funds.

COMMENTS:

DGS Capital Outlay staff notified budget staff that there is \$2.1 million remaining in bond funds that have yet to be spent and that they only anticipate using about \$500,000.

ISSUE 2: MAY REVISE LETTER CAPITAL OUTLAY: RETROFIT PROJECT AUGMENTATION

In a May Revise letter, DOF proposed to make the following changes to the January 10th budget:

Increase Item 1760-301-0768 by \$1,160,000 to augment the construction phase for the Deuel Vocational Institute, Tracy Hospital Building Structural Retrofit Project. Bids for the construction phase of this project were received on March 8, 2007, with the lowest bidder being 31 percent over the estimated construction cost. The increased costs for this project are primarily due to the higher costs for materials and labor than were originally required by the Department.

**ISSUE 3: MAY REVISE LETTER CAPITAL OUTLAY: CENTRAL PLANT
RENOVATION PROJECT**

In a May Revise letter, DOF proposed to make the following changes to the January 10th budget:

Add Item 1760-490 to re-appropriate Item 1760-301-0660 (1) Budget Act of 2003, as re-appropriated by Item 1760-490, Budget Act of 2005. The administration is proposing to augment the construction phase of the Central Plant Renovation project and, therefore, proposes to extend the availability of the original appropriation to be consistent with the revised schedule.

LAO RECOMMENDATION:

The administration proposes a supplemental appropriation of \$82.7 million dollars to provide funding necessary to accomplish renovation and upgrades required at the Central Plant due to aging equipment and infrastructure, lack of heating and cooling capacity, and cease and desist orders stemming from cooling water discharge into the Sacramento River. The Legislature previously appropriated \$148.7 million in the *2003-04 Budget Act* for this project. Due to rising construction costs and delays in the project this level of funding is no longer sufficient to accomplish the project. The Central Plant provides heating and cooling for 23 state owned office buildings in downtown Sacramento including the Capitol building. This proposal includes provisional language extending the life of the original appropriation to coincide with the revised project schedule.

The funding request is based on the average of bids received on the project. Barring any unexpected difficulties, the contract will be awarded to the lowest bidder. If so, there will be excess appropriation authority. Therefore, in addition to the additional \$82.7 million and provisional language extending the availability of funds requested by the administration, the LAO recommends the following provisional language to revert any such excess funds.

Provisions:

1. *After execution of a design-build contract, any funds provided in this item for design build contracts in excess of the executed amount of the contract shall be immediately reverted and shall no longer be available for expenditure.*

ISSUE 4: STATE CAPITOL SECURITY FUNDING

The issue for the subcommittee to consider is an augmentation request of an additional \$1.2 million (Service Revolving Fund) for State Capitol security.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT (EDD)**ISSUE 1: MAY REVISE LETTER: WORKFORCE INVESTMENT ACT (WIA) REDUCTIONS**

In a May Revise letter, DOF proposes the following amendments to the January 10th budget:

Workforce Investment Act Adjustments—It is requested that Item 7100-001-0869 be decreased by \$11,164,000 and 6.6 personnel years to reflect a projected decrease in state operations for the Consolidated Workers Program under the Workforce Investment Act (WIA). For technical conformity, it is requested that Item 7100-021-0890 also be decreased by the same amount.

It is requested that Item 7100-101-0869 be decreased by \$23,734,000 to reflect a reduction in local assistance for the Consolidated Workers Program under the WIA. For technical conformity, it is also requested that Item 7100-101-0890 be decreased the same amount.

WIA Discretionary Funds Expenditure Plan--The federal government recently reduced the Workforce Investment Act (WIA) allocation to California by \$35.0 million, reducing WIA funding for the state from \$413 million to \$378 million. As a result of this funding reduction, EDD submitted a May Finance Letter to reduce local assistance funding to local Workforce Investment Boards by \$23.7 million and to reduce the state operations component by \$11.2 million and 6.6 personnel years. A subcomponent of the \$11.2 reduction is a reduction of \$5.3 million to the "15 Percent Discretionary Funds" (Discretionary) – for remaining Discretionary funding of \$56.7 million. The Discretionary funds support a wide range of workforce development services such as nurse education, parolee services, and youth programs.

Attachment 1 to this agenda provides detail on the proposed use of Discretionary Funds in the Governor's Budget and the May Revision, and shows how the administration proposes to reduce and/or shift funding in response to the federal funding cut.

LAO COMMENTS:

The federal WIA allocation has decreased this year, with a corresponding decrease of \$5.3 million available for the state's 15% discretionary funds. The changes are reflected in the budget schedule categories as follows:

- 61.35 Admin. and Program Services - decrease of \$1M
- 61.40 High Wage/High Skill Job Training- decrease of \$2.1M
- 61.50 Industries with a statewide need - decrease of \$2.8M
- 61.60 Removing Barriers for Special Needs Populations - increase of \$0.6M

The primary changes to this funding proposal are the removal of all but \$600,000 for the Regional Collaboratives initiative that had been proposed in January and the addition of \$2.8 million for an At-Risk/ Youthful offender training project. Within the decrease to 61.50, there is reduction of \$1.8 million for the grants to "Critical Shortage Industries". This area funds proposals to train workers for the industries of Nursing/Healthcare/Construction and Logistics.

New Funds for At-Risk/Youthful Offender Gang Prevention.

The additional funds for At-Risk/Youthful Offender Gang Prevention, would be the only initiative in the proposal that the Legislature has not previously approved. The LAO received information from EDD on this initiative, describing some successful ongoing WIA-funded programs aimed at At-Risk youth and ex-offenders. At least a couple of these programs appear to have garnered positive results that include employment, decreased recidivism and collaborations with probation agencies.

In past years the 15% funds have included "Youth Grants". In the May revise proposal, this is funded at \$2 million. These funds have been used to serve at-risk youth, youthful offenders and others with barriers to employment. Also, the 85% of WIA Youth funds that flow to the local areas are directed by eligibility requirements to serve economically disadvantaged youth who have other barriers to employment (such as offenders, former foster youth, homeless, drop-outs, pregnant or parenting). As a result, this new proposal seems to be an expansion of funding for the types of WIA services that are currently provided to this population. The detailed information that EDD provides about successful *existing* programs also supports this observation. The Legislature may want to choose whether it wishes to provide more funding of this type with discretionary dollars or prevent the reductions mentioned above to other programs.

ITEM 9210 LOCAL GOVERNMENT FINANCING**ISSUE 1: INFORMATIONAL--ERAF PROPERTY TAX SHIFTS FROM LOCAL PARK DISTRICTS**

ERAF property tax shifts divert more than 25 percent of property tax revenues from 33 local recreation and park districts.

In the early 1990s the state created the "ERAF" mechanism and shifted property tax revenues from local governments to K-14 education in order to reduce the state's General Fund Proposition 98 spending obligation and help balance the state budget. After the passage of Proposition 13 in 1978, the Legislature backfilled much of the reduction in local property tax revenue by reallocating property tax from schools to local governments, with increased state funding making up the loss to schools. The ERAF property tax shifts of the early 1990s undid a portion of this post-Proposition 13 "bailout." Under state law, each county has an Educational Revenue Augmentation Fund (ERAF) which receives diversions of property tax revenues from the county, cities, and special districts (including single-county park districts) in that county. The ERAF funds are allocated to schools and community colleges in that county and offset the state's education funding obligations.

Recreation and park districts, unlike cities and counties, have no general taxing authority, and they also have limited ability to raise entrance and other fees to generate revenue. Furthermore, their ability to serve low-income youth and seniors would be compromised by high fees.

Capping the ERAF Shift for Park Districts. One option would be for the state to cap the ERAF shift from park districts at 25 percent. The state cost (through increased school funding) of doing so would be about \$9.4 million, based on 2003-04 figures (the cost would be somewhat greater now due to property tax growth).

COMMENTS

- ***Who Should Pay?*** An alternative for cash-strapped local park districts would be to seek increased funding from the cities and counties whose citizens they serve. This could be done through direct contributions or through a reallocation of local property taxes from those entities to park districts.
- ***Equity.*** In most cases, cities provide park services directly to their residents (e.g., Sacramento, San Francisco, and Los Angeles) and pay for them out of their own budgets. Would it be fair to ask state taxpayers to subsidize local park services in cities served by park districts? On the other hand, multi-county park districts are exempt from ERAF shifts, raising the question of why single-county districts should be treated differently.

CONTROL SECTIONS

CS 4.30 MAY REVISE LETTER

In a May Revise letter, DOF proposed to make the following changes to the January 10th budget:

Addition of Various Debt Service Adjustments.

These adjustments are necessary to make various technical corrections for the payment of lease revenue debt service and related insurance costs in fiscal year 2007-08. The total of these changes is a decrease of \$5,574,000 in General Fund expenditures and a decrease of \$290,000 in other funds to pay for the lease revenue bonds that were sold to finance various capital outlay projects. These adjustments are the result of revised debt service payment estimates in 2007-08 and are reflected as a set-aside for Control Section 4.30 adjustments.

Once the Budget Act has been signed, an executive order will be processed per Control Section 4.30 to allocate the adjustments as specified in the May Revision letter.

The May Revise letter C.S. 4.30 also provides \$4.4 million for the payment of lease revenue debt services in fiscal year 2007-08 for the Los Angeles Regional Crime Lab.

CS 4.85 MAY REVISE LETTER

In a May Revise letter, DOF proposed to make the following changes to the January 10th budget:

It is requested that Control Section 4.85 be added to the Budget Bill to authorize the remaining bond proceeds from the 1993 Series A and the 1998 Series B Public Works Board Energy Bonds to be swept into the General Fund. The bond debt on these bonds has been retired and approximately \$5.1 million in remaining funds have been identified as surplus.