

AGENDA

ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

PART 2

Assemblymember Juan Arambula, Chair

**TUESDAY, MAY 27, 2008, 1:30 PM
STATE CAPITOL, ROOM 447**

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CONSENT ITEMS

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

ISSUE 1: TBL RELATED TO OPSC'S EMERGENCY REPAIR PROGRAM

The Administration proposes Budget Trailer Bill Language (TBL) to require a county superintendent or his or her designee to conduct financial and compliance audits of school districts within his or her county that obtained Emergency Repair Program (ERP) funds.

COMMENTS

It is unclear whether county offices have the expertise to conduct these audits, and also raises concerns regarding local mandated costs. Staff recommends rejection of this language.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 1: BUDGET BALANCING REDUCTION – UNEMPLOYMENT INSURANCE APPEALS BOARD

The Governor's Budget proposes a reduction of \$56,000 affecting the Board's ability to resolve liability regarding Personal Income Tax withholdings.

COMMENTS

The Board testified during Special Session that this reduction would have relatively little impact on their ability to provide services. This was held open due to discussions on the broader unemployment issues that exist in the state, specifically in regards to services provided by EDD.

VOTE ONLY ITEMS

ITEM 1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 1: BUREAU OF AUTOMOTIVE REPAIR - SRL

The Bureau of Automotive Repair used to report to the Legislature every year pursuant to this language:

Smog Check Program. The Bureau of Automotive Repair (BAR) shall, by October 15, 2000 and quarterly thereafter, provide a report to the appropriate policy and fiscal committees in each house, and the Chairperson of the Joint Legislative budget Committee detailing the performance of each program funded by the High Polluter Repair or Removal Account, including the Income Eligible Repair Assistance Program, the Test-Only Repair Assistance Program, and the Vehicle Retirement Program. For each program, the report shall include, but not be limited to, a program description, program participation (including vehicle information), the cost of implementing the program (including administrative costs), and the estimated reduction in emissions (Nitrogen Oxide, Carbon Monoxide, and Hydrocarbons). The estimate of emission reductions shall be done in consultation with the Air Resources Board.

COMMENTS

This report hasn't been done for several years, but some concern has been raised about why these programs are not ramping up their efforts as quickly as expected. The Committee may wish to adopt this language in concept and have staff update it for current issues.

ITEMS TO BE HEARD

ITEM 0890 SECRETARY OF STATE

ISSUE 1: BUDGET BALANCING REDUCTION – 10 PERCENT CUT

The Governor proposed a 10 percent cut for the Secretary of State's office, but did not allocate how those cuts should be made. The 10 percent cut is equivalent to \$3.505 million.

The Secretary of State's office has proposed a reduction plan that will reduce costs associated with the printing and mailing of the Voter Information Guide (VIG). Specific proposed changes include:

- Eliminating perforation and special gluing for the pullout guide;
- Eliminating the use of color ink;
- Using lighter weight newsprint;
- Reducing the overall dimensions of the guide; (requiring a statutory change)
- And eliminating duplicate mailings to households (requiring a statutory change)

COMMENTS

The discussion in the first hearing on this subject centered on the proposal to eliminate duplicate mailings of Voter Information Guides (VIG) to households. The Committee asked the SOS to return with other options for achieving the cost reductions.

Of the total proposed cut of \$3.5 million, approximately \$1.5 million of it comes from eliminating duplicate mailings to households. The SOS has a total GF administrative budget of \$35 million and \$12.5 million of that is for "special items of expense" which funds election costs such as the VIG. The SOS proposed cuts come from the special items of expense. Another \$10.5 million in expenses cover rent costs.

This leaves approximately \$12 million remaining for the \$1.5 million cut. The cut could only be achieved through large staffing reductions in IT, elections, archives, or political reform divisions. These are very small divisions and cuts of this magnitude would likely drastically reduce core services provided.

Trailer Bill Language is necessary to implement the reduced dimension and mailing changes proposed by the SOS. The proposed trailer bill makes these changes permanent. Staff recommends that the Committee consider making the change regarding duplicate mailings to a household a one year change only. The Committee expressed concern about this component in the initial hearing, and this would allow for further review of the effect this had on voters vs. the savings acquired.

ISSUE 2: LOCAL ELECTION COSTS

Pursuant to *Chapter 2, Statutes of 2007* (SB 113), the Governor requests \$89.6 million (General Fund) for costs incurred by the counties for the Presidential Primary Election held in February of 2008.

This bill moved the primary election for President of the United States up to February, and guaranteed reimbursement to counties for the cost of moving that election up. The election previously was combined with the state primary in June.

COMMENTS

The appropriations estimate had costs at \$48-\$80 million. The requested amount of funding is higher than the upper end of that estimate. The Administration sights the following reasons for higher costs.

- 1) The election was a primary, which requires more ballots because each party gets its own. Primary's are typically more expensive.
- 2) Many counties had to switch to the use of paper ballots, increasing costs.
- 3) Increased registration and increased vote-by-mail use, which the SOS sites as a cost increase factor (the Committee may wish to ask why vote-by-mail use increases costs).
- 4) HAVA requirements.

Based on discussions, it is not clear why original cost estimates should not have included all or many of these factors. It is also unclear whether these estimates have been scrutinized to ensure accuracy.

These costs must be reimbursed, but the Committee may wish to expand upon the limited information the State currently receives to ensure the accuracy of the reimbursements. Staff has had productive discussions with DOF, SOS, and county representatives and believes that putting this issue into conference would allow time to finalize these discussions and reach a mutually agreed upon course of action.

Though it appears the final numbers needed for reimbursement will likely be at or near the Finance request, it may be appropriate for the committee to adopt the lower range of possible funding projected by the Appropriations committee in regards to the authorizing legislation, \$48 million. This will also serve to send the issue to conference. Budget bill language will also be necessary to specify what information will be necessary, authorize the appropriate level of expenditure for each county, and direct the State Controllers Office to audit these levels of reimbursement for accuracy. The Committee may wish to direct staff to work with all interested parties to develop this language prior to conference committee.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES**ISSUE 1: ARCHITECTURE REVOLVING FUND DEFICIT**

The Administration notified the Legislature via this BCP that there is a \$14.7 million deficit within the DGS' ARF, and new estimates by the Department show that deficit at over \$25 million. DGS originally proposed a multi-faceted plan to resolve the ARF deficit, but has since presented a plan to implement a surcharge on all projects going forward to pay down this deficit.

The ARF is a depository for moneys appropriated for new construction, major construction and equipment, minor construction, maintenance and equipment, and other building improvement projects. According to DGS, the deficit condition has occurred in 11 of the past 12 years and a total of 902 projects have closed with a deficit since 2002-03. The deficit is the result of several factors, including the following:

Constructions Delays – which lead to inflation in expected costs.

Rates set too far in advance – Hourly rates are set 5 years in advance

Cancelled projects – Costs are not refunded to this fund when a project is cancelled

Unfunded projects – Some projects have been funded out of this fund without a source for repayment.

COMMENTS

Subsequent to our previous hearing on this issue, DGS and DOF have provided an "ARF Deficit Action Plan" containing the following points:

- Based on additional reconciliation of records primarily from non-closed projects, **the DGS now estimates the ARF deficit at \$27.2 million** (or almost double the original estimate).
- The Administration plans to address the ARF deficit in an entirely prospective manner by **levying a 3.119-percent surcharge** on specified new ARF-funded projects, rather than attempting to identify, allocate, and recover costs directly from state agencies for specified unfunded or under-funded projects. The Administration believes this approach will better enable client agencies to anticipate and budget for the costs, and will minimize the workload on the DGS and client agencies.
- The ARF surcharge would be implemented beginning in FY 2008-09 and run through FY 2012-13, by which time the DGS anticipates the deficit would be fully recovered and a **\$1.0 million reserve** would be in place.
- DGS is already doing or is planning to do each of the following to further address the ARF deficit:
 - Additional budget training for DGS staff.
 - Reissue a revised Administrative Order 06-14 to enhance system controls and ensure that no project is initiated until available funds are identified to pay for the project.
 - Meet with the Department of Finance monthly to provide status updates.
 - Implement a training program for project directors and project managers.

- Augment non-closed capital outlay deficit projects through the existing capital process so that actual project costs are accurately reflected.
- Develop and distribute a Management Memo to all state agencies with direction on the appropriate use of the ARF.
- During the 2009-10 budget process, the DGS plans to propose:
 - A shift of \$43.6 million in positions-related expenditures (including operating expenses and equipment) from the ARF to the Service Revolving Fund (SRF) in recognition of the fact that the ARF is not a true fund. Rather, services rendered by positions currently funded by the ARF should be funded by the SRF and reimbursed by the ARF to the extent work is performed/funding is deposited.
 - Exclusion of the ARF from the Statewide Prorata assessment.

The Administration's plan to place the entirety of the burden of this debt on projects going forward creates an equity problem. Those departments and agencies who received the benefit of the work, will not be the ones paying for it. Staff worked with all parties to discuss the possibility of allocating some of the deficit to those who used the services, while allowing a surcharge for the remaining amount, recognizing that it may not be cost effective nor feasible to collect the entirety of the deficit from those who created it. This balanced approach will help support DGS' ongoing efforts to make it clear that projects will not be started until funding is provided.

Based on the action plan and supplementary information provided by the Administration, the Subcommittee may wish to ask who is ultimately responsible for ordering projects to go forward without funding in the ARF? What assurance can the Administration provide that work of this kind will not occur in the future—that is, without funding—even when there is an overwhelming political, to do so?

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**ISSUE 1: BUDGET BALANCING REDUCTION – EMPLOYEE HOUSING**

The Governor's budget proposes a reduction of \$85,000, which will be achieved through the elimination of approximately 2/3 of a position responsible for inspection of employee housing facilities.

COMMENTS

There has been some concern that even prior to the proposed reduction, the level of investigation of these facilities was not adequate. This reduction would further deteriorate the sufficiency of those investigations.

This program is funded primarily from fees imposed on the employers providing the housing to fund the inspection of those facilities. The fees range from \$12 to \$35 based on what they are for. These fees have not been adjusted since approximately 1982.

Staff recommends adopting the proposed reduction, but would note that in light of the fee remaining at the same level since 1982, the Committee does have the option of backfilling that reduction with a fee increase. Staff has ascertained that to raise an additional \$85,000 in fee revenue, the fee would have to be increased approximately 36%. Given the small size of the fees levied, this should not pose an undue burden on the providers.

ISSUE 2: PROPOSITION 1C BOND FUNDS

The Governor's Budget includes appropriation of \$40 million for the BEGIN Program (same as 07-08), \$95 million for the Transit Oriented Development (TOD) bonds (same as 07-08), and \$200 million for the Infill Incentives Grant (down \$100 million from 07-08, but up from the original 07-08 request of \$100 million).

COMMENTSTransit Oriented Development (TOD) Grants:

Last year the Legislature appropriated \$95 million for TOD grants. The draft guidelines for disbursement of those funds included points for affordability. The final guidelines released, however, cut the points for affordability in half. Those points were instead moved to the "Project Size" category. The Committee may wish to have the Department explain why such a dramatic change happened at the last minute. The Committee may also wish to include SRL for the Department to report back to the Legislature on the actual affordability of those \$95 million as they end up being disbursed. This will allow the Legislature to determine if this change significantly disadvantaged low-income individuals.

Further, there have been concerns expressed with whether or not the final guidelines in fact are sufficiently directed toward true TOD development projects. Simply building near a transit station does not necessarily make it a TOD development. Rather, the developments should focus on a multitude of ways to decrease automobile dependency. The Committee may wish to ask if the Department if they focused on reducing automobile use through various means, or simply on proximity to transit.

Infill Incentive Grants:

Last year the Legislature appropriated \$300 million for infill grants. The draft guidelines included $\frac{3}{4}$ of the funding for projects, and $\frac{1}{4}$ for "areas". The final guidelines, however, included only 58% for projects and 42% for areas. The Committee may wish to ask the Department to explain this change in the guidelines, and how it will affect the production of actual units available for occupancy. Combined with the SRL above, the Committee may wish to ask for information on the number of units now available from each of these two pots of money.

ISSUE 3: IMPLEMENTATION OF HOUSING URBAN-SUBURBAN-AND-RURAL PARKS PROGRAM – MAY REVISE AND ORIGINAL PROPOSAL

The Governor's Budget proposed \$583,000 and 2 positions for implementation of the Housing Urban-Suburban-and-Rural Parks Program. \$350,000 of that amount is for an interagency agreement with the Department of Parks and Recreation (DPR).

The Governor's May Revise requests adjustments to those amounts to place full responsibility of administering the program under HCD (as opposed to contracting with the Department of Parks and Recreation. This reduces the overall request to \$459,000.

The Governor further proposes authorization for \$30 million in expenditures from the housing-related parks grants under Proposition 1C. The Governor proposes Trailer Bill Language to formalize the design of this program as well.

COMMENTS

The Committee rejected the Governor's Trailer Bill Language when this item was first heard.

Staff has no concerns with the May Revise adjustments to the proposal. The Committee however, may wish to only approve the requested bond funds (\$30m) and positions with BBL limiting authorization to implement it pending legislation authorizing the program requirements.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT**ISSUE 1: UNEMPLOYMENT INSURANCE PROGRAM AND BENEFIT ADJUSTMENTS**

Every year EDD revises its Unemployment Insurance (UI) workload and estimated UI claims. This year that comes out to a decrease in federal funding (based on workload) of \$29 million and 352 positions and a decrease in federal funding for the California Unemployment Insurance Appeals Board (CUIAB) of \$10.7 million. This request also reflects an increase in expected UI benefit payments of \$754.7 million.

COMMENTS

Federal funding for this program comes from two primary sources. One is base funding, which provides a minimum level for maintaining the infrastructure of the UI program and a defined workload for each state. The second is "above base funding" for higher levels of claims activities. This year, due to reductions in federal allocations, this amount has been reduced significantly. So despite expected increased workload, federal funding is expected to decrease.

This will relate to the augmentation requested in Issue 2.

ISSUE 2: UNEMPLOYMENT INSURANCE PROGRAM ADMINISTRATION AUGMENTATION

The Governor's May Revision proposes an augmentation of \$8.5 million (\$5.3m Contingent Fund, \$3.1m federal Reed Act funds). This request is to partially backfill the loss in federal funding from Issue 1 above. This number was reached based on the new workload estimates and making the augmentation consistent with the current year increase for UI administration.

The Contingent Fund is comprised of penalty and interest payments from employers who are not fully compliant in the payment of their employment taxes. At the end of each fiscal year, the unspent balance remaining in the Contingent Fund is transferred to the General Fund. As such, any use of these funds represents an equivalent decrease in revenue to the General Fund.

COMMENTS

As discussed in prior hearings, the UI Program is having difficulty keeping up with demand. We heard testimony regarding the ability to receive prompt service, have seen news articles on the backlog of phone calls for those trying to get assistance, and the decrease in federal funding in Issue 1 above will only exacerbate these issues.

EDD is still hopeful that more federal funds will be received to help fill the \$39.7 million hole left by Issue 1. They will not know if that may happen until late summer, though. The Committee may want to direct staff to work with DOF to include language for any amount augmented here to specify that these funds will only be available if the federal funds are not allocated.

The Governor's May Revise proposal is intended to partially backfill that loss of funding to help EDD try to maintain its level of services. It is clear, however, that even with this minimal stopgap, the BEST that could be expected of EDD is to maintain their level of service. In light of the testimony heard in previous hearings and the issues relayed with current service levels, the Committee may wish to inquire as to what level of support EDD would need in order to maintain at least the current level of services.

While UI is a federal program, California residents would ultimately bear the brunt if service levels resulted in slower processing of claims and issuance of benefit checks.

Without some augmentation, there is certain to be a decrease in service provided which will lead to more backlog when residents call in and a delay in getting checks out to recipients. The Committee may wish to allocate additional funds to address this issue, but must balance it with the corresponding loss in General Fund revenue that will result.

ISSUE 3: DISABILITY INSURANCE PROGRAM & BENEFIT ADJUSTMENTS

Similar to issue 1 above, the estimates for workload and federal funding must be adjusted for the Disability Insurance (DI) program as well. Based on revised estimates, the Governor's May Revise requests an increase of \$3.5 million (Special Fund) for EDD workload and a reduction of \$243,000 for the CUIAB. This request also includes an increase of \$441.5m in Disability Insurance benefit payments.

COMMENTS

This just updates the estimates used to determine the necessary allocation of funds.

ISSUE 4: SCHOOL EMPLOYEES FUND ADJUSTMENTS

This request is for an increase in authority for the Unemployment Insurance benefits in the School Employees Fund by \$10.3 million for the 2007/08 budget and \$79.2 million for the 08/09 budget.

EDD administers this joint, pooled risk fund, which collects contributions based upon a percentage of total wages paid by public school and community college districts. These funds are used to reimburse the Unemployment Insurance Fund for the cost of benefits paid to former employees of those school employers.

COMMENTS

Staff has no concerns with this request.

ITEM 9800 AUGMENTATION FOR EMPLOYEE COMPENSATION

This budget item includes funding for pay and benefit increases for those costs that exceed the baseline costs already included in individual department budgets. Generally, this item includes employee compensation funding based upon approved Memoranda of Understanding (MOU) with the State's 21 bargaining units and funding for health benefit inflation. Also included are compensation increases for excluded employees as determined by the Department of Personnel Administration or other authorized entities. All bargaining units except Unit 5 (California Highway Patrol Officers) have expired contracts or contracts that will expire at the end of 2007-08.

ISSUE 1: MAY REVISE AND BUDGET BALANCING REDUCTION

LAO Recommendation: In the *Analysis of the 2008-09 Budget Bill*, the Legislative Analyst recommends two budget changes: (1) reject funding of \$260 million (General Fund) for the CCPOA Last, Best, and Final Offer because the current pay appears sufficient to meet staffing needs, and (2) reject \$550,000 (\$331,000 General Fund) for a new pay differential for information technology employees working on the Human Resources Management System (HRMS) project because the Administration does not have a comprehensive plan for when and how to apply this differential in the future to other enterprise projects.

The May Revise removed funding from Item 9800 for the Administration's last, best, and final offer (LBFO) to CCPOA, except for funding certain increases in state health contributions to Unit 6 members. This funding was left to increase state contributions to correctional peace officers' health premiums. This is one portion of the LBFO that the Administration still recommends approval of. LAO calculated that Item 9800 of the May Revision, for 2008-09, includes \$43.9 million General Fund for this purpose.

LAO recommends, and staff agrees, that the entire allocation of \$260 million for the LBFO be rejected. Funding is typically included in the policy bill that implements MOU's for bargaining units, and Staff recommends continuing that policy.

COMMENTS

The LAO proposal to reject the pay differential with regards to IT employees under HRMS was adopted by the Senate and staff recommends conforming to their action. Approving pay differential for one group of employees on one project with no plan for how to address others in their classification will create disparity in the system. This will produce \$331,000 in General Fund Savings.

The recommendation to reject all of the LBFO money included in this item also necessitates rejection of the Administrations proposed BBR in regards to those funds.

The Administration also included in the May Revise letter along with the LBFO reduction an increase of \$3.4m (General Fund) and a decrease of \$35.5m (special funds) to reflect revised estimates pursuant to existing bargaining unit agreements. These are costs already agreed to by the legislature being updated based on new estimates.

Like item 9650 (sent to conference last week), Item 9800 has allocations that are dependant on health benefit rates and premiums. This item should be sent to conference to allow more accurate estimates to be used to accurate budget for any increases or decreases in rates.

SPECIAL FUND LOAN ITEMS

ITEM 1100/1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 1: VARIOUS PROPOSED SPECIAL FUND LOANS

The Governor's May Revision proposes loans from 12 Special Funds primarily used for Boards and Bureaus within the Department of Consumer Affairs to the General Fund for a total of \$116.5 million. All loans are proposed to be repaid in 2010 and 2011.

All the loans contain similar language stating that, "The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. Repayment shall be made so as to ensure that the programs supported by the ___ Fund are not adversely affected by the loan through reduction in service or through increased fees."

This language ensures that should a program require the funds loaned herein, they can be repaid early than expected.

COMMENTS

The Governor's proposal includes the following loans:

- State Board of Barbering and Cosmetology Fund – \$10 million
- Psychology Fund – \$2.5 million
- Accountancy Fund – \$14 million
- Contractors' License Fund – \$10 million
- Contingent Fund of the Medical Board of California – \$6 million
- Board of Registered Nursing Fund – \$2 million
- Pharmacy Board Contingent Fund – \$1 million
- Professional Engineers' and Land Surveyors' Fund – \$2 million
- Behavioral Science Examiners Fund – \$3 million
- Vocational Nursing and Psychiatric Technicians Fund – \$1 million
- Vehicle Inspection and Repair Fund – \$25 million
- High Polluter Repair or Removal Account – \$40 million

Staff notes that the effect of these loans is to leave most of these special funds with approximately 3 months of reserves available. While there is concern in regards to some of the proposed loans based on previous years trends, staff is prepared to recommend approval based on the above noted language assuring the respective programs that should they require the funds to continue to operate, the funds will be returned.

The High Polluter Repair or Removal Account is actually split into two loans. The main account has a \$20m loan, and there is a sub-account created by AB 118 last year which also has a loan of \$20m. This sub-account is in the rulemaking phase right now, and there is some concern that these funds will be needed to bring the program operational next year. Staff recommends that 1) as much funding be loaned from the main account as possible, without impacting the program, up to \$40 million, and 2) the proposed loan from the sub-account be rejected.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

ISSUE 1: GENERAL FUND LOAN

This proposal is to loan the General Fund \$60m from the Public School Planning, Design, and Construction Review Revolving Fund. The BBL specifies that the loan shall be repaid with interest and in such a way as to ensure the fund is not adversely affected by the loan through reduction in service or through increased fees.

COMMENTS

While these funds are available, because this is a Revolving Fund, the Committee may wish to ask the Department and Finance when these funds will be needed to complete the projects they exist to fund. If the funds are not necessary for such a purpose, the Committee may wish to ask why the funds are there.

These funds are useful in addressing the current budget situation, but the Committee may wish to direct staff to meet with Finance and DGS to discuss the way Revolving Funds are managed in light of this issue and the Architecture Revolving Fund issue that arose this year as well.

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT**ISSUE 1: VARIOUS PROPOSED SPECIAL FUND LOANS**

The Governor's May Revision proposes 4 loans from various Special Funds to the General Fund for a total of \$17.6 million. All loans are proposed to be repaid in 2010 and 2011.

All the loans contain similar language stating that, "The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. Repayment shall be made so as to ensure that the programs supported by the ___ Fund are not adversely affected by the loan through reduction in service or through increased fees."

This language ensures that should a program require the funds loaned herein, they can be repaid early than expected.

COMMENTS

- Mobilehome Park Revolving Fund – \$2.5 million
- Mobilehome-Manufactured Home Revolving Fund – \$1 million
- Joe Serna, Jr. Farmworker Housing Grant Fund — \$1.2 million
- Housing Rehabilitation Loan Fund — \$12.9 million

Staff notes that the Mobilehome Park Revolving Fund would have near zero left in their reserve after a loan of \$2.5 million. The Mobilehome-Manufactured Home Revolving Fund loan also could decrease the fund reserve below a comfortable level in out years.

While the LAO does not recommend the use of Special Fund loans as part of their alternative budget, LAO did point out that the Housing Rehabilitation Loan Fund has a significantly higher reserve by nature of the program, and could likely better handle providing these short term loans that the aforementioned special funds.

The Committee may wish to consider reducing the Mobilehome Park Revolving Fund loan (0245) from \$2.5 million to \$1.5 million to alleviate the concern expressed above. This maintains a 3 month reserve which is consistent with the other special fund loan proposals made in the Governor's May Revise. The Committee may also wish to eliminate the loan from the Mobilehome-Manufactured Home Revolving Fund. The existing reserve is already below a 3 month level, and DOF has expressed concerns with the appropriateness of taking this loan.

In discussions with DOF, it also appears that the Joe Serna Jr. Fund could handle a slightly higher loan, so Staff recommends increasing this loan to \$1.5 million.

In order to maintain the level of funding proposed, and pursuant to the comments received by the LAO, the Committee could increase the Housing Rehabilitation Loan Fund (0929) by \$3.5 million for a total of \$16.4 million. This brings the total loan amount under HCD to \$19.4 million, an increase of \$1.8 million. This extra funding will be used below to offset another Special Fund Loan reduction.

- (0245) Mobilehome Park Revolving Fund – \$1.5 million
- (0648) Mobilehome-Manufactured Home Revolving Fund – \$0 million
- (0927) Joe Serna, Jr. Farmworker Housing Grant Fund — \$1.5 million
- (0929) Housing Rehabilitation Loan Fund — \$16.4 million

Increased loan amount of \$1.8 million

ITEM 2310 OFFICE OF REAL ESTATE APPRAISERS

ISSUE 1: VARIOUS PROPOSED SPECIAL FUND LOANS

The Governor's May Revision proposes a loan from the Real Estate Appraisers Regulation Fund to the General Fund for a total of \$16.6 million.

As with those loans already heard this loan contains similar language stating that, "The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. Repayment shall be made so as to ensure that the programs supported by the ___ Fund are not adversely affected by the loan through reduction in service or through increased fees."

This language ensures that should a program require the funds loaned herein, they can be repaid early than expected.

COMMENTS

Staff has no concerns with this proposed loan.

ITEM 2320 DEPARTMENT OF REAL ESTATE

ISSUE 1: VARIOUS PROPOSED SPECIAL FUND LOANS

The Governor's May Revision proposes a loan from the Real Estate Fund to the General Fund for a total of \$12.2 million.

As with those loans already heard, this loan contain similar language stating that, "The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. Repayment shall be made so as to ensure that the programs supported by the ___ Fund are not adversely affected by the loan through reduction in service or through increased fees."

This language ensures that should a program require the funds loaned herein, they can be repaid early than expected.

COMMENTS

While this proposal would leave the Fund with a reserve of approximately \$14 million (4 month reserve), staff would note that due to decreasing revenue, this funds reserve has dropped by approximately \$12 million in each of the past two years, and is likely to continue to do so. This is likely due, in part, to the current housing market. As such, this loan could nearly eliminate the Fund's reserve in 2009-10.

While Finance has committed to closely monitor this fund balance and ensure, pursuant to the included language, that the operations of the Department of Real Estate are not effected, the Committee may wish to consider reducing the proposed loan amount to limit the likelihood of an early payment being required. The LAO recommends a reduction of the loan by \$2.5 million. With the additional special fund loan revenue from HCD (above), this loan could be reduced by \$1.8 million with no General Fund difference from the Governor's proposal.

This Fund will require structural changes in the next several years regardless of this loan amount, but this loan does determine the ability of the Fund to remain solvent for at least two more years. With the housing market downturn continuing, staff recommends reducing the loan by \$2.5 million to stay fiscally responsible.

GREEN JOBS

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 1: WORKFORCE INVESTMENT ACT FUNDING – MAY REVISE

EDD is responsible for administering the federal Workforce Investment Act Program, offering a comprehensive range of workforce development activities through statewide and local organizations. These services, primarily offered through "One-Stop Career Centers", are aimed at promoting an increase in employment job retention, earnings, and occupational skills for the participants.

Pursuant to federal law, 85 percent of the state's total WIA funds (an estimated \$321.3 million in 2008-09) are allocated to local Workforce Investment Boards (WIB). The remaining 15 percent of WIA funds (\$56.7 million in 2008-09) are available for state discretionary purposes such as administration, statewide initiatives, and competitive grants for employment and training programs. Funding is provided by the Federal Government based on formulas, and how it may be spent is largely dictated by the Federal Government as well. A majority (85%) of the funding goes to local centers for use. The remaining 15% (approximately \$56 million) goes towards administration of the program, "Growth Industries", "Industries with a statewide need", and "Removing barriers for special needs populations". Administration makes up nearly half of these costs, but it is for administration of the entire \$378 million, not just this portion of the funding.

The May Revise adjusts these numbers to add \$14.9 million to 7100-001-0869 (state support) and \$33.6 million to 7100-101-0869 (local support) to reflect revised estimates. The 15% allocation from these additional revenues is equal to \$7.3 million.

LAO

On the following page is a chart of the Governor's proposed changes in how to allocate the discretionary dollars in his May Revise proposal. The primary changes are increases in administration and program services by \$1.3 million, the nurses/healthcare/logistics program by \$2 million, eliminating funding for regional collaboratives (decrease of \$1.5 million), but adding \$4.3 million for economic stimulus and \$2 million for green technology.

The LAO states that, given the current fiscal climate, they believe WIA funds should be directed, when possible, to relieve General Fund support for employment programs, rather than fund newer, unproven initiatives. In the 2008-09 *Analysis*, the LAO recommended that \$2.4 million of WIA funds proposed for the pre-apprenticeship projects be redirected to the parolee employment programs in CDCR (Item 5225). Given the additional WIA funding available, without prejudice to the WIA discretionary programs, the revised recommendation is to redirect a total of \$7.3 million in WIA funds to the CDCR parolee programs. This redirection would result in a total General Fund savings of \$7.3 million in CDCR. As for the remaining WIA funds, the LAO recommends

the Legislature review the Administration's proposed expenditure plan to ensure that it is consistent with legislative priorities.

Figure 1
Workforce Investment Act (WIA)
State Discretionary Funds
2008-09 Proposed Expenditures
(In Millions)

Budget Bill Schedule/Category	2008-09 Governor's Budget	2008-09 May Revision	Change
(1) WIA Administration and Program Services	\$24.0	\$25.3	\$1.3
(2) Growth Industries			
Community colleges WIA coordination	\$0.6	\$0.6	-
Regional collaboratives	\$1.2	-	-\$1.2
Incentive grants	\$0.2	\$0.2	-
At-risk/youthful offender gang prevention	\$3.0	\$3.0	-
Economic stimulus	-	\$3.1	\$3.1
Green Technology	-	\$2.0	\$2.0
Subtotals	\$5.0	\$8.9	\$3.9
(3) Industries With a Statewide Need			
Nurse education initiative	\$6.2	\$6.2	-
Regional collaboratives	\$0.3	-	-\$0.3
Nurses/healthcare/construction/logistics	\$3.1	\$5.1	\$2.0
At-risk/youthful offender gang prevention	\$3.0	\$3.0	-
Pre-apprenticeship - Governor's pilot projects	\$2.4	\$2.4	-
Economic stimulus	-	\$1.2	\$1.2
Subtotals	\$15.0	\$17.9	\$2.9
(4) Removing Barriers for Special Needs Populations			
Parolee services	\$2.3	\$2.3	-
Incentive grants	\$1.3	\$0.5	-\$0.8
Services to long-term unemployed	\$0.1	\$0.1	-
Governor's award for veteran's grants	\$3.0	\$3.0	-
Veterans/disabled veterans' employment services	\$0.7	\$0.7	-
Department of Education WIA coordination	\$0.4	\$0.4	-
Youth grants	\$0.5	\$0.5	-
At-risk/youthful offender gang prevention	\$4.0	\$4.0	-
Low wage earners	\$0.4	\$0.4	-
Subtotals	\$12.7	\$11.9	-\$0.8
Total Proposed Expenditures	\$56.7	\$64.0	\$7.3

COMMENTS

The Committee directed staff to look into the use of these funds to serve the targeted groups, while also seeking to increase green collar job opportunities. As shown above, the Governor's May Revise includes a new "Green Technology" line item under Growth Industries for \$2 million. The Committee may wish to increase this amount to \$3 million, but split that funding 50/50 between Growth Industries and Removing Barriers for Special Needs Populations. Staff would additionally suggest changing the title to read "Green Technology/Green Collar Jobs".

The Committee may also wish to include BBL directing that all the discretionary WIA funds, to the extent feasible, be utilized to both serve the targeted population and to train those populations to fill green collar jobs.

Along with increasing the Green Technology/Green Collar Jobs from \$2 million to \$3 million (split as specified above), Staff would also recommend that under Growth Industries, community colleges WIA coordination be increased to \$1 million as they play a significant role in coordination of many training efforts including green collar job efforts. Further, with the increase in Veterans returning home to California, the Committee may wish to increase this line item from .7 to \$1 million.

To accommodate the \$1.7 million in increases, Staff would recommend reducing the two new Economic stimulus categories added by the Governor. The intent of these new line items is not clear, and it would appear the other line items, including the new Green Technology/Green Collar Jobs line item would also be suitable for economic stimulus efforts. Reducing the line under Growth Industries to \$1.2 (the original amount included for Regional collaboratives) and the line under Industries with a statewide need to \$.3 (the original amount included for Regional collaboratives) would produce \$2.8 million. With \$1.7 of that allocated as above, the remaining \$1.1 million could be utilized pursuant to the LAO recommendation by redirected it to the parolee employment programs in CDCR (Item 5225). This would create \$1.1 million in General Fund savings.

Staff's proposal largely maintains the Governor's Original request, including his Pre-apprenticeship program, while producing General Fund Savings and meeting the desires of the Committee and Governor to address green technology and green collar jobs.

ITEM 7100 EMPLOYMENT TRAINING PANEL

ISSUE 1: EMPLOYMENT TRAINING TAX

ETP is a joint business-labor training program that funds training to ensure employers have the skilled workers they need to compete globally. They target funds to high unemployment areas, focusing on the working poor, supporting veterans, seasonal workers, and have a Welfare to Work Pilot program.

ETP is funded exclusively by the Employment Training Tax, which California companies pay to promote development of an improved State workforce. This year's proposed budget includes \$56.9 million for ETP. The Employment Training Tax is projected to produce just over \$100 million for the BY, but funding is also provided to the Department of Social Services (DSS) to provide work training for its participants. The percentage of funds sent to DSS varies each year, but has averaged around 37% over the last 10 years. This year's proposal provides DSS with \$35 million, representing 35%.

COMMENTS

In the previous hearing on this item, the Committee expressed an interest in ensuring these funds support green collar job training. While ETP is currently working in various green initiatives, and include "cleantech" as a priority market in their strategic plan, the Committee may wish to include TBL similar to the language included for WIA funds above, directing ETP, in keeping with their strategic plan, to prioritize training funding to industries and requests that have a green technology/green collar job aspect. ETP states that they typically have requests for funding exceeding their available funds. As such, it would make sense to prioritize those requests that enhance California's pool of green collar jobs.

ITEM 7120 CALIFORNIA WORKFORCE INVESTMENT BOARD

ISSUE 1: INCREASED BUDGET AUTHORITY

The California Workforce Investment Board (CWIB) requests an increase of \$100,000 (federal funds) to perform specific and required workforce development activities per *Chapter 630, Statutes of 2006* (SB 293, Ducheny). SB 293's primary mandate for the CWIB is the development of a state strategic workforce development plan that will provide a framework for developing strategies for public policy, fiscal investment, operations for all state labor exchange, workforce education, and training programs.

COMMENTS

The development of this strategic workforce development plan provides a prime opportunity for CWIB to ensure that California's workforce is at the forefront of green job training just as California is leading the nation in renewable energy and other green business fields. The Committee may wish to include TBL that ensures the strategic plan being developed with the requested funds includes green collar jobs. Language could include the following:

Unemployment Insurance Code

14020. The California Workforce Investment Board, in collaboration with state and local partners, including the Chancellor of the California Community Colleges, the State Department of Education, other appropriate state agencies, and local workforce investment boards, shall develop a strategic workforce plan to serve as a framework for the development of public policy, fiscal investment, and operation of all state labor exchange, workforce education, and training programs. The strategic workforce plan shall also serve as the framework for the single state plan required by the Workforce Investment Act of 1998. The plan shall be updated at least every five years.

(1) The plan shall include ways to expand sector specific activities with a green collar job aspect in California.

14220. Each local board shall develop and submit to the Governor a comprehensive five-year local plan in partnership with the appropriate chief local elected official. The plan shall be consistent with the state workforce investment plan.

14221. The local plan shall include all of the following:

(k) An assessment of the local or regional need for green collar jobs and how the local board can support that need.

The Committee may also wish to include SRL requiring a report be submitted to the Legislature by March 1, 2009 regarding what green collar job factors were included in the strategic workforce plan.

GREEN BUILDING**ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT****ISSUE 1: BUDGET BALANCING REDUCTION – STATE HOUSING LAW**

The Governor proposes a reduction of \$64,000 (General Fund), through the reduction of .3 positions for the State Housing Law program. This program is responsible for promulgation of revisions to the state's building codes for residential housing. The program currently only has 3.5 positions.

COMMENTS

Also, see issue #2, which adds positions to this division for the purpose of developing building standards regarding water conservation and reuse as directed by recently adopted legislation.

ISSUE 2: NEW STATE HOUSING LAW

The Governor's Budget requests a General Fund augmentation of \$117,000 for one two-year limited term position to implement the provisions of AB 1406 (Chapter 537, Statutes of 2007) and AB 1560 (Chapter 532, Statutes of 2007). These bills add condominiums to the list of structures where recycled water is reasonable for use in toilets, and authorizes HCD to include requirements related to environmentally preferable water using devices and measures in proposed building standards.

The purpose of the State Housing Law Program is to develop and implement new and existing residential building and housing codes in California. The California Building Code is updated every three years, which requires HCD to review national "model" building codes, determine necessary amendments for California, and propose them to the California Building Standards Commission.

COMMENTS

HCD states that the existing 3.5 positions are not capable of meeting the existing demand to update the code, implement the two pieces of legislation cited, as well as work on current Green Building efforts of the Building Standards Commission (BSC).

The Legislature has made its desire clear to make "green building" the standard practice in California. Along with the two pieces of legislation mentioned here, the Legislature also passed three green building bills in 2007 (relative to residential, commercial, and state buildings) that were vetoed by the Governor. Part of that veto message cited the existing efforts underway by the BSC, which HCD is collaborating on.

The Governor's Veto messages cited current efforts by HCD, but this request specifies that they aren't able to conduct those efforts without the requested augmentation. The Committee may wish to include Trailer Bill Language requiring HCD to review existing green building guidelines when preparing to submit proposed building standards to the BSC, and to include all cost-effective and feasible green building features as mandatory building standards in their proposed standards starting with the 2010 code. Further, the Committee may wish to require a report to the legislature detailing what green building features are included in the 2010 building code, and which features are excluded, including cost data and other factors leading to that decision.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES**ISSUE 1: INFRASTRUCTURE STUDIES**

The Governor's Budget proposes \$230,000 (Special Fund) for the preparation of infrastructure studies for older DGS owned buildings. These studies include review of all major building systems, as well as the buildings seismic safety and code compliance. The studies provide recommendations for repairs and other maintenance to extend the building's useful life.

DGS owns over 50 facilities and completes approximately 2-3 studies each year. The order in which buildings are reviewed is laid out in a 5-year capitol outlay and infrastructure plan. With over 40% of these facilities over 30 years old, there are many maintenance concerns that require studying.

A comprehensive list of findings, recommendations, and cost estimates that result from these studies become the "blueprint" for DGS to prioritize and schedule future work for the building.

COMMENTS

DGS has a baseline budget of \$247,000 for completion of these studies. This request nearly doubles that budget. The rationale behind the increase in funds is that recent experience has shown that the budgeted \$100,000 per study is insufficient for larger, older, and historic buildings.

These studies can save the state significant costs by prioritizing needed repairs, and determining when repair vs. replacement is the appropriate course of action.

Buildings constructed prior to the existence of the current energy code often present the opportunity for considerable energy efficiency savings. These studies should be sure to adequately review all potential energy efficiency issues, thus providing DGS with a set of potential upgrades that could save the state in energy costs. There are not currently any requirements in regards to these studies and what they must include, though DGS states that in response to Executive Order S-20-04, they now include a review of all categories of LEED certification in these studies.

If this funding is provided to complete such efforts, the Committee may wish to include Trailer Bill Language that ensures these studies include a review of all categories of LEED, with a particular emphasis on finding all cost effective energy efficiency measures that can be completed. The Committee may also wish to request a report to the Legislature on implementation of the findings of these studies, and how they should be incorporated into the states 5 year infrastructure plan.

ISSUE 2: REAL ESTATE LEASING AND PLANNING SECTION

The Governor's Budget proposes 19.0 permanent and 4.0 limited-term positions and \$1.9 million (Service Revolving Fund) in order to address a backlog of leasing and planning workload.

According to DGS, there is currently a backlog of 1,486 hours (or 49.2 weeks) per staff person for leasing projects and 2,573 (or 85.22 weeks) per person for space planning projects. DGS indicates that the current backlog developed due to many factors.

Under current staffing conditions, it takes 24-36 months to complete requests for new leased space. The goal of this request is to increase efficiency and complete projects within 12-24 months.

COMMENTS

While this BCP provides compelling evidence that additional resources may be needed, the assumptions made for out-year workload may be overstated. For example, the workload projections are based only on the past three years and do not include previous years in which the state faced fiscal crisis—2002/03 or 2003/04.

Staff notes that at least 4.0 of the requested positions associated with the implementation of the Federal REAL ID Act are not justified because the projected workload is overly speculative at this time. The federal government recently granted the states additional time to implement the REAL ID Act and, therefore, the state has opted not to take immediate steps to acquire the 17 new Department of Motor Vehicle facilities referenced in the BCP as part of the workload justification.

In the Committee's previous hearing the Chair expressed concerns with the lack of comprehensive reviews of San Francisco leasing requests. As such the Committee may wish to request SRL regarding San Francisco leases.

The Committee may also wish to direct staff and LAO to work with DOF to improve the information provided to the Legislature in regards to capitol outlay and leasing requests. Insufficient information is provided regarding what alternatives were reviewed, costs of those alternatives, etc. A report from the LAO on the outcome of those meetings would be very helpful in determining how to improve the process and communication between the Administration and the Legislature.

The Senate also adopted SRL stating:

1. *The department shall provide a report to the Legislature by May 1, 2009, comparing the current Work-on-Hand (backlog) to benchmarked data as of May 1, 2008.*
2. *The department shall provide a report to the Legislature by May 1, 2009, comparing the Lessor's proposed lease rate to the final lease rate negotiated by the State.*

ISSUE 3: DESIGN SERVICES SECTION

The Governor's budget proposes 7.0 positions and \$614,000 (Service Revolving Fund) in order to address a backlog of space planning projects within state-owned facilities.

This request is somewhat similar in nature to the previous request. DGS justifies the need for these positions based on:

- (1) Increased unanticipated workload
- (2) Need to address "high priority" projects in a timely manner
- (3) Growth in state-owned service area
- (4) And increased complexity of work

The Design Services Section is responsible for project management and construction of tenant improvements and special repairs for state-owned buildings.

COMMENTS

This division currently has 13 positions and is asking essentially for a 50% increase. The division has shown a workload issue, but it is unclear if such a large increase is necessary in such a bad budget year.

DGS provided information to support its claim that the request would result in FY 2008-09 cost avoidances of:

- \$3.7 million in decreased private lease payments by maximizing/optimizing the use of existing state-owned space;
- \$540,000 in private lease payments and an increase of \$388,800 in increased rental income by converting vacant state-owned retail space;
- \$392,000 in project cost inflation by reducing project delivery by approximately nine months.

While these estimated cost avoidances would more than off-set the cost of the requested positions, staff notes concern that similar cost avoidances might be achieved without requiring as many staff if, in tough fiscal times, the DGS prioritized projects according to their cost/benefit to the state. Based on conversations with the Department, it is the understanding of the staff that projects with immediate health and safety implications are given immediate attention, but all others are addressed more or less in the order in which they are received. Based on a review of the proposed projects, it appears that approximately half of them will provide immediate savings or health benefits. As such, it may be appropriate to fund approximately half the positions. The Senate approved three positions for this request; the Committee may wish to conform with that action.

ISSUE 4: GREEN BUILDING AND DGS

Last year DGS was provided with two BCP's in regards to their green building efforts. One was for approximately \$3 million for LEED certification of existing buildings. This funding is to be provided for 3 years to implement LEED certification. It is staff's understanding that DGS now hopes that with changes in the method of certification allowed by LEED (volume registration), this funding may allow certification of the entire state-owned building portfolio.

The second BCP provided 5 positions to develop best practices and train DGS staff on LEED issues and how to incorporate them into buildings. The intent was to have DGS staff trained prior to the end of the contract provided in the first BCP, thereby bringing their expertise in-house. DGS reports that 3 of these positions have been filled, development of the best practices is underway, and that their training plan still has them on track to have expertise internalized within the time frame specified.

Also as part of their green building efforts, DGS has benchmarked all state-owned buildings to enable tracking of improvements in energy efficiency and other operations. The Subcommittee may wish to ask staff to work with DGS to get information on current data collected and determine appropriate reporting requirements.

COMMENTS

The Governor's executive order S-20-04 requires all new and renovated state-owned and state funded buildings to be built to a minimum LEED "silver" certification. The Subcommittee may wish to ask why these requirements aren't in Code. Further, the Subcommittee may wish to ask staff to work with DGS in regards to building code requirements for state and other buildings. It is likely that in the course of developing best practices under last years approved BCP, the Department has determined cost-effective measures that should be incorporated into all building projects. It may make sense to incorporate these measures into the California Building Code (Title 24). These best practices may also provide useful and money saving information for commercial buildings as well. The resources being expended by DGS should be utilized to their maximum ability to support sustainability throughout the state. As such, the Committee may wish to adopt TBL requiring the Building Standards Commission to adopt standards compliant with S-20-04.

Multiple BCP's presented by DGS from various divisions request funding or positions for green building purposes. The request for studies done on existing buildings presents opportunities for significant energy savings in older buildings. The request for the leasing division presents opportunities to provide incentives to the commercial market to provide more sustainable building options for renters. It is not clear who, or if, there is adequate oversight over these various activities. DGS works closely with the Governor's Green Action Team (created under EO S-20-04), but the legislature is not included in the reports given to the Green Action Team. The Committee may want to include SRL requesting all reports produced under S-20-04 and the Green Building Action Plan be provided to the Legislature.

While DGS is moving forward with green building efforts under S-20-04, they have produced little information regarding the impact of those efforts or how to improve those efforts, and the information collected is not consolidated for easy review. As such, the

Committee may want to place into code the following reporting requirements. Staff notes that all this information should already be available to DGS, and this would simply consolidate and focus the information for use by the legislature in setting priorities.

DGS shall report to the Legislature by March 1 of each year all of the following:

1) How many new state building projects are not designed to LEED silver standards, how many meet LEED silver standards, and how many exceed LEED silver standards.

(A) For any buildings not meeting LEED Silver, they shall provide an explanation as to why.

(B) For any buildings exceeding LEED Silver standards they shall provide information on how they determined it was feasible to do so, and whether they could do so with other buildings only achieving LEED Silver.

2) Information on how all state owned/leased property is being maintained or acquired in compliance with Chapter 1016 Statutes of 2002 (AB 857).

3) Detailed information on what increased costs and decreased costs are incurred based on meeting the standards set forth in S-20-04 compared to standard DGS building practices prior to S-20-04. Including:

(A) Material costs, design costs, labor costs, and other upfront costs,

(B) The estimated time it will take for savings to payback any increased upfront costs,

(B) An overall assessment of the building standards set forth in S-20-04 and how those costs compare with expected savings and benefits over the useful life of the building.

4) The number of schools being built, how many of those are built to CHPS or similar standards, and what DGS plans to do to increase the percentage of new school sites that are built to such standards.

5) What options exist for "greening" the State Capitol Building including estimated costs for implementing those measures.