AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Warren Furutani, Chair

TUESDAY, MAY 4, 1:30 PM
STATE CAPITOL, ROOM 447

ITEMS TO BE HEARD

CONSENT ITEMS

ITEM CONTROL SECTION 31.00 ADMINISTRATIVELY ESTABLISHED POSITIONS

Control Section 31.00 deals with the ability of the Department of Finance to authorize administratively established positions. These are positions not approved in the budget but approved by the Legislature and signed by the Governor. The Legislature has historically included this language in recognition of the fact that things change throughout the year.

Circumstances have risen, however, that have drawn into question the practices of some entities in regards to the rules this Control Section lays out for administratively establishing positions. To ensure that the Legislature is properly informed about the use of this section, the following language is recommended for adoption:

Add to the end of CS 31.00
"Requests to continue administratively-established positions as ongoing positions pursuant to (d) (1) and (2) shall include information on the date the positions were administratively established. This information should be included in the Administration's budget change proposals and finance letters. If the Administration requests to establish new positions in 2011-12, and subsequently decides to administratively establish the positions in 2010-11, the Department of Finance will notify the Legislature within 30 days of the administrative establishment of the positions."

ITEM CONTROL SECTION 35.20 OUTDATED CONTROL SECTION

This control section specifies accrual practices to be undertaken in the 2007-08 fiscal year only. Existing law already addresses accrual practices followed now, so this control section is no longer necessary. Staff recommends deleting it from the proposed budget.

The actual language reads:

SEC. 35.20. "If legislation is enacted amending Section 13302 of the Government Code to allow the accrual of tax payments due more than two months after the close of the fiscal year for transactions occurring in the prior fiscal year, the Department of Finance shall provide guidance pursuant to Section 13310 of the Government Code with respect to the methodology to be employed in determining accruals and the timing of implementation of any changes in tax accrual practices. This change to accrual treatment of corporation and franchise tax payments and all of the change to the treatment of personal income tax payments shall apply to the 2007-08 fiscal year."

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: APRIL FINANCE LETTER – HOUSING VOUCHER PROGRAM

The Governor requests Federal Trust Fund expenditure authority of $543,000 for local assistance and $321,000 for state operations costs. These funds will be used to administer the monthly vouchers for Mariposa County's Housing Choice Voucher Program, as well as bring current federal expenditure authority up to current federal funding eligibility levels.

The Mariposa County Housing Authority has determined that it is no longer capable of administering the Program, and has requested the funding and responsibility for the program to be transferred to HCD. HCD has determined that this program is eligible for more funds than Mariposa was drawing down, and requests funds to bring the request up to the maximum amount eligible.

QUICK ITEMS

8950 CALIFORNIA DEPARTMENT OF VETERAN AFFAIRS

ISSUE 1: YOUNTVILLE UPGRADE FIRE ALARM SYSTEM

Governor's Budget Request. The Governor's budget requests a re-appropriation of $222,000 for working drawings and a re-appropriation of $2.2 million ($668,000 General Fund and $1.5 million federal funds) for the construction phase to purchase and install a new addressable fire alarm system in seven veteran-occupied buildings and the acute care center at the VHC- Yountville. The project will also provide a central computer system with sufficient capacity to relay the detail provided by the new fire alarm system.

Background. The Fire/Life/Safety codes for new residential buildings require the use of addressable smoke detectors in each unit. The Yountville Veterans Home is the oldest home and was remodeled in the late 1980's and early 1990's, before addressable alarms were standard.

The total projected cost is $2.574 million and includes $117,000 provided for preliminary plans in 2008-09. The federal government is providing 60 percent of the funding for this project, or $1.574 million and the state cost is $1.027 million General Fund (GF).

The project was delayed due to the closure of the acute care facility at VHC-Yountville in 2009, which changed the scope of this project. California Department of Veteran's Affairs (CDVA) was unable to complete the working drawings and construction authority within the existing authority.

STAFF COMMENT

Given the delay, authority to re-appropriate project funding is requested. The urgency of this capital outlay proposal is necessary to qualify the project for Federal Fiscal Year 2011 grant funding, which will fund 60 percent of the project. Should there be any savings (due to the acute center closure, which was scheduled to be upgraded), changes will occur through the Public Works Board (PWB) process and savings will be reverted back to the GF. Should cost increase, the PWB is required to provide 20-day notification to the Joint Legislative Budget Committee of any scope or cost changes.

Staff Recommendation: Approve as budgeted.

ISSUE 2: CONVERT CONTRACTED FOOD PURCHASING, PREPARATION AND NUTRITION SERVICES TO CIVIL SERVICE POSITIONS

Governor's Budget Request. The Governor requests to convert the shared agreement for food purchasing, preparation, and nutrition services operations with a net-zero GF impact, as follows: (1)VHC-Barstow – request 24.6 positions and a funding augmentation of $154,000 in 2010-11 and $131,000 in 2011-12; and, (2) VHC-Chula Vista – request 34.5 positions and a reduction of $154,000 in 2010-11 and $131,000 in 2011-12.

Background. The VHC- Barstow and Chula Vista have contracted for these services since the homes opened in 1996 and 2000. The initial three-year contracts were justified with cost savings in comparison to civil service operations. However, the proposed cost savings personal services shared contract was disapproved by the SEIU and upheld by the State Personnel Board (SPB) on July 1, 2009 and is under appeal. Until the appeal is decided, the intended contract cannot be decided and an interim emergency contract is in place. Emergency contracts, however, are intended to be temporary.

STAFF COMMENT

Food purchasing, preparation, and nutritional services are restricted by state and federal mandates and regulations. The CDVA indicates that this conversion is legally compliant with these. Contract re-bidding took place again, but the Department is convinced that it will be challenged once again. Approval of this proposal prevents litigation and ensures delivery of food purchasing, preparation, and nutritional services as mandated by state and federal mandates and regulations. There is no state fiscal impact.

Staff Recommendation: Approve as budgeted.

ISSUE 3: TITLE 38 APPRENTICESHIP AND ON-THE-JOB TRAINING PROGRAM

Governor's Budget Request. The Governor requests one Education Specialist position and $120,000 federal fund authority to expand the California State Approving Agency for Veteran Education (CSAAVE) services to include outreach activities and approval of apprenticeship programs (APP) and on-the-job (OJT) courses.

Background. The 2009-10 budget transferred oversight responsibilities and $1.5 million (federal funds) for CSAAVE from the Department of Consumer Affairs to CDVA. Under this responsibility, the Department determines what programs are approved for use of veteran's education benefits under the GI bill.

STAFF COMMENT

This proposal expands the oversight to include apprenticeship programs and on-the-job courses, which will benefit the states veterans. The additional position will be housed in CDVA HQ and will facilitate accessibility of GI benefits. This proposal has no cost to the state.

Staff Recommendation: Approve as budgeted.

ITEM 0845 DEPARTMENT OF INSURANCE

ISSUE 1: TELECOMMUNICATIONS INFRASTRUCTURE REPLACEMENT PROJECT

Request for $429,000 and $279,000 ongoing (special fund) to convert three limited-term positions to permanent in order to provide ongoing resource support and maintenance for the Departments Telecommunications Infrastructure Replacement Project.

Staff Recommendation: Approve

ISSUE 2: MORTGAGE GUARANTY INSURERS

Request for $106,000 in 2010-11 and $101,000 in 2011-12 (special fund) for a limited-term position to support new statutorily required mortgage guaranty regulatory workload (SB 291, Chapter 574, Statutes of 2009).

Staff Recommendation: Approve

ISSUE 3: LIFE SETTLEMENTS

Request for $405,000 in 2010-11 and $298,000 ongoing (special fund) to fund three positions to support new statutory requirements to support life settlement insurance products (SB 98, Chapter 343, Statutes of 2009).

Staff Recommendation: Approve

ITEM 1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

ISSUE 1: BEHAVIORAL SCIENCES – LICENSED PROFESSIONAL CLINICAL COUSELORS

The Board requests $1.4 million (special fund) and 6.0 positions, with approval for 12.0 positions beginning 2011-12 in order to establish and implement a new licensing program for Professional Clinical Counselors and interns, pursuant to SB 788 (Chapter 619, Statutes of 2009). Funding will be provided through the fees paid by those seeking to be licensed.

Staff Recommendation: Approve

ISSUE 2: CONSOLIDATIONS AND ELIMINATIONS

This proposal implements the consolidations and eliminations approved in last years budget (AB 20 X4, Chapter 18, Statutes of 2009). The net result of these actions is a reduction of nearly 40 positions and $5.2 million.

Staff Recommendation: Approve

ISSUE 3: BUREAU OF SECURITY AND INVESTIGATIVE SERVICES

The Bureau requests $69,000 (special fund) to fund updates for two database systems and establish one two-year limited-term position to handle increased workload.

Staff Recommendation: Approve

ISSUE 4: ACCOUNTANCY – PEER REVIEW PROGRAM

The Board requests 2.0 positions to operate the new Peer Review Program, mandated by law. The proposal would be funded through redirected costs.

Staff Recommendation: Approve

ISSUE 5: ACCOUNTANCY – PRACTICE PRIVILEGE

The Board requests 2.0 three-year limited-term positions to address additional licensing workload associated with approved legislation. This request will be funded through redirected program costs.

Staff Recommendation: Approve

ISSUE 6: SPEECH-LANGUAGE PATHOLOGY AND AUDIOLOGY AND HEARING AID DISPENSERS BOARDS

The Board requests authority to consolidate these two boards as required in AB 1535 (Chapter 209, Statutes of 2009) with a net impact of -1.0 positions and -$2,000 in the budget year (Yes, that is in whole numbers).

Staff Recommendation: Approve

ISSUE 7: MEDICAL BOARD OF CA – POLYSOMNOGRAPHIC TECHNOLOGISTS

The Board requests $88,000 (special fund) and 2.0 positions (1 one-year limited-term, and 1 permanent) to address increased workload associated with approved legislation.

Staff Recommendation: Approve

ISSUE 8: VETERINARY MEDICAL BOARD

The Board requests $111,000 (special fund) and 1.0 positions to address increased workload associated with approved legislation.

Staff Recommendation: Approve

ISSUE 9: CONSUMER AND COMMUNITY EMPOWERMENT DIVISION – CALL CENTER RESOURCES

This proposal would eliminate four positions and $208,000 (special fund) to align staffing resources with actual needs.

Staff Recommendation: Approve

ISSUE 10: BOARD OF BARBERING AND COSMETOLOGY

The Board requests $303,000 (special fund) and 4.0 two-year limited-term positions in order to meet the statutory requirement to inspect new establishments within 90 days of being issued a license.

Staff Recommendation: Approve

ISSUE 11: BOARD OF BEHAVIORAL SCIENCES – LICENSING POSITIONS

The Board requests a redirection of $37,000 (special fund) and establishment of .5 PY's to audit and evaluate continuing education for licensees.

Staff Recommendation: Approve

ISSUE 12: CONTRACTORS STATE LICENSE BOARD (CSLB) – EEEC

The CSLB requests 11.0 current limited term positions be established permanently to continue the efforts of the Economic and Employment Enforcement Coalition (EEEC).

Staff Recommendation: Approve

ISSUE 13: CONTRACTORS STATE LICENSE BOARD – PROGRAMMER POSITION

The Board requests .5 positions to allow redirected staff to return to their primary functions. Costs will be absorbed within the existing budget.

Staff Recommendation: Approve

ISSUE 14: PHYSICAL THERAPY BOARD

The Board requests 2 positions and $125,000 (special fund) to address additional workload of the continuing competency program.

Staff Recommendation: Approve

ISSUE 15: MEDICAL BOARD OF CALIFORNIA – LICENSING APPLICATION PROCESSING

The Board requests 7.8 positions and no funding to review and process application. Costs for these positions will be covered through a redirection of program savings.

Staff Recommendation: Approve

ISSUE 15: STATE BOARD OF OPTOMETRY

The Board requests .5 positions to address workload increases. This position will be funded out of the existing budget.

Staff Recommendation: Approve

ISSUE 17: OSTEOPATHIC MEDICAL BOARD

The Board requests $274,000 (special fund) and 4.0 two-year limited-term positions to address workload.

Staff Recommendation: Approve

ISSUE 18: BOARD OF PROFESSIONAL ENGINEERS AND LAND SURVEYORS

The Board requests $94,000 (special fund) and 1.0 position to address a backlog of citations for unlicensed activity.

Staff Recommendation: Approve

ISSUE 19: BOARD OF PHARMACY – LICENSING SUPPORT STAFF

The Board requests $94,000 (special fund) and a redirection of $21,000 and 2.0 positions to allow the Board to respond to licensing requests and inquiries within the statutory timelines.

Staff Recommendation: Approve

ISSUE 20: OCCUPATIONAL THERAPY BOARD – ENFORCEMENT MANAGER POSITION

The Board requests $109,000 (Special Fund) and 1.0 position for an Enforcement Manager to supervise the enforcement unit.

The Board's primary responsibility is to protect consumers from negligent, incompetent, or fraudulent licensees and individuals in the practice of occupational therapy. The growth of the licensee population (50% increase since 2000) has left much of the supervisory work to the Executive Officer (EO). The EO is supposed to be responsible for administration, supervision, and overall management of the Board. Because the Board has never had a supervisor position, the EO is left handling much of the day-to-day supervision including HR responsibilities, annual review, and requests for time off.

The Board has attempted to mitigate staffing needs with part time help, but has determined that this proposal would provide a more effective and efficient system of operation.

Staff Recommendation: Approve

ISSUE 21: BOARD OF VOCATIONAL NURSING & PSYCHIATRIC TECHNICIANS

The Board requests $258,000 (Special Fund) and 4.0 positions to address increased workload and backlogs in the Vocational Nursing program.

This program handles licensing, evaluation and examination of health care workers and nurses as well as accreditation of programs that provide training to those workers. Since 2003-04, there has been a 74% increase in the number of programs providing services, and 108% increase in the number of students in these programs. This has significantly increased the workload for the Board. Despite the approval of 4.0 positions in 2006/07, the workload continues to grow. As of July 23, 2009, their backlog was over 6 weeks for licensing of programs.

These programs help get nurses into hospitals. Over the past several years, the state has made a concerted effort to increase the number of nursing students to fill a shortfall in nurses statewide. These backlogs impede the state's effort to address the nursing shortage.

This proposal, combined with two proposals heard in a previous hearing, will likely result in the need for a fee increase on those registered by this Board beginning in 2011/12. The Board, however, will likely need to impose a fee increase regardless of this request, based on the two items being heard today under the Departments budget.

Staff Recommendation: Approve

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

ISSUE 1: PRESERVATION OF HCD'S AFFORDABLE HOUSING PORTFOLIO

The Department requests $315,000 (special fund) and the conversion of three limited-term positions to permanent positions to convert and restructure rental housing loans in order to keep them in HCD's affordable housing portfolio.

These positions were approved in 2008-09 and will expire without approval of this request. The positions allow the Department to ensure that existing housing stock that is restricted for low income residents, does not lapse and become market rate housing, essentially removing all those units from the pool of available affordable housing. There is a shortage of affordable housing in the current market, and allowing these existing units to become market rate only exacerbates that problem. This is one of the cheapest and most effective ways to maintain affordable housing units.

Staff Recommendation: Approve

ITEM 2310 OFFICE OF REAL ESTATE APPRAISERS (OREA)

ISSUE 1: REGULATION OF APPRAISAL MANAGEMENT COMPANIES

The Department requests $205,000 (special fund) for one appraiser/investigator and $60,000 in temporary help to comply with the requirements of SB 237 (Chapter 173, Statutes of 2009).

SB 237 requires Appraisal Management Companies to register with OREA and follow the provisions of the Real Estate Appraisers Licensing and Certification Law. This requires OREA to adopt regulations governing the implementation of the registration process, and to establish the fees to be imposed for registration in an amount sufficient to cover the costs incurred to administer the registration process. All applicants will have to undergo a background check, and OREA will be responsible for investigating reports of violations of the Real Estate Appraisers Licensing and Certification Law. The intent of the bill was to prevent the improper influence of appraisers.

The costs imposed by this request will be covered by the fees imposed on new registrants.

Staff Recommendation: Approve

ITEMS TO BE HEARD

ITEM 8880 FI$CAL

ISSUE 1: FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

The Financial Information System for California (FI$Cal), is an Enterprise Resource Planning (ERP) information technology (IT) project intended to create and implement a new statewide financial system which will encompass the areas of budgeting, accounting, procurement, cash management, financial management, financial reporting, cost accounting, asset accounting, project accounting, and grant accounting. As an ERP system, FI$Cal will be a set of software applications that will integrate and streamline the aforementioned business processes, and, in so doing, replace aging legacy systems, inefficient "shadow" systems, and duplicate processes throughout the state's departments and agencies.

The FI$Cal system evolved from an effort by the Department of Finance to create a new the Budget Information System (BIS). The project evolved and was increased in size into what is now know as the FI$Cal project into a full ERP system to replace the State Controller's Systems and the California State Accounting and Reporting Systems (CALSTARS). When fully implemented, the project will involve over 100 state departments and could cost over $1.6 billion to fully implement.

Due to a late budget and concerns raised by the Legislature, the Office of the State Chief Information Officer (OCIO), and the partner agencies, in early 2009 the project contracted with ERP experts (Grant Thornton, LLP) to review various project elements, including objectives, the implementation approach, and the procurement approach. Although this review did not result in any changes to the overall project scope (the intent was still to overhaul statewide financial systems), it did trigger two significant changes: (1) a new implementation strategy aimed at reducing up-front costs and risks by reducing the functionality in the first wave of implementation (to core accounting functions only); and (2) a new, two-step procurement strategy in which interested bidders would have an early opportunity to extensively review the state's needs and then compete (based on a "fit-gap" analysis) for an opportunity to enter a formal project proposal in the second phase of procurement. Although the official updated project plan (SPR 3) was not yet available when 2009-10 budget deliberations closed, the Legislature approved continued funding of FI$Cal, but required a report from the project following the fit-gap analysis but prior to award of the prime vendor contract.

Consistent with SPR 3, the Governor requests $38.4 million (including $2.2 million GF; renewed authorization for $13.8 million short-term GF; and $22.4 million from various special funds) for ongoing support of 83 authorized FI$Cal positions. Additionally, the Governor requests 74 supporting positions and associated funding in other state departments, including the partner agencies. Based on SPR 3, approved by the OCIO on November 19, 2009, the official overall cost to deliver FI$Cal remains approximately $1.6 billion over a total of 12 years.

WHAT CAN FI$CAL DO THAT WE CAN'T DO NOW?

Some concrete examples of how the state will benefit from Fi$Cal.

- Greater detail of expenditures, revenues in all areas with the ability to drill down
- Enhanced ability to compare department expenditures across agencies
- Increased ability to monitor expenditures during the fiscal year.
- Easier reporting and more transparency of financial data
- Accounting and fiscal systems will be standard across departments.
- Both fiscal and technical platforms will be re-engineered to improve current business practices, making technical experts more effective and efficient and building skill sets that will improve the financial workforce across state government.

FIT-GAP ANALYSIS="BAKE OFF"

The project has adopted a two-step procurement strategy (similar to the one used on the 21st Century project) that includes an open procurement for a Firm Fixed Price fit-gap analysis to three top bidders (in FY 2010-11), followed by the actual fit-gap analysis in which the bidders have seven months to review potential gaps between their software and the state's business requirements. Each bidder receives a fixed price for production of a detailed implementation plan, including all costs to carry out the plan. At the end of the process, the state could have three entirely viable FI$Cal proposals from which to choose. The Administration currently estimates the prime vendor contract award will take place on September 12, 2011.

The Fit-Gap analysis is often referred to as a "bake-off" because the final vendor is selected from a pool of vendors that have developed tangible prototypes for evaluations before the final awards are made.

CHANGE MANAGEMENT

One of the most difficult challenges in implementing the Fi$Cal project will be getting the 100 departments that will use the system to adopt the standardized accounting systems and practices. The utility, cost, and effectiveness of the Fi$Cal system hinge on success of this effort.

FUNDING

The original financing plan was to use bond financing for the cost of FI$Cal, and Government Code Section 15849.24 authorizes the State Public Works Board to issue bonds, notes, or certificates to finance the costs of the Project. The Attorney General's office has informed the Department of Finance that in their view there could be Proposition 58 issues when it comes time to implement any legislation that provides for the financing of FI$Cal through bonds. Whether or not there is a problem would depend on the financial circumstances of the state at the time. If there were a Prop 58 situation, the AG's office would not be willing to deliver an opinion as to the validity of bonds financing the FI$Cal system.

As a result, Project staff is exploring other funding mechanisms to fund both the vendor costs and the state staff costs. The amount that can be financed is dependent on the cost of the capitalized asset. Guidance for capitalization of intangible assets is forthcoming from the SCO and the Department of Finance, and is based on federal capitalization rules. That guidance will provide information about what Project costs can be counted toward, and recorded as, the cost of the final asset (i.e., hardware, software, vendor costs, facilities, etc.). Once guidance is provided it will be possible for project staff to estimate the amount to be financed and the debt service costs. Options for financing the vendor costs include GS $Mart, I-Bank, vendor financing, and bond financing.

Project staff is also looking at other funding mechanisms for other costs of the project (state staff, OE&E, facilities); including user fees once departments are implemented. Discussions are on-going with DOF and federal negotiators to obtain some federal funding through SWCAP. Staff is also working with DOF on the feasibility of pro-rata for FI$Cal. Both these options would be available prior to any departments using FI$Cal, and if successful, would reduce the net General Fund costs for the project, particularly during the planning phases. Staff has obtained ideas on user fee scenarios from other states with ERPs, and other state departments who charge user fees. The following are some user fee options, but staff continues to investigate other methodologies:

- Charge users based on data processing usage (currently how CALSTARS charges users).
- Charge by user license.
- Charge by the percentage of the non-payroll budget, including state operations and local assistance.

Much of the prior estimated cost of FI$Cal was associated with an estimated 750 dedicated state staff that were envisioned to implement the project over its life. Initial work to develop the fit-gap analysis requirements suggests that the level of state staffing, and therefore project costs necessary to implement the project, will be lower than projected. Some reasons for this are:

- The use of JAD sessions instead of the original plan of using full-time dedicated staff and providing backfill positions to the partner departments.
- A revised implementation strategy of rolling out functionality, rather than the big bang approach.
- A decrease in the estimated size of facility needs. The Project has decreased its estimated facility needs from 140,000 sq. ft. to 75,000 sq. ft.
- A delay in moving to long-term facilities. The Project plans to move into permanent facilities early in calendar year 2011.

To date, the state has spent approximately $40 million on the FI$Cal Project.

SPRING FISCAL LETTER

On April 19th, the Department of Finance issued a Spring Finance letter for $4.2 million to fund the fit-gap analysis. This reflects an acceleration of procurement schedule and a $6.3 million reduction in the expected cost of the fit-gap analysis..

The fiscal letter also makes a technical change to the funding allocation that corrects the funding

LAO RECOMMENDATION

The LAO believes the fit-gap analysis should require vendors to provide the Legislature with additional, potentially lower-cost alternatives for system development for replacing the state's aging financial infrastructure. In addition, LAO supports expanding the legislative reporting pause in current law to 60 days. This would give the Joint Legislative Budget Committee sufficient time to schedule a hearing if necessary to consider the merits of the bake-off proposals. Additionally, if there were major concerns, the JLBC would have the option to defer approval of the proposed plans for system development.

HELPFUL GLOSSARY OF TERMS PROVIDED BY DEPARTMENT

Central Service Agency

A State department supported by the General Fund that provides general administrative services to all State departments. Examples include the SCO (audits claims, issues warrants), the STO (redeems warrants) and the DOF (prepares budgets). Through fair share assessments of departments (pro-rata) amounts to cover administrative costs are transferred to each central service agency on a quarterly basis.

GS $Mart

Golden State Financial Marketplace, run by the Department of General Services. The GS Mart program enables state departments to finance essential items of equipment and other goods, including IT goods. GS $Mart contains a centralized listing of pre-approved financing service providers for use by state and local governmental entities. GS $Mart standardizes the process for soliciting bids and arranging contracts to reduce the time and expense to secure financing assistance. GS $Mart financing has been used by DOJ, FTB, OCIO, CDCR, and other departments.

I-Bank

The California Infrastructure and Economic Development Bank is a state entity within the Business, Transportation, and Housing Agency. The mission of the I-Bank is to finance public infrastructure and private development that promote economic growth, revitalize communities and enhance quality of life for Californians. The I-Bank has broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage State and Federal funds.

JAD

Joint Application Development is a methodology that involves the client or end user in the design and development of an application, through a succession of collaborative workshops called JAD sessions with Subject Matter Experts (SME).

Proposition 58

As the California Balanced Budget Act, Proposition 58, among other things, prohibits most future borrowing to cover budget deficits. This restriction applies to general obligation bonds, revenue bonds, and certain other forms of long-term borrowing.

Pro-rata

The amount of State administrative, General Fund costs (e.g., amounts expended by central service agencies for the general administration of State government) chargeable to and recovered from special funds (other than the General Fund and federal funds) as determined by DOF.

SME

A Subject Matter Expert is a person who has a recognized level of competency on a specific subject matter as a result of their education, work experience, and/or professional certification. The Project is utilizing full time SME's and is reimbursing departments for these staff. Additional departmental and partner SME's will be used as needed in the Joint Application Development sessions.

SWCAP

The Statewide Cost Allocation Plan includes the amount of State administrative, General Fund costs (e.g., amounts expended by central service departments such as the Treasurer, Personnel Board, Controller, and Finance for the general administration of State government) chargeable to and recovered from federal funds, as determined by DOF.

STAFF COMMENT

It is clear that the State of California's accounting system is limited and outdated and this hinders the ability of the State to adopt modern management and reporting practices in administration of all state functions. The aged computer accounting and budgeting platform must be replaced before major process improvements can be set in motion.

However, the cost of such a replacement is significant, and the Subcommittee should weigh the benefits that will accrue to the State against these costs.

The procurement process put forward by Fi$Cal appears to be the most advanced and thoughtful procurement ever attempted by the State.

If the Subcommittee approves the budget proposal and the Spring Finance Letter, it will allow the fit-gap analysis to proceed. However, the Legislature will still have an opportunity to review the contract before a final commitment to the project would be necessary. Prospectively, the Legislature will also still need to approve positions to implement the project.

Adopting the LAO recommendations would offer the Legislature more time to review the Fi$Cal proposal next year and also create a less expensive option that could be considered.

Staff Recommendation: Adopt Spring Fiscal Letter, Approve BCP, and Adopt LAO recommendations. This allows the Fi$Cal fit-gap to go forward, but builds in options for the Legislature to revisit the project before the final contract is awarded.

ITEM 0650 OFFICE OF PLANNING AND RESEARCH
AND 0596 CALIFORNIA VOLUNTEERS

The Governor's Office of Planning and Research (OPR) provides legislative and policy research support for the Governor's office. OPR also assists the Governor and the Administration in land-use planning and manages the Office of the Small Business Advocate. OPR has five major units: (1) The State CEQA Clearinghouse, (2) Legislative Unit, (3) Policy and Research Unit, (4) the Office of Small Business Advocate, and (5) Advisory for Military Affairs.
The Governor's budget proposes eliminating OPR in 2010-11.

In the 2010-11 budget, the Governor proposes moving the California Volunteers program out of OPR to form its own separate stand-alone agency. California Volunteers is comprised of five departments: AmeriCorps Programs, Disaster Volunteering and Preparedness, Volunteer Action, External Affairs and Finance and Administration.

ISSUE 1: ELIMINATION OF OPR AND ESTABLISHMENT OF THE CALVOLUNTEER AGENCY

The Governor's budget proposed to eliminate the Office of Planning and Research (OPR) effective July 1, 2010. Approximately 13 existing OPR positions would be eliminated immediately upon enactment of the 2010-11 budget, and this would generate $571,000 of General Fund savings. Under the Governor's proposal, nine existing OPR positions related to the California Environmental Quality Act (CEQA) Clearinghouse and local planning activities would be transferred to the Natural Resources Agency, and seven other OPR positions—mainly those that now provide high-level legislative and policy analyses to the Governor's Office—would be transferred to the Governor's Office, the State and Consumer Services Agency (SCSA), the Business, Transportation, and Housing Agency (BTH), and the Department of Housing and Community Development (HCD).

Additionally, the proposal creates a new California Volunteers Agency. California Volunteers, a small state office with about 40 employees that administers certain federal funds distributes to local volunteerism efforts in the state.

SPRING FISCAL LETTER

On April 1st, the administration issued a Spring Fiscal Letter to delay the elimination of OPR until January 1, 2011.

LAO RECOMMENDATION

We have long recommended eliminating OPR. Staffed with state employees exempt from the civil service system, OPR's principal duties have included housing staffers that provide bill and policy analyses to the Governor's Office. These functions appropriately belong within the Governor's Office itself. A separate office for them is unnecessary and lessens transparency for the public and the Legislature on the amount of resources being devoted each year to Governor's Office activities.

Additional Savings Possible from OPR Elimination. We recommend that the Legislature eliminate six of these seven positions, which we believe to be nonessential, for additional General Fund savings of around $500,000 per year. We understand that several of these staff members provide enrolled bill and other policy analyses to the Governor and other high-ranking executive branch officials. Under our proposal to eliminate these positions, the next Governor will need to adjust his or her administration's staffing—within budgeted resources—to address any functions performed by these current employees that are desired to be continued.

The six positions to be eliminated under our recommendation, as described in the OPR budget change proposal, would be: two information technology staff proposed to be transferred to the Governor's Office, two legislative staff proposed to be transferred either to HCD or SCSA, and two small business advocate staff proposed to be transferred to BTH.

Under the Governor's budget, the funding and position authority for the existing Director of OPR would be transferred to the Governor's Office as a Senior Advisor to the Governor. We raise no issue with the transfer of this single position, given the fact that the OPR Director often has been an important, high-level advisor to the Governor.

State Clearinghouse, Planning, and Other Activities. The OPR's State CEQA Clearinghouse and planning unit performs certain statutorily-required functions that warrant continuation. Accordingly, we raise no issue with the administration's proposed transfer of this unit to the Natural Resources Agency.

In addition to this unit, however, other existing statutes (such as Sections 65035, 65040, 65040.1, 65040.2, 65040.12, and 65048 of the Government Code) reference various planning, land use, and environmental coordination functions for OPR. It is unclear whether OPR has been performing some of these functions recently. In eliminating OPR, the Legislature might wish to consider whether other entities in state government should be assigned some of these functions. We recommend that the Legislature ask the administration to provide a recommendation at or before the May Revision as to how each and every existing statutory responsibility for OPR should be disposed. The administration may recommend eliminating statutory requirements, transferring them to other departments beginning immediately, or transferring them to other departments on a delayed basis. In addition, modifications may be proposed to these requirements in order to reduce administrative burdens or improve the quality of reports and functions referenced in these statutes.

California Volunteers Agency. There is no strong rationale, for establishing a volunteerism agency in state government. The agency level of government was established to encompass major state functions--generally with thousands of employees--related to core state responsibilities, such as prisons, business and transportation, health and human services, and state administration. California Volunteers is a very minor function of state government. Accordingly, the Legislature should request that the administration give more realistic thought as to which existing entity in state government should house California Volunteers after the Office of Planning and Research's elimination.

The Governor's Budget proposes over $1 million of General Fund appropriations for the volunteerism effort in 2010-11. This may be above the federal minimum allowed to garner certain grants to assist volunteerism efforts. Accordingly, the Legislature should explore with the administration options for bringing California Volunteers spending down to the exact minimum dollar level allowed under federal matching fund rules. Trimming down the office's executive staff may be one option in this regard.

STAFF COMMENT

There are several policy bills in being considered in both houses to consider the future purpose of OPR. The Subcommittee could consider deferring this decision to the policy process.

Staff Recommendation: Defer this decision to the policy bills currently being considered. Reject, without prejudice, the proposed elimination of OPR, the establishment of the California Volunteers Agency, and the corresponding fiscal letters.

8950 CALIFORNIA DEPARTMENT OF VETERAN AFFAIRS

The California Department of Veteran Affairs (CDVA) promotes and delivers benefits to California Veterans and their families. The Department does this in three ways: (1) provides aid and assistance to veterans and their families in presenting their claims for federal veterans' benefits, (2) facilitates access to low-cost loans to acquire farms and homes, and (3) provides the state's aged or disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment at the California Veterans Homes.

Totals	Actual 2008-09	Estimated 2009-10	Proposed 2010-11
Total Personnel Years (All Programs)	1,670.1	1,889.7	2,289.7
Total Expenditures (All Funds)	$293.1 million	$367.3 million	$422 million
Total General Fund	$155 million	$183 million	$236 million

ISSUE 1: CVH-YOUNTVILLE LEASES AND RECTOR RESERVOIR

Background. The California Veterans Home in Yountville currently has 20 agreements with other entities, which range from Memorandum of Understandings to leasing agreements. A couple of interests are the agreement with Vintner's Golf Club and the Town of Yountville.

Vintner's Golf Club. The lease for the Vintner's Golf Club is for 30 years (beginning in 1996) and includes terms for payment in years 2011-15 of $60,000 per year. The lease also includes gray water usage. Use of the Golf Course is free to veterans in the home Monday through Friday. Cost to the regular public ranges from $200-250 for 10 9-hole rounds with a cart, and $250-$350 for 18-hole rounds.

Rector Reservoir. Rector Creek Dam and Reservoir is located at the base of the foothills of the Howell Mountains, approximately three miles from the town of Yountville in Napa County. The Dam is a 164-foot high, earth-fill structure with crest elevation at 381.5 feet. The License for Diversion and Use of Water is under permit 6466 and was issued to the CDVA by the State Water Resource Control Board on November 2, 1970. Under the permit, CDVA is restricted to: 5.55 cubic feet per year, 1,767 acre-feet per annum by storage and shall not exceed 3,518 acre-feet per water year or the maximum withdrawal from storage 1,767 (out of a maximum allowed in storage of 4,400 acre-feet). Per the permit, the water can be "put to beneficial use" in:

1. Napa State Hospital
2. Fish and Game Farm
3. City of Yountville
4. Irrigation of approximately 652 acres (within a defined area)

CDVA entered into an agreement (starting July 1, 2004 and ending June 30, 2024) with the Town of Yountville to offset water usage. The VHC Yountville provides the Town of Yountville with water and a monthly reading and the Town of Yountville provides the Home with a sewer usage bill. The fee for water is $667 per acre foot of water sold to the Town of Yountville. The revenue is not reflected in the CDVA budget because of the offset agreement.

The VHC Yountville Personnel at Rector Reservoir totaled 3 positions and $193,166 in 2009-10, as follows: 2 Water and Sewage Plant Supervisors ($124,694) and 1 Chief Engineer II ($ 68,472).

The VHC was cited in 2001 for violating their license. They petitioned for an extension of the "beneficial use" license in 2004 and after several issues with their submission, the Division of Water Rights located the missing documents in 2009 and granted approval. However, the extension has been protested by Fish and Game and they are requesting a study of the land.

STAFF COMMENT

Concerns have been raised that the state may not be getting fair value or capitalizing on potential revenue sources. It is important that state departments and entities explore all options available to mitigate GF pressures while carrying out their respective missions. Further, to the extent that additional revenue could be generated from the above mentioned assets, augmentations could be made to programs that assist California's growing veteran population.

Suggested Questions:

Is there an opportunity for the state to realize a return on these assets?

In 2000, the Department of Water Resources recommended that CDVA develop management plans that would provide data on the possibility of surplus water. Why was that recommendation overlooked?

What is the cost of gray water used for the Vintner's Golf Course?

What benefits do the Homes Veterans get from the multiple agreements?

Staff Recommendation: The Committee may wish to instruct the CDVA to: (1) report back to the Committee on the authority of the CDVA to sell water and the amount of surplus water that can be sold; (2) approve in concept the sale of surplus water; (3) adopt Budget Bill Language that would allow any increased revenue to be used to augment the appropriation for County Veteran Service Officers (CVSO's); and, (4) direct the Department to explore what it would take to renegotiate the lease with Vintner's Golf Course and report back to the Legislature.

ISSUE 2: ENTERPRISE-WIDE VETERAN'S HOME ACTIVATION SYSTEM BUDGET RE-APPROPRIATION

Governor's Budget Proposal. The Governor requests re-appropriation of $6.5 million (GF) from 2007-08 and $216,000 (GF) from 2008-09 to fiscal years 2010-11 and 2011-12 to ensure sufficient project funding for the Enterprise-wide Veterans Homes Information System (Ew-VHIS) project. The Ew-VHIS is an integrated commercial-off-the-shelf (COTS) solution to support the long-term clinical care, financial, and administrative operations of the California Veterans Homes.

Background. The Department currently uses MEDITECH, an information system that only serves the Department's acute care needs and is available to Yountville, Barstow and Chula Vista. The MEDITECH system is limited in scope and its contract is set to expire June 30, 2012. MEDITECH will not be renewing its contract and have selected not to submit a proposal for Ew-VHIS.

In January 2007, the Office of the Chief Information Officer (OCIO) approved a Feasibility Study Report for the Ew-VHIS project. The 2007 Budget Act included funding of $10.3 million (GF) and 20.9 positions for the project. In January 2009, the scope, schedule and cost of the project changed, and a new report was approved by the OCIO. These changes caused an 18 month delay.

The Governor's 2009-10 budget later approved $1.3 million (GF) and 11 positions to convert expiring limited-term positions to permanent status in order to support ongoing needs of the Ew-VHIS project. Further approval of this project occurred in the appropriation of $878,000 (GF) and conversion of eight limiter-term information technology (IT) positions to permanent status to support the Project Management Office and CDVA's ongoing and future IT projects.

Current Status. This program is a mission critical system necessary for the operation of the Department and delivery of essential services to the veterans living in the homes. The new system is essential to manage the health information of the residents in the new homes and support the long-term clinical care, financial, and administrative operations of the California Veterans Homes.

Initial bidding was unsuccessful, but the Department is currently conducting a procurement that is in its closing stages and with final proposals due June 2, 2010. The intended contract start date is December 6, 2010 and implementation in the homes as follows: GLAVC November 2011, Yountville March 2013 and Redding and Fresno in 2013.

STAFF COMMENT

The estimated one-time cost of this program is $5.6 million and the continuing annual maintenance (upon implementation) is estimated at $660,000 for hardware and software. The actual cost however, will be determined when the bidder costs are opened, currently June 30, 2010.

Although this project is critical and has been approved in previous fiscal years, the initial concern of approving this BCP is the final unknown cost. However, the Department has assured staff that the project is currently under cost and should cost change, the Legislature would be kept informed. In fact, the Department will submit a Special Project Report #2 to the OCIO and the LAO at the conclusion of the procurement and submit a Control Section 11 letter to the Legislature. Additionally, should costs increase the CDVA will require budget authority from the Legislature.

Staff Recommendation: Approve as budgeted and direct the Department to submit a Section 11.0 notification to the Legislature as appropriate.

ISSUE 3: GLAVC VETERAN HOME ACTIVATION PHASE IV

Governor's Budget Proposal. The Governors budget requests an augmentation of 102.3 positions and $8.3 million (GF) in 2010-11 and 103 positions and $13.2 positions in 2011-12 related to phase-in implementation of the Greater Los Angeles Ventura County (GLAVC) project to continue construction, activate business operations and begin admitting veterans. This request includes implementation of all future phases, V through VIII.

Positions will be distributed as follows:

Location	2010-11 PY's	2011-12 PY's
West Los Angeles	92	92
Headquarters	10.3	11
Totals	102.3	103

Prior Appropriations. The 2009-10 budget suspended opening of the Adult Day Health Care (ADHC) services and scored $1.8 million (GF) savings. Additionally, it reduced the Governor's request for $18.5 (GF) and 181.6 positions for GLAVC Activation Phase III by $5 million, in recognition of a three-month delay in construction. To date, GLAVC construction phases I through III have been budgeted at $321 million. The table below describes the source and amounts spent to date on construction alone.

Source	Budget Amount	Spent to Date
GO Bond	$31 million	$31 million
Lease Revenue Bond	$110.3 million	$94.1 million
Federal Funds	$180 million	$160 million
Total	$321 million	$286 million

Background. The VHC-GLAVC consists of Veterans Homes in Lancaster (VHC-GLAVC), Ventura (VHC-Ventura) and West Los Angeles (VHC-WLA). The proposal requests the phase-in implementation of the VHC-GLAVC project, initially approved in 2007-08. Hiring and occupancy timelines have been updated to reflect the Residential Care Facility for the Elderly (RCFE) admissions schedule in VHC-Lancaster and VHC-Ventura from three residents per months to eight residents per months; an indefinite delay in opening the Adult Day Health Care (ADHC) program; and a delay in opening the skilled nursing facility (SNF) in VHC-WLA. A current status can be seen below.

CVH	Level of Care	Opening Date	Total Physical Capacity	Total Licensed Beds	Residents to date
West LA	RCFE SNF MC	Sept. 2010 2011-2012 2012-2013	396	84 RCFE 312 SNF 0 MC	0
Lancaster	RCFE ADHC	January 2010 Delayed	109	60 RCFE	10
Ventura	RCFE ADHC	January 2010 Delayed	109	60 RCFE	16

STAFF COMMENT

Adequate and appropriate staffing is necessary to open the VHC-GLAVC, however, it is unclear that all positions previously authorized in 2009-10 have been utilized and whether those requested in this proposal will be hired as scheduled. Should schedule changes occur, funding for the full year is not necessary for these positions and savings could be scored at the end of the 2010-11 year.

Suggested Questions:

Have all of the PY's authorized in 2009-10 been hired?

What is the need for an Information Officer III? Do all homes have one?

Should the Legislature only appropriate funding for 2010-11, what progress could be made? Would any federal funding be at risk?

Staff Recommendation: Hold Open for May Revise.

ISSUE 4: REDDING AND FRESNO VETERANS HOME CONSTRUCTION COMPLETION AND PRE-ACTIVATION PHASE II

Governor's Budget Proposal. The Governors budget requests the following:

	VHC-Redding	VHC-Fresno
2010-11 Budget: Completion and Pre-activation Phase II	9.3 positions $1.3 million (GF)	8.5 positions $1 million (GF)
2011-12 Budget: Construction Completion and Pre-Activation Phase II	19 positions $2.4 million (GF)	16 positions $2 million (GF)

Positions for VHC-Redding and VHC-Fresno would be distributed as follows:

Location	2010-11 positions
VHC-Redding	6.5
VHC-Fresno	4.5
Headquarters	6.8
Net Total	17.8

Background. The VHC sites Redding and Fresno were selected by the Governor's Commission on Veteran Homes in 2003. Approval for Phase I of each home occurred by the Legislature in 2008-09. Initial completion deadlines projected completion of Redding in October 2010 and Fresno in 2011. However, delays in these projects have occurred. The positions requested are dedicated to the construction phase and intended to ensure all aspects of the construction and business operations at both VHC-Redding and VHC-Fresno are compliant with federal, state, and local laws and regulations prior to opening. New deadlines project completion by 2012 for both homes.

CVH	Level of Care	Construction Completion Date	Total Physical Capacity	Total Licensed Beds
Redding	SNF, RCFE	February 2012	150	90 RCFE 60 SNF
Fresno	SNF, RCFE	April 2012	300	180 RCFE 120 SNF

Funding spent to date include Lease Revenue Bonds from the November 2009 "I series" sale. While the projects are to eventually be funded up to 60 percent by the USDVA Federal Construction Grant Program, the "I series" bond sale was for 100% of the project. Spending to date includes; VHC-Redding $6.2 million, VHC-Fresno $15.3 million, for a total of $21.5 million. The table below shows the progression of funding for these projects.

CVH	2009-10 Total Budget	2009-10 General Funds	2010-11 Total Budget	2010-11 General Funds	Total Change in Dollars	Total Change in GF Dollars	Total % Change in Budget	Total % Change in GF
Redding	$269	$269	$1,453	$1,453	$1,184	$1,184	440%	440%
Fresno	$269	$269	$1,097	$1,097	$828	$828	308%	308%

Included in this request are travel costs for both homes. Roughly 200 miles from headquarters, each home requires staff to travel to and from HQ and the different southern California homes. Purchase of 5 vehicles per home, for those holding administrative positions in HQ and in Redding or in Fresno, are also included and a net total cost of $184,000 (GF). In addition, temporary space will be needed until construction of both VHC-Redding and VHC-Fresno are completed, and will cost $68,000 a year. All positions will be phased in, with positions added at various points in the fiscal year as workload warrants.

STAFF COMMENT

The state committed to opening these homes and adequate staffing is necessary to uphold that commitment. However, given the states GF status, several issues should be considered before approval of this BCP.

1) Concerns over this proposal include requests for 5 passenger vehicles that are necessary for licensing in the future. The cost in 2010-11 for passenger vehicles is $92,000 and for resident transportation vehicles in 2011-12, $380,000. However, the CDVA is under Executive Order to reduce their fleet by 15% and an exemption from the Governor has not been granted. Perhaps purchase of vehicles can be delayed to a later phase.

2) Request for HQ seem to be consistent with previous request at other homes during this phase. Given the approaching construction completion of CVH-GLAVC, could HQ staff assigned during the construction phase be re-purposed.

3) The GF impact, between the two homes for fiscal years 2010-11 and 2011-12, will total $6.7 million. More information should be attained on whether we can delay approval of fiscal year 2011-12 until the 2011 Budget Act.

Suggested Questions:

What is the status of the Executive Order exemption?

What would be the effect of delaying purchase of the 5 passenger vehicles to a later phase?

Should the Legislature only appropriate funding for 2010-11, what progress could be made? Would any federal funding be at risk?

STAFF COMMENT

Given the final sale of the bonds, there is no financial benefit or money to be saved by stopping construction of the homes. However, delays and postponing positions or vehicles purchases can be explored and weighed against the long-term impact.

Staff Recommendation: Hold open for May Revise.

ISSUE 5: OPERATION WELCOME HOME

Overview. In January 2010, Governor Schwarzenegger launched Operation Welcome Home (OWH), a statewide effort to connect veterans with benefits and services and specifically target California's most recently discharged veterans, including Operation Enduring Freedom and Operation Iraqi Freedom (OEF/OIF).

California's OWH will be overseen by CDVA, who will orchestrate the collaborative outreach effort with several strategic partners. The mission of OWH is to connect California's veterans with jobs, unemployment benefits, housing, healthcare (physical and mental) and other federal, state and local veteran benefits and services; including education and compensation and pension for service connected disabilities.

California's OWH will be a phased program commencing with the formation of a California Veterans Corps (CalVet Corps) comprised of 325 limited term EDD employees (CalVet Corp-EDD Team), and 52 AmeriCorps members (CalVet Corp-Volunteer Team), provided by California Volunteers. While the EDD employees will focus on initial contact efforts, the AmeriCorps members will recruit and coordinate 1,000 community volunteers that will work in tandem with this team and provide additional assistance to veterans.

CDVA's strategic partners:

Labor and Workforce Development Agency (LWDA);
Employment Development Department (EDD);
EDDs Transition Assistance Program (TAP) Instructors;
California's Military Department (CMD);
California Volunteers (CV);
The Office of the Chief Information Officer (OCIO);
The Department of Mental Health (DMH);
The Department of Housing and Community Development (HCD);
The Department of Alcohol and Drug Programs (ADP); and,
California's 54 County Veteran Service Offices (CVSOs).

Funding. The Governor has allocated $20 million in one-time special funds to hire 325 combat veterans, who will be the primary contacts with veterans. CalVet Corps EDD Team funding will be provided through the employment services and unemployment insurance federal grants. The funding for the Cal Vet Corps Volunteer Team (AmeriCorps Vista and CV volunteer staffs) will be through AmeriCorps and CV grants. The Subvention Asministrative Information System (SAIS) deployment will be funded from the Veterans Service Office Fund.

PANEL

- **California Department of Veteran Affairs**
- **California Volunteers**

Suggested Questions:

What will be the role of AmeriCorps volunteers? How will they help with CVSO workload?

What is the status of hiring the 325 limited term employees by EDD?

What is the status of the AmeriCorps grant?

When can the Legislature expect to receive future funding request from CDVA?

STAFF COMMENT

California's OWH is a step in the right direction to best serve California's 23.4 million veterans, of which only 8.5 million received Veteran Affairs benefits in 2008 (36%) and 30 percent of which were unemployed in November 2009. However, there are concerns as to how this progam will indeed operate, its efficiency and the need for newly appointed officers to operate OWH. Also, current CDVA cost have been absorbed by the Department. However, there are indications that future funding may be pursued.

ITEM 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

ISSUE 1: EMPLOYMENT DEVELOPMENT DEPARTMENT'S VETERANS' SERVICES

The Subcommittee has requested this informational item to review the veteran services provided under the Employment Development Department (EDD). The Legislature is concern and interested in ensuring that EDD is actively engaged in providing our veterans access and assistance to support services.

The Employment Development Department administers nine veteran programs, which are funded through several federal funding streams, for a total cost of $57 million for 2009-10. The EDD staff will provide the Subcommittee with an overview of their program as well as current actions to improve and assist California veterans.

BACKGROUND

Local Veterans Employment Representative (LVER): State employees in local offices provide counseling, testing, employment services and identify training to veterans. Perform outreach to employers in 50 percent of duties. Performance based on service to recently separated veterans.

2008-09 Performance:

- Entered Employment Rate 51%
- Employment Retention Rate 74%

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
Jobs for Veterans' State Grant	$5,441,000	$5,784,000	Pending

Disabled Veterans Outreach Program (DVOP): Specialist develop job and training opportunities for veterans, with special emphasis on veterans with disabilities. Performance measured on services to disabled veterans.

2008-09 Performance:

- Entered Employment Rate 45%
- Employment Retention Rate 73%

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
Jobs for Veterans' State Grant	$11,135,000	$11,838,000	Pending

Temporary Assistance Program (TAP): Assists service members and their spouse's transition from military service to the civilian workplace. Provides reintegration forms to separating service members.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
Jobs for Veterans' State Grant	$976,000	$830,000	Pending

Operation Welcome Home (OWH): Proactively reaches out to California's veterans to ensure access to employment, housing, physical and mental healthcare, and other veteran benefits, including compensation and pension. This program expires December 31, 2010 unless extended, as it is Governor's Initiative.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
Unemployment Insurance/ Wagner-Peyser Funds	N/A	$10,000,000	$10,000,000

Honor a Hero – Hire a Vet (HAH-HAV) Job & Resource Fairs: Over the past three years, the Veterans Initiative has helped expand services through a series of more than 31 HAH-HAV and Resource Fairs held throughout the State. These innovative events have connected nearly 9,500 veterans with 2,200 employers and numerous service organizations. Reintegration forms are now being used to track veterans.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
WIA Rapid Response 25%	$250,000	$250,000	Pending

Veterans Employment Related Assistance Program (VEAP): The purpose of the VEAP grants is to focus on identifying military transferable skills and determining career pathways to industries that offer livable wages, benefits and career advancement opportunities. Veterans can expect to receive a wide variety of training in fields such as health care, emergency medical technology, construction, security, law enforcement, and computer services.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
WIA Rapid Response 25 Percent	$4,461,000	$4,461,000	Pending

Veterans Employment Related Assistance Program (VEAP): The purpose of the VEAP grants is to focus on identifying military transferable skills and determining career pathways to industries that offer livable wages, benefits and career advancement opportunities. Veterans can expect to receive a wide variety of training in fields such as health care, emergency medical technology, construction, security, law enforcement, and computer services. Services provided by Community Based Service Providers.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
WIA Governor's Discretionary 15 Percent	$4,461,000	$4,461,000	Pending

Veterans Employment Related Assistance Program (VEAP): The purpose of the VEAP grants is to focus on identifying military transferable skills and determining career pathways to industries that offer livable wages, benefits and career advancement opportunities. Veterans can expect to receive a wide variety of training in fields such as health care, emergency medical technology, construction, security, law enforcement, and computer services.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
ARRA WIA Governor's Discretionary 15 Percent	$0	$5,000,000	Pending

Veterans/Disabled Veterans' Employment Services: Funds support EDD staff who provide services to California veterans in various One-Stop Centers throughout the State.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
WIA Governor's Discretionary 15 Percent	$700,000	$700,000	Pending

Veterans Training: Funds will be targeted to "veterans' job training programs" (to be offered through a statewide competitive grant process for short-term training for veterans to get them into employment, with an emphasis on clean tech jobs).

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
WIA Governor's Discretionary 15 Percent	$0	$12,700,000	Pending

Engineer Training for Veterans': This pre-engineering certificate pilot program targets returning veterans with GI bill benefits and builds upon the Troops to College imitative and aligns to academic degree and certificate programs in engineering fields to construct a pipeline to engineering careers.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
WIA Governor's Discretionary 15 Percent	$0	$600,000	Pending

Employment Training Panel's Veterans Pilot Program: Pilot program marketed to recruit and train unemployed veterans in business and commercial related skills.

Federal Fund Source	Prior Year 2008-09	Current Year 2009-10	Budget Year 2010-11
Special Funds – Employment Training Fund	$398,075	$66,300	Pending

STAFF COMMENTS

EDD has multiple programs serving veteran employment and job training needs. Concerns have been raised that the multiple programs and multiple funding streams do not appear to be integrated and coordinated, and therefore the Subcommittee may wish to require the Department to report on options for restructuring the governance and administration of these programs to enhance their effectiveness and better achieve the Governor's and Legislature's policies to assist veterans obtain all benefits for which they are eligible, to assist in helping veterans become job ready, and to connect them with existing job opportunities.

Staff Recommendation: Subcommittee may instruct staff to develop Supplemental Reporting Language, requiring the department to report on the following:

1) An evaluation on how the department's veteran employment and job training programs are currently structured, and

2) Options for a new governance and management model to increase program integration, coordination, improve service delivery efficiency and enhance program performance.

ITEM 1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

The Department of Consumer Affair's (DCA) Boards and Bureaus provide exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns.

	2008-09 (actual)	2009-10 (estimated)	2010-11 (proposed)
Expenditures	$406.3	$441.9	$504.1
Personnel Years	2748.9	2792.5	2956.8

These items include no General Fund appropriations. This is entirely funded from fees charged by professional boards on those individuals within their professions. The large increase in positions for 2010-11 is primarily attributed to the Consumer Protection Enforcement Initiative approved by the sub-committee on March 24th.

ISSUE 1: BREEZE

This issue was originally heard, but held open, on March 24, 2010.

This proposal would implement an integrated licensing and enforcement system to support the efforts outlined above in the Consumer Protection Enforcement Initiative (CPEI). The Budget Year cost of the program would be covered by redirecting the funding for the long delayed iLicensing project, $2.08 million. In the out years, the cost would be:

$2.3 million in 2011-12

$3.6 million in 2012-13

$6.2 million in 2013-14

$6.1 million in 2014-15 and ongoing for maintenance and support

As with the CPEI, these costs would be covered by fees collected by those entities to be supported by the proposed system. This system, however, would support all Boards/Bureaus, not just the Healing Arts Boards. The system also has an alternative contract payment method in place. The solution vendor for the system will be paid through a "fee-per-transaction" model. This means the state does not have to put up any funding until the system is in use. Instead, the vendor will be compensated by assessing system clients with a transaction fee, anticipated at $3 per transaction, to boards/bureaus for each application or renewal processed through the new system. These costs are included in the estimates above.

The costs incurred prior to the acceptance and use of the new system are to purchase and implement commercially available integrated enterprise enforcement case management and licensing solutions that will then be configured for DCA's specific needs. This will replace both of the Department's legacy enforcement and licensing systems. The licensing portion of the system, replacing the long delayed iLicensing project, will vastly increase the online self-service offerings available from the Department.

By having an integrated system for all of the Department, it will, for the first time, enable cross-license checking between boards and bureaus. Additionally, it will enable the Department to interface with compatible external systems when data sharing agreements are in place.

The Department anticipates procuring and implementing Phase 1 of a comprehensive system by 2012-13, based on their ability to take advantage of other state's knowledge and experience with these solutions and use of an accelerated procurement plan. Phase 1 will consist of all the Healing Arts Boards. The remaining boards and bureaus will be added in the following 2 years.

COMMENTS

The Department requests Budget Bill Language as part of this request to allow DOF to "augment the amount available for expenditure to pay BreEZe project costs." This augmentation would require 30 day notification to the Joint Legislative Budget Committee prior to implementation. This language is fairly common for a project such as this that requires approval in the budget act prior to actual procurement of the project. This language provides sufficient legislative oversight, while allowing the project to move forward without unnecessary delay.

The project has received conditional approval from the Office of the Chief Information Officer. That approval lists ongoing costs of nearly $10 million, while this BCP only requests ongoing funding of $6.1 million. <u>The Committee may wish to ask why there is such a significant difference.</u>

This system upgrade is in line with modifications being made around the state, and nation, to move away from legacy systems that are outdated and no longer have technical support from the original vendor. This system will provide efficiency within the department, convenience to the consumers, and facilitate the increased enforcement activities proposed in the CPEI.

As with the CPEI request, this request does not include General Fund, but will be paid for by the benefiting Boards proportionally based on size and needs. This proposal, combined with the previous item on the agenda, will require a few Board's to implement fee increases to cover the additional cost for increased enforcement. The Department estimates that some boards may require a fee increase in 2011-12 (Budget year +1) to compensate for these costs. These boards will, however, be receiving a benefit for those expenditures, and none have come forward to express any concerns with the proposals. Enforcement and compliance are the most important functions of the Healing Arts Boards, and this proposal will enable them to better fulfill those duties.

Staff Recommendation: Approve

ISSUE 2: APRIL FINANCE LETTER – ATHLETIC COMMISSION

The State Athletic Commission requests $464,000 (special fund) to ensure that Commission-sponsored events are property staffed with Athletic Inspectors. These funds are only requested on a 2-year limited-term basis.

The Commission saw a dramatic increase in Commission-sponsored events from 2008-09 to the current year (35% increase) and do not expect that to change in the budget year. Because this large increase has only been in place for one year, the funding is requested for 2 years only to allow them to effectively review their ongoing needs.

The Commission is tasked with regulating professional/amateur boxing, full-contact martial arts, professional wrestling, and mixed martial arts as well as conducting gym inspections. The Athletic Inspectors employed by the Commission help prevent and detect drug use, prevent injuries to participants, staff and the public, and ensure fair practices in the competitions.

COMMENTS

The Commission is self-funded by fees charged to those they regulate, as well as at the events they sponsor. There is no general fund effect, and this request will not require a fee increase.

The Commission ensures the safety of participants and spectators in a variety of sporting events held throughout California. They also monitor the use of fair practices and standards. Without adequate resources, we risk the safety of those involved, in addition to risking the loss of such events being held in California.

To conform with the Senate, the Committee may wish to request the following report from the Commission:

On or before March 1, 2011, the California State Athletic Commission shall provide to the Budget Committees and appropriate policy committees a report on: 1) the Commission's strategic plan; 2) the Commission's standards for hiring, training, and evaluating staff; 3) a schedule of athletic inspector trainings that will be held during fiscal years 2010-11 and 2011-12; 4) a plan for consistent gate proceeds recovery; 5) the administrative changes enacted after July 1, 2010 to facilitate consistent coverage of combative sporting events; and 6) recommended changes to state statute to provide for greater revenue recovery and consistent oversight of the combative sports.

Staff Recommendation: Approve with reporting language

ISSUE 3: GEOLOGISTS AND GEOPHYSICISTS PROGRAM

The Governor requests 3 positions and $559,000 (Special Fund) to fund the transfer of the former Board of Geologists and Geophysicists (BGG) to the Board of Professional Engineers and Land Surveyors (BPELS). This request also includes a reduction in the budget for the Board for Professional Engineers and Land Surveyors by $131,000 to properly fund the consolidated board.

This request is intended to:

1) Fund two additional positions;

2) Reflect the redirection of one position from the BPELS to the BGG, now the Geologists and Geophysicists Program (GGP);

3) Accurately reflect the costs of a current supervisor managing both BPELS and GGP employees; and,

4) Allow for the development of new geotechnical examinations and for contracting with external technical experts.

The BGG was eliminated as part of the 2009 budget negotiations. Its responsibilities were transferred to BPELS along with 2 positions. The BGG had 7 staff prior to elimination, and if this request is approved, they will now have 5 staff.

Nearly half this request, over $200,000 is related to number 4 above. These costs are for development of four state geotechnical examinations, requiring four separate meetings with "Subject Matter Experts" (SME).

Another large portion of this request is to contract with "technical experts" ($95,000). BPELS uses technical experts for evaluating geologic issues on more technical complaints. BGG did not utilize technical experts for such tasks. <u>The Committee may wish to ask why these experts are needed now, when they weren't under the old structure.</u>

COMMENTS

Staff has identified several discrepancies in this request in regards to funding for the Subject Matter Experts related to new geotechnical examinations. In addition to requesting justification for the $95,000 in expenditures for technical experts, <u>the Committee may wish to request Supplemental Reporting Language (SRL) due March 1, 2011, showing the actual expenditures by the Board for Subject Matter Experts as compared to the cost estimates in the finance letter BCP.</u>

Staff Recommendation: Approval with SRL

ISSUE 4: BUREAU FOR PRIVATE POSTSECONDARY EDUCATION

The Governor requests $8,739,000 (Private Postsecondary Education Administration Fund) and 67.4 permanent positions to establish the Bureau for Private Postsecondary Education.

The Bureau for Private Postsecondary Education was established by AB 48 (Portantino, 2009) within the Department of Consumer Affairs. The Act became operative on January 1, 2010. The Bureau is supposed to ensure minimum standards of instructional quality and institutional stability in private postsecondary educational institutions.

AB 48 was a sweeping piece of legislation that provided a very detailed set of requirements and underlying authority for the new Bureau. This request provides the staffing needs necessary to fulfill those requirements. The Bureau is self-funded through fees charged to those institutions monitored and regulated by the bureau.

COMMENTS

In 2013, both the LAO and the Bureau of State Audits (BSA) are required to report to the Legislature on the new Bureau. Additionally, The Bureau and its authorizations are repealed on January 1, 2016 unless a future act extends that date. As such, the Legislature will be provided with ample opportunities to review the operations of the bureau once they have the opportunity to establish themselves.

Concerns have been raised that the staffing plan set forth by the Department and the Governor's office does not adequately staff the Bureau. Specifically, it has been questioned whether the Administrations decision to shift the majority of staff from Education Specialist Positions to Associate Governmental Program Analysts (AGPA) is appropriate. The Committee may wish to ask the Department to justify this change in staffing positions.

Additionally, the bill requires that the Bureaus annual budget request include 5 education specialist positions. While this request does include those positions, it does so on a limited term basis. The bill, however, is clear that these positions should be ongoing. Any action by the sub-committee should, at a minimum, establish those 5 required specialists on a permanent basis. Additionally, the Author of AB 48 intended for those 5 positions to be located within the Sacramento office for the Bureau, but this proposal has them spread through-out the state. The Committee may wish to direct staff to determine if this is an issue that should be addressed as part of this proposal.

Staff Recommendation: Hold open

ITEM 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The mission of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The Department administers housing finance, economic development, and rehabilitation programs with an emphasis on meeting the shelter needs of low-income persons and families, as well as other special needs groups. It also administers and implements building codes, manages mobile home registration and titling, and enforces construction standards for mobile homes.

	2008-09 (actual)	2009-10 (estimated)	2010-11 (proposed)
Expenditures	$836,389	$986,109	$386,143
General Fund Exp.	$ 9,420	$9,042	$9,515
Personnel Years	557.8	583.9	592.0

The large decrease in expenditures is due to ARRA and Bond funds already having been expended.

ISSUE 1: ENTERPRISE ZONE FUNDING

Originally heard on March 24, 2010.

California currently has 42 authorized Enterprise Zones (EZ). The EZ programs are intended to target economically distressed areas throughout California, providing special incentives designed to encourage business investment and promote the creation of new jobs. Each Enterprise Zone is administered by its local jurisdiction working with local agencies and business groups to promote economic growth through business attraction, expansion, and retention. HCD coordinates the program statewide.

Enterprise Zone companies are eligible for tax credits and benefits including $37,440 or more in state tax credits over a five-year period for each qualified employee hired.

The Governor's budget proposes to fund HCD's administration of the Enterprise Zone (EZ) Program with $610,000 (fee revenues) and $510,000 (GF). HCD state operations costs related to the EZ program include tax credit voucher application review and awards, monitoring, adoption of regulations, and data collection/reporting. To partially fund the state's costs for administering the program, statute authorizes HCD to charge a $10 per hiring tax credit voucher application fee. Should the EZ program take in fee revenues above what is needed to administer the program, funds revert to the GF. This reversion occurred for the first time in 2008-09 when $721,000 in fee revenue was budgeted and $916,000 was received by the state.

The amount of fee revenue that will be collected can only be estimated at the beginning of each fiscal year, making it difficult to budget the correct amount of required GF support. The current structure does not allow the program to build a balance from fee revenues in order to even out the program's funding over time. Without a balance on-hand to support the months in which fee revenues are not enough to pay for administration of the program, the state must commit GF resources to the program each year.

LAO COMMENTS:

The LAO states that fee revenues, and not the GF, should pay for the administrative costs of the Enterprise Zone program. They recommend:

(1) Increasing fees to fully cover the program's administrative costs; and,

(2) Establishing a new fund to match revenues with the costs of the program's administration.

More specifically, they recommend the Legislature enact legislation to:

(1) Increase the hiring tax credit fee to a level that would fund the state's full cost of administering the program. Based on conservative estimates, the current fee would have to be raised by $4 to $6 per application. This would mean that taxpayers would pay $14 to $16 dollars for a tax credit worth up to $37,440; and,

(2) Establish a new fund into which fee revenues would be deposited. This will enable the department to carry a balance from month to month and even out expenditures. It also allows the state to accurately match the program's costs with fee revenues by monitoring the fund balance over time. This will give the Legislature the ability to adjust fees in future years in relation to costs.

COMMENTS

Staff concurs with the LAO analysis that in current economic times, it does not make sense for the state General Fund to subsidize the Administration of a program that already drastically reduces state revenues.

The Committee may wish to ask the Department to prepare an estimate for what the fee would have to be increased by to cover the full cost of administering the program.

The Committee may also wish to ask the Department how quickly such a fee increase could be implemented, and when those increased funds would be realized.

In addition to this discussion about fee revenue, there is a larger discussion regarding the benefits of Enterprise Zones and whether they are an appropriate tax expenditure or not. That discussion would more appropriately take place under the umbrella of tax expenditures, as it is separate from the administrative function held by HCD.

Staff Recommendation: Approve LAO recommendation

ISSUE 2: EMERGENCY HOUSING ASSISTANCE FUND SWEEP

Originally heard on March 24, 2010.

The Emergency Housing Assistance Fund provides funding for the Emergency Housing Assistance Program (EHAP). EHAP, when funded, provided facility operating grants for emergency shelters, transitional housing projects, and supportive services for homeless individuals and families. The Governor's budget includes a sweep of $4.2 million from this fund to the General Fund.

BACKGROUND:

For the 2008-09 budget, the Governor proposed a budget balancing reduction of $401,000 resulting in a 10 percent reduction of state contributions, estimated to be equivalent to 1,900 beds. The Legislature chose to restore that cut through the budget process. The Governor, however, vetoed the restored funding as well as vetoing the entire state contribution to emergency housing facilities (an additional $3.6 million cut). The state, prior to 2008-09, provided approximately 10 percent of the overall funding for local homeless shelters. Based on the departments 1,900 bed estimate for the original $401,000 reduction, it would suggest 19,000 beds would be eliminated by the Governor's $4 million reduction.

Last year in this Committee, Housing California, an advocate for increasing the supply and variety of decent, safe, and affordable homes for homeless and low income families, discussed a survey they conducted showing a dramatic reduction in services at emergency shelters throughout the state:

- Conservative estimates show that more than 25,000 fewer people will be able to access emergency shelter services. These numbers include hundreds of families and thousands of children.
- 58 percent of recipients report the necessity to lay off staff, resulting in further job losses and increased demand for unemployment benefits.
- Rural areas are being particularly hard hit, as the EHAP grants received by rural counties generally account for larger portions of their emergency shelter budgets.
- Winter shelters are likely to be forced to close their doors early or not open at all.
- Nearly 20 percent of shelters will be forced to close a program and two shelters report they may have to close permanently.
- In attempts to fill operating-revenue gaps, emergency shelters are growing more dependent on less-reliable funding streams, such as private donations and local government funds (both of which are already tapped to the brink).

The Governor left the $4 million out of his 2009-10 budget proposal, but the Assembly added it back in until it was then removed in conference committee. This Subcommittee had significant discussions for both the 2008-09 and 2009-10 budgets in regards to the importance of this program, and trying to find funding to keep it going.

When staff was made aware of the $4.2 million in available funds that were going unused, the Department was asked to explain how funding was available in this fund while we were eliminating the program the past two years. They provided the following history for the fund:

- The Budget Act of 2000-01 transferred $39 million from the General Fund to the EHAF. Of this amount $14 million was for Shelter Operations and $25 million was for Capital Development.
- All funds that were transferred in 2000-01 through 2007-08 were awarded except for the amount reserved for support costs, which, prior to January 1, 2009, were restricted to 4 percent of the total (this was revised to 5% in 2009).
- In 2002, Proposition 46 passed and provided bond funds for EHAP Capital Development, continuing the EHAP-CD program.
- From 2003 through 2005 as bond money for EHAP-CD was going out, disencumbrances from the GF EHAP-CD projects and Shelter Operation awards were occurring, creating a "General Fund" related balance in the fund.
- In 2002-03, the transfer from the General Fund to the EHAF for Shelter Operations dropped from $14 million to $5.3 million. In 2004-05, the transfer was reduced further to $4 million, reducing the allowable support costs to just $160,000 (4% of the $4 million). These reductions drastically reduced the funding for support without a commensurate reduction in workload, because in the EHAP program a reduction in funds reduces the amount awarded but does not reduce the number of awards, which is the primary workload driver.
- With Propositions 46 and 1C addressing the demand for the EHAP-CD program and a regular $4 million transfer coming in for Shelter Operations, the "General Fund" balance in the fund was maintained and provided sufficient interest revenue to address the decrease of support funds for the Shelter Operations program.
- In September 2008 the annual transfer for Shelter Operations was vetoed. Given the uncertainty about budget solutions or condition of the economy, the future of the program was not clear.
- In response to the cash crisis that was occurring in Fall 2008 and Spring 2009, HCD complied with the statewide restriction on spending (from any source) and did not award any of the amounts in fund balance.
- When it was clear that the state's fiscal situation would not improve sufficiently to resume the annual transfers for the Shelter Program in the near term a decision needed to be made regarding whether to spend the funds or return them to the General Fund. The Governor's Budget reflects the decision to return the funds to the General Fund and suspend the program.

COMMENTS

This Subcommittee made its intent very clear, in discussions and votes, that providing funding for this program was of critical importance. There were substantial discussions regarding attempts to find alterative funding sources other than the General Fund in order to maintain funding for this program, yet the Department never shared with the Committee or staff that funding was sitting unused and available in this account. The Department has contended that the Fund Balance Statement shows these funds, and thus the information was available. The Fund Balance, however, contains expenditures for other programs, and includes funds that are not part of the EHAP program. The Committee may wish to ask why the Department didn't feel it necessary to share with the Legislature during discussions on this topic over the last two years that such funds were available.

Because these funds are available to be swept back to the General Fund, using them to reestablish the program would be the same as providing a General Fund allocation. Given the current fiscal crisis, that may not be feasible, but merits the discussion of the Subcommittee given the recent interest in this program.

<u>The Committee may wish to consider requiring the Department to report to the Legislature, annually, when a program has been suspended from operation (such as EHAP was) but funding remains available for the purpose of that program.</u>

Staff Recommendation: Reject the sweep of funds, and adopt budget bill language to require a report on programs not in operation, but that still have funds available.

ISSUE 3: APRIL FINANCE LETTER – COMMUNITY DEVELOPMENT BLOCK GRANT (CDBG) DISASTER RECOVERY INITIATIVE

The Governor requests approval for an increase in Federal Trust fund expenditure authority of $39.5 million to administer the Community Development Block Grant, Disaster Recovery Initiative.

In September of 2008, Congress appropriated over $6 billion in supplemental funding for "necessary expenses related to disaster relief, long-term recovery and restoration of infrastructure, housing and economic revitalization in areas affected by hurricane, floods, and other natural disasters occurring in 2008." On June 10, 2009, the US Housing and Urban Development department (HUD) announced the allocation of $3.7 billion in disaster aid, including $39.5 million for California.

HCD was required to submit an action plan by December of 2009, which it did, and received approval of that action plan in January 2010. <u>The Committee may wish to ask if the Legislature was provided opportunity for input into the action plan before it was submitted.</u>

HCD's planned use for these funds are:

1) $18 Million for - Housing/infrastructure/economic recovery & revitalization;

2) $15 Million for - The development of forward-thinking land-use planning (disaster resistant building codes, safety elements of general plans, Local Hazard Mitigation Plans/LHMPs, hazard area buy-out programs, mitigation measures to improve residential properties making them less prone to damage, and other smart strategies incorporated into recovery activities);

3) $ 4.5 Million for - Affordable rental housing activities; and,

4) $ 2 Million for administrative costs for #1–3.

HCD has administered funds through this program before, and plans to use their existing structure in order to expedite and simplify the process. Funds will be awarded on a first-come first-served basis for all applicants meeting the minimum thresholds.

The Program has set deadlines for:

1) Releasing the NOFA/application for funds on May 17, 2010;

2) Accepting applications no later than July 13, 2010; and,

3) Making award announcements within 60 days of application receipt.

COMMENTS

In addition to these funds, already received from the federal government, HCD points out that an additional $15 million may be available to the state. <u>The Committee may wish to ask the Department what will determine whether or not we receive those funds, and if there's anything that can be done to ensure we do receive them. Additionally, the Committee may wish to ask for details on how the Department will determine how those additional funds would be spent.</u>

<u>The Committee may wish to ask what would happen to the timeline above if the budget is late.</u>

Staff Recommendation: Hold Open

ISSUE 4: APRIL FINANCE LETTER – PROPOSITION 1C REAPPROPRIATION AND EXTENSION

The Governor requests a reappropriation of up to $40 million of any unencumbered balance in local assistance funding authorized in the 2009 Budget Act, plus an additional year for the liquidation period (to June 30, 2015) for the Building Equity and Growth in Neighborhoods program (BEGIN).

In December of 2008, due to issues with the ability of the state to sell bonds, the Department of Finance froze all expenditures of GO bond proceeds. Because of this, HCD may not be able to issue a Notification of Funding Availability (NOFA) before June 30th. As such, this request is necessary to allow them to move forward with expenditure of these funds as soon as bond funding is available.

COMMENTS

Staff raises no concerns with this proposal, but would note the relation of this issue to the following agenda item.

Staff Recommendation: Approve

ISSUE 5: PROPOSITION 1C EXTENSIONS – IIG/TOD

Similar to issue 4 above, concerns have been raised that allocations made under the Proposition 1C Infill Incentive Grant Program (IIG) and Transit-Oriented Development program (TOD) might also be facing unusual circumstances that may merit consideration of an extension of the liquidation period for those funds.

Specifically, these projects typically begin construction with the assistance of construction loans, along with the use of a multitude of funding sources. In the current financial market, projects are having difficulty finding banks that are willing to offer construction loans. With various sources of funds being held up, including bond funds that have been obstructed by the freeze on bond expenditures from the Pooled Money Investment Fund, banks no longer consider it a sure thing that the project will have the funding available to re-pay the loan when necessary. An additional problem is that some of these projects were planning to utilize Redevelopment Agency funds to fund part of their project. As part of last year's budget, the Legislature redirected approximately $2 billion of Redevelopment Agency funds towards other purposes. There is the potential for projects to lose those funds, or have them significantly delayed because of that action.

Due to the combination of these factors, it has been proposed that the Legislature grant a 3 year extension of the liquidation period available for IIG and TOD funds allocated in the 2007, 2008, and 2009 budgets.

COMMENTS

The Committee may wish to ask the Department and Department of Finance if they have any concerns with such extensions, and what the effect of such extensions would be.

Staff Recommendation: Hold open to evaluate appropriate action

ISSUE 6: PROPOSITION 1C

Originally heard March 24, 2010.

The Department requests the following:

(1) $30 million (local assistance) funding authority for two programs established by the Housing and Emergency Shelter Trust Fund Act of 2006 (Prop 1C).

(a) $5 million for Building Equity and Growth in Neighborhoods (BEGIN); and,

(b) $25 million for Housing-Related Parks Program (HRP).

(2) An extension of budget authority and liquidation period authorized in Chapter 652, Statutes of 2007 (SB 586) for the Affordable Housing Innovation (AHI) programs.

In November 2006, California voters approved Proposition 1C, the $2.85 billion Housing and Emergency Shelter Trust Fund Act of 2006. Proposition 1C and subsequent implementing legislation provided funding for several programs, including for the HRP program, which grants park acquisition and improvement funds to cities and counties as a reward for the start of each unit of affordable housing within their jurisdictions, and the BEGIN program, which provides grants to local governments for the provision of down payment assistance loans to low or moderate income homebuyers who purchase a home in a new development that has received one or more local government development incentives.

Also included within Prop 1C is the $100 million AHI program fund for competitive grants or loans to sponsoring entities that develop, own, lend, or invest in affordable housing and are used to create pilot programs to demonstrate innovative, cost-saving approaches to building or preserving affordable housing. The Administration indicates that the encumbrance and liquidation period for AHI awards needs to be extended for two reasons: (1) In early 2008-09, with California's economy struggling at the start of the recession, HCD focused its resources on core/large housing programs, releasing large Notifications of Fund Availability into the economy to stimulate housing development activity; AHI awards were not included in this effort; and, (2) due to the December 18, 2008, freeze on bond funding, awards were not issued for the AHI programs.

The proposed current year Prop. 1C expenditures total $540 million, including $40 million for the BEGIN program, $10 million for HRP, and $83 million for the AHI Fund.

COMMENTS

Due to the December 2008 bond freeze and the state's ongoing cash flow problems, the availability of bond proceeds has been tightly constrained statewide. The state's ability (or inability) to access bond markets has created uncertainty for bond-funded programs and their constituents.

While staff does not raise any specific concerns with the allocation of new funds, or extension of authorization for AHI funds, the Committee may wish to inquire as to the effect of the bond market on the sale and use of Prop. 1C bond funds. Additionally, the Assembly Budget Committee earlier this year expressed an interest in ensuring that the state prioritizes bond sales to generate jobs, while not overly burdening our GF with future debt payments. It may be beneficial to withhold a decision on this request and review the total bond request in all areas of the Governor's budget.

Staff Recommendation: Approve

ISSUE 7: INFILL INCENTIVE GRANT FUNDING AVAILABILITY

As part of all affordable housing programs, the Department is required to do long-term monitoring to ensure the facilities remain affordable. They are required to review, document and approve tenant occupancies, conduct monitoring visits, provide ongoing technical assistance to project sponsors to resolve issues of non-compliance, and much more. These costs continue for the life of the affordability requirements, often 55 years.

For Bond projects, bond funds must be set aside for the purpose of funding these activities, or else the cost will be born by the General Fund. Because of this, a portion of housing bond funds are often left unspent, but are in reality being held in reserve for this purpose. Because requests are often received for the use of these set-aside funds, we asked HCD to do a thorough analysis of their ongoing needs, and report back to the legislature as to whether any funds may be available for appropriation. In their review of the Infill Incentive Grant Program under Proposition 1C, HCD informed this Committee that approximately $9.7 million could be utilized. After accounting for administrative costs that will be incurred, $9.2 million could be allocated to new projects.

COMMENTS

There are many potential ways to expend these available funds. The primary proposals that have been proposed are to 1) allocate these funds to projects already qualified for these funds, but who did not receive their full funding request because funds weren't available, or 2) allocate the funds to CALReUSE, a program that assists with the redevelopment of underutilized properties with hazardous material contamination issues (brownfields).

The Committee may wish to discuss these options and what results they wish to achieve by putting these funds out to projects (ie: jobs, affordable units, etc.).

<u>The Committee may wish to ask the Department:</u>

1) Why have they not proposed spending these dollars? Dollars that could be creating jobs and affordable housing units.
2) Were there more requests for funds from this program than funding available? If so, could these funds simply be allocated to the next projects on the list, or would a new request for projects have to be processed?
3) Does the Department have a suggestion on the best use for these funds?

Staff Recommendation: Hold Open

ITEM 8885 COMMISSION ON STATE MANDATES

The Commission on State Mandates hears and determines if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state. The Commission was created as a quasi-judicial body to determine state mandated costs. The Commission consists of the Director of Finance, the State Controller, the State Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county supervisor, or school district governing board member, appointed by the Governor and approved by the Senate.

This budget item appropriates the funding for the staff and operations costs of the Commission, and appropriates non-education mandate payments to local governments.

	2008-09 (actual)	2009-10 (estimated)	2010-11 (proposed)
Expenditures	$13,495	$80,896	$84,220
Personnel Years	10.3	11.0	11.0

In 2008-09 the budget agreement included amendments to the state's mandate payment schedule, such that the 2008-09 payments were largely skipped.

ISSUE 1: OPEN MANDATES

The Governor’s budget included the continuation of certain mandate suspensions and deferrals to generate General Fund savings of about $232 million. The savings measures included: (1) savings of $95 million by deferring payment of pre-2004 mandate claims; (2) savings of $77.3 million by suspending certain local mandates; and (3) savings of $59.8 million from deferring payment on expired mandates or some mandates exempt from the requirements of Proposition 1A of 2004. Under (2) above, most mandates were suspended with the exception of those related to law enforcement, elections procedures, open meeting requirements, and tax collection.

8th Extraordinary Session: The Legislature approved most of the Governor’s savings proposals in the 8th Extraordinary Session. However, two mandates were left open for further analysis and discussion in the Budget Subcommittee: (1) the Local Recreational Background Check mandate; and, (2) the Crime Victims’ Rights mandate. The Budget Committee’s action on mandates in the 8th Extraordinary Session is retained as an action in this regular session. The Subcommittee is charged with reviewing the two mandates left open, and other mandate issues not covered in the 8th Extraordinary Session.

Budget Issue: In the 8th Extraordinary Session, the Legislature deferred action on two mandates in order to provide a more thorough review in subcommittee. The two mandates are as follows:

1. The Local Recreational Background Checks mandate: This is a newly determined mandate by the Commission. The law requires background screening of employees or volunteers at locally operated parks, playgrounds, recreational centers, or beaches used for recreational purposes. Claimed costs are about $550,000 per year, and accumulated costs sum to $3.0 million. The Governor proposed to suspend this mandate for 2010-11, which would result in the

deferral of the $3.0 million General Fund reimbursement and suspension of the requirement on locals for the 2010-11 fiscal year. The LAO recommends the Legislature reject suspension of the mandate, but achieve the longer term savings by amending statute to specify local agencies may offset their screening costs by charging applicants fees. If fees are allowable, and the Commission "redetermines" the mandate, then the state will no longer be required to reimburse costs. See also issue #4 on the following pages for more information on the "redetermination" process.

2. Crime Victim Rights mandate: This mandate was repealed as part of last year's budget actions because the provisions overlapped with Marsy's Law (the Victims' Bill of Rights Act of 2008). So the victim notification provisions remain in law, but the State no longer has to reimburse the cost, saving the General Fund about $600,000 per year. Under Marsy's Law, upon request, victims are notified of a plea bargain with the accused. Under the Crime Victim Rights mandate, notification of a plea bargain was sent to all victims, whether they requested notification or not. The LAO had recommended the Committee continue under the action the Legislature adopted last year. Since this mandate was repealed last year, there is no budget issue, unless the Subcommittee wants to revisit last year's repeal. Staff notes that this mandate is similar but distinct from the domestic violence and rape mandates in the next item.

COMMENTS

Staff concurs with the LAO analysis on both items, but suggests the Committee may wish to ask the LAO to provide an overview of these issues and describe the General Fund savings options. The Committee may wish to additionally ask the Department of Finance if they have any concerns with the LAO recommendations.

Staff Recommendation: Adopt the LAO recommendation to reject suspension of the Local Recreational Background Checks mandate, and instead adopt local fee authority; and to take no action on the Crime Victim Rights mandate (thus retaining the status quo notification under Marsy's Law).

ISSUE 2: MANDATE REPORTS REQUIRED BY THE 2009 BUDGET ACT

The 2009 Budget Act required the Administration to review three mandate areas for possible savings and report recommendations to the Legislature. The issues and recommendations were as follows:

1. Elections-related mandates: The Department of Finance (DOF) was required to consult with the California State Association of Counties (CSAC) to review all mandates related to elections and report to the Legislature by October 1, 2009. It was hoped that DOF and CSAC could come to an agreement on replacing the current mandates' parameters and guidelines (i.e. claiming of actual costs), with a reasonable reimbursement methodology (RRM) (i.e., claiming costs based on a standard per unit or other simplified methodology). Specifically, DOF proposed an RRM that would rebase elections reimbursements at the 2007-08 claims level minus a 15 percent cost reduction for audit findings and efficiency, and then grow this amount over time by the rate of inflation (the implicit price deflator). The counties did not agree to this RRM fearing postage and population growth might over time reduce any initial efficiencies.

2. Domestic Violence and Rape Counseling Mandates: The Department of Finance was required to work with the Department of Justice (DOJ) to review mandates related to domestic violence and rape counseling and report to the Legislature by January 1, 2010. It was hoped that DOF and DOJ could find some mandate costs that would overlap with voter-approved measures, and if appropriate, reallocating funding for these mandates to victims' assistance programs. The DOF report indicates that Marsy's Law (the Victims' Bill of Rights Act of 2008) requires certain victim-notification requirements that overlap with existing domestic violence and rape counseling notification mandates, such that if the Legislature repealed the duplicative requirements, a General Fund savings of $2.2 million annually would result (i.e., locals would be required to perform the activities under Marsy's Law, but the State would not reimburse the cost). DOF did not state a recommendation on repeal of duplicate requirements, but did recommend that if they were repealed, the savings be directed to General Fund relief.

3. Mandate Process Mandate: The Department of Finance was required to review the mandate reimbursement process mandate (the cost of filing mandate claims) and report to the Legislature by April 1, 2010, with recommendations to simplify the process to reduce costs. This report was received by staff just prior to finalization of this agenda, and has only received a cursory review. The Department of Finance estimates that the mandate reimbursement process mandates (I and II) could account for over $70 million in annual claim costs. The final recommendation in the report was to suspend both mandates for one year to "allow a thorough review of the reimbursement claims submitted in May 2010."

COMMENTS

Committee Questions: The Commission, the LAO, and the Department of Finance are all available to answer questions on these issues:

1. LAO – Please provide a brief overview of these reports and indicate any opportunities for cost savings.
2. DOF – Discuss any recommendations you have on these issues and how they differ from the LAO's recommendations.
3. DOF – Do you have any formal recommendation relative to the Domestic Violence and Rape Counseling Mandates?
4. DOF – Do you have any thoughts on ways to simplify the mandates based on their existing reviews?

Staff Recommendation: Hold open for further review

ISSUE 3: APRIL FINANCE LETTER – IN-HOME SUPPORTIVE SERVICES II MANDATE

The Governor has requested, in an April Finance Letter, an augmentation of $475,000 General Fund to pay the accumulated claims for the newly-determined mandate of In-Home Support Services II (IHSS II) Mandate. The IHSS II mandate has ongoing requirements for counties to operate advisory committees. The mandate also included one-time costs to establish an employer for IHSS workers, but that one-time activity has been completed in all counties. In the IHSS budget, about $1.7 million (General Fund) is provided for these advisory committees plus about $1.4 million in federal reimbursements. The ongoing mandate claim would only be a county's amount that exceeds base funding. Only one county filed a claim for 2007-08 to receive a reimbursement for costs in excess of base funding.

LAO Recommendation: The LAO recommends that the Legislature approve trailer bill language to make the IHSS advisory committees optional and also that the Legislature adopts the Administration's proposal to fund the prior mandate claims, rather than suspending or repealing. Another option raised by the LAO is to reduce the base IHSS advisory committee funding of $1.7 million and direct that savings to payment of the mandate and/or other costs.

COMMENTS

The DOF request to fund this mandate is counter to the general Administration direction to suspend most mandates. DOF indicates one consideration is the large program reductions for IHSS proposed in the Governor's Budget, and the idea that the advisory commissions could be helpful in implementing these program cuts. In additional to the DOF request and the LAO variation, the Subcommittee could go ahead and suspend the mandate – this would defer the payment of $475,000 General Fund in prior mandate claims. The baseline $1.7 million in the IHSS budget could be used to incentivize locals to continue the activity on a voluntary basis.

<u>The Committee may wish to ask what would happen if we didn't approve the funding requested.</u>

Staff Recommendation: Hold open and direct staff to coordinate with sub-committee #1 on this issue.

ISSUE 4: MANDATE REDETERMINATION PROCESS

In 2009, the Third Appellate District Court ruled in *California School Boards Association v. State of California* that the Legislature's practice of referring mandates back to the Commission on State Mandates for redetermination was unconstitutional. The court's concern related to the separation of powers doctrine. Recognizing that the state needs a quasi-adjudicatory process to review dated mandate decisions in light of changing facts, circumstances, and legal thinking, the Legislature directed staff to work with the Administration on options for developing a new mandate redetermination process, responsive to the court's concerns.

Under current law, the state is not obligated to reimburse local governments for the costs of complying with federal mandates or with mandates imposed by voters through ballot initiatives. However, there is no redetermination process in statute that allows the Commission to review a prior mandate determination in the light of new federal mandates, ballot initiatives, or other relevant changes in law or legal thought. In AB 138 (Chapter 72, Statutes of 2005, Committee on Budget), the Legislature required the Commission to set aside its Open Meeting Act and Brown Act Reform determination and its Mandate Reimbursement Process I determination, due to an expectation that redetermination would find no state reimbursement obligation due to subsequent voter initiatives and other factors. The Commission redetermined these two mandates and found the activities no longer required state reimbursement. These redeterminations would have saved the State General Fund about $22 million annually; however, the *California School Boards Association v. State of California* decision invalidated the redeterminations. In the decision, the court explicitly recognized that the Legislature could establish a general process for the Commission to revise prior decisions in light of changes in law or circumstance, but concluded that legislation requiring the Commission to revisit specific individual decisions violates the separation of powers doctrine because the commission functions in a quasi-judicial capacity.

COMMENTS

The Commission has held several hearings on this issue, and has worked with the LAO and legislative staff to develop draft language on a new mandate redetermination process (see Attachment I). Given the separation-of-powers issue, the Legislature does not have a formal role in the draft language. Instead, the Legislature may be able to indicate legislative intent in the future, by requesting that the Department of Finance submit a request to the Commission to adopt a new test claim on a certain mandate. Adoption of the statutory language could save the state money by reducing mandate reimbursements, however, it is possible a redetermination could also result in a cost increase for the state.

A wide variety of parties have been consulted in the drafting process of this language, and it is provided here in this agenda to ensure all interested parties have an opportunity to review and provide input.

The Committee may wish to ask the Commission and LAO the following questions:
1. What are some examples of situations where mandates should be redetermined?
2. What are the budgetary implications of adopting the mandate redetermination language?
3. Who, or what parties, could request the Commission adopt a new mandate test claim decision?

Staff Recommendation: Hold Open and direct staff to continue working on the proposed language

ITEM 9350 TRAILER VEHICLE LICENSE FEE BACKFILL

ISSUE 1: TRAILER VEHICLE LICENSE FEE BACKFILL

The Governor requests approval of trailer bill language to eliminate the General Fund backfill of $11.9 million for the trailer vehicle license fee apportionment to local governments. This budget item apportions revenue to cities and counties that lost Vehicle License Fee (VLF) revenue when the State converted from an un-laden weight system to a gross vehicle weight system for purposes of assessing VLF for commercial vehicles. This change conforms to the International Registration Plan, a reciprocity agreement among US states and Canada for payment of commercial license fees based on distance operated in each jurisdiction. This funding is deposited in the Local Revenue Fund to support local health and welfare programs.

COMMENTS

This backfill is associated with a state/local healthcare realignment implemented in 1991. The Governor had proposed a reduction in this apportionment in the 2008-09 budget; however, the Legislature rejected the reduction due to the association with the 1991 realignment. The realignment involved local governments assuming certain healthcare responsibilities from the State in exchange for specified revenues to support those programs. The LAO cautions against eliminating or reducing realignment funding. The Department of Finance indicates that they believe the $11.9 million is actually outside the realignment calculation, but the department has not, to date, provided any statutory citations or other justification for this view.

Absent any solid confirmation that these funds are indeed outside of the realignment calculation, taking this action could put the entire agreement surrounding realignment at risk.

Staff Recommendation: Reject (note – LAO may have a NEW recommendation on this item at the hearing which could change this recommendation)