AGENDA
ASSEMBLY BUDGET SUBCOMMITTEE NO. 4 ON STATE ADMINISTRATION

Assemblymember Juan Arambula, Chair

TUESDAY, MAY 5, 1:30 PM
STATE CAPITOL, ROOM 447

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CONSENT ITEMS

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

Issue 1: Finance Letter – Capitol Outlay reduction – The Administration requests that $3,037,000 be removed from the DGS capitol outlay budget to postpone the construction phase of the California Department of Corrections and Rehabilitation (CDCR), California Institute for Women at Frontera, Corona: Walker Clinic and Infirmary, Structural Retrofit project. General Fund support for this project was removed from the approved 2009-10 budget, without which the project cannot be completed on schedule.

Issue 2: Finance Letter – Capitol Outlay re-appropriation – The Administration requested that the unencumbered balances of appropriations for the Library and Courts Renovation ($59.6 million) and the CDCR, Deuel Vocational Institute, Tracy, Hospital Building ($3.7 million), Structural Retrofit projects be re-appropriated. These projects were delayed by requirements to suspend all projects that required cash from the Pooled Money Investment Account (PMIA). As such, this re-appropriation is necessary to allow DGS to fulfill its obligation for the bond funded projects once they are able to restart.

ITEMS TO BE HEARD

ITEM 9100 TAX RELIEF

This budget item now includes two programs that make payments to local governments to help defray revenues lost as a result of tax relief programs.

1. Homeowners' Property Tax Relief Subventions ($444.6 million)

2. Subventions for Open Space / Williamson Act ($34.8 million)

Subventions to offset local revenue loss from the Homeowners' Property Tax Relief program are constitutionally required. The Governor's Budget proposed no funding for Open-Space subventions in 2009-10, but funding was restored in the 2009-10 Budget Act. However, no funding has been provided for the Senior Citizen Homeowners or Renters Tax Assistance payments (there also is no funding for these programs in the current year as a result of the Governor's veto of funding in the 2008-09 Budget Act). In addition, SB 8 X3 (the 2009-10 General Government Trailer Bill) indefinitely suspended, as requested by the Governor, the Senior Citizen Property Tax Deferral Program as of February 20, for a General Fund savings of $6.5 million in the current year and $32 million in 2009-10.

ISSUE 1: IMPACT OF THE ELIMINATION OF THE SENIOR CITIZENS PROPERTY TAX DEFERRAL PROGRAM

The Senior Citizens Property Tax Deferral Program has enabled homeowners with annual household incomes below $35,500, and who are at least 62 years old, blind, or disabled, to postpone their property tax payments. The state makes the property tax payments on the homeowners' behalf, and is reimbursed when the home is sold, or the qualifying occupants cease their residency. The deferral program is a loan program earning interest, 5% interest for fiscal year 2008, and is secured by a lien on the property. Each year the program is a net-zero program, in that the amount paid out is less than the amount collected on loan repayments. The program is administered by the State Controller.

At staff's request the State Controller's Office (SCO) has provided the following information about the incomes of the seniors making use of the program and the amount of annual property tax that the program has allowed them to defer.

		Property Taxes Postponed						
Household Income	# of Claims	0-$500	$501-$1,000	$1001-$1500	$1501-$2000	$2001-$2500	$2501-$3000	>$3,000
0-$5,000	76	2	10	16	8	7	2	31
$5,001-10,000	380	27	86	65	50	50	22	80
$10,001-15,000	1792	176	468	423	236	168	100	221
$15,001-20,000	1225	87	198	240	177	152	106	265
$20,001-25,000	943	31	138	176	150	122	79	247
$25,001-30,000	570	18	62	89	107	68	57	169
$30,001-35,500	275	4	23	41	36	28	31	112
Total	5261	345	985	1050	764	595	397	1125

Based on the information provided in the table above, 1,204 of the seniors receiving a property tax deferral—23 percent of the total--had household incomes (including any SSI/SSP grants) under $20,000 and property tax bills of $2,000 or more. In some cases, these seniors may have other options—adult children who are able and willing to help financially or obtaining a reverse mortgage. However, without the deferral program, it is likely that many of these low-income seniors will not be able to pay their property tax bill. Although counties cannot force a tax sale until taxes are delinquent for five years, lenders can immediately start foreclosure proceedings on properties for non-payment of property taxes, and 60 percent of deferral participants reported having a mortgage.

COMMENTS

1. ***Cost is Less Than Estimated.*** SCO indicates that, based on recent experience, the actual cost of the program would be only about half of the $32 million cost that was estimated in the Governor's Budget (and scored as savings when the program was suspended). The cost estimates assumed a large participation increase due to recent increases in the income limits for the program. Those increases have not occurred, however.

2. ***SCO Implementation of Suspension and Options.*** SCO should describe the program and indicate how they have informed program participants of the demise of the program, and whether they are aware of any specific problems caused by the suspension of the deferral program. Also, SCO should describe options that they have developed to continue to provide the most essential property tax deferrals at a lower state cost. For example, SCO indicates that one option would be to reduce the maximum income eligibility from $39,000 to $24,000 (the limit in 2007).

3. ***Impacts on Homeowners.*** The sub-Committee has received information from counties and from member offices regarding the impact of the suspension of the program on low-income seniors and disabled homeowners who now may be in danger of losing their homes.

4. ***County Delinquency Suspension Alternative.*** Under the now-suspended program, the state taxpayer essentially loaned money to pay property taxes of eligible homeowners. A potential alternative would authorize counties to provide similar property tax financing to homeowners who would otherwise qualify for the state program. This approach would have the advantage of not requiring any state or local government expenditure. Most counties currently securitize property tax delinquencies through "Teeter Plans." Under a Teeter Plan, counties sell securities to investors backed by liens for delinquent property tax, penalties and interest. The proceeds enable the county to allocate the full amount of property taxes to local governments, as if there were no delinquencies. The county gets to keep eventual income from penalties and interest in excess of financing costs. Counties may be able to use their Teeter Plan or similar financing mechanisms to have the property tax payments of qualifying homeowners covered by borrowing from investors, rather than the state. This approach might include the following elements:

    a. Counties would decide whether to opt into this program. Counties could make the program available to any homeowner meeting the current state qualifications or counties could be more restrictive or place dollar caps on the total amount of property tax payments that they would finance.

    b. Participants would have penalties waived, and collection actions against their property tax delinquency would be deferred or suspended. This would have to be done in a manner that did not result in technical mortgage defaults (which can be triggered by property tax delinquencies).

    c. Counties could finance the suspended delinquencies through the Teeter Plan or other securitization mechanisms.

d. Collection would occur from the eventual sale proceeds of the home, including accrued interest set by the county to cover financing and administration costs.

ITEM 1690 ALFRED E. ALQUIST SEISMIC SAFETY COMMISSION

The mission of the Alfred E. Alquist Seismic Safety Commission is to lower earthquake risk to life and property of Californians. The Commission works with federal, state, and local agencies as well as the private sector on a variety of activities that guide and stimulate earthquake risk reduction and management. There are 20 appointed Commissioners who provide policy guidance, topical expertise, and perspectives from the private sector, academia, and local government. The Commission is responsible for: (1) advising the Governor, Legislature, school districts, and the citizens of California on seismic safety policies and issues, (2) maintaining and encouraging the implementation of the five-year California Earthquake Loss Reduction Plan, including the Earthquake Risk Reduction Research and Projects Program, (3) reviewing the adequacy of earthquake and tsunami safety policies and programs and providing recommendations for improvement, (4) using existing knowledge and conducting studies where necessary to develop and publish information to improve the performance of structures in California, (5) preparing and disseminating guides to the public identifying earthquake weaknesses and other issues related to residential and commercial buildings, and (6) fostering the development and use of new and emerging technologies.

ISSUE 1: TRAILER BILL LANGUAGE – ASSESSMENT EXTENSION

The Alfred E. Alquist Seismic Safety Commission (Commission) is currently granted support from the Insurance Fund through July 1, 2009. A budget change proposal to extend funding ($1.3 million annually) through July 1, 2012 was submitted as part of the Governor's 2009-10 budget, and was approved as part of the enacted 2009-10 budget.

This trailer bill language amends the current statutory sunset on the Seismic Safety Account from July 1, 2009 to July 1, 2012, to match the approved funding in the budget.

COMMENTS

This language is necessary to implement the approved 2009-10 budget. It does nothing to change the current authority of the Commission.

ITEM 1760 DEPARTMENT OF GENERAL SERVICES

The Department of General Services provides centralized services to state agencies in the following areas: telecommunications; management of state-owned and leased real estate; approval of architectural designs for local schools and other state-owned buildings; printing services; procurement of commodities, services, and equipment for state agencies; and maintaining the state's vehicle fleet. Furthermore, the Department of General Services employs practices that support the Governor's green initiative to reduce energy consumption and help preserve California resources. The Director of General Services also serves on several state boards and commissions.

ISSUE 1: ENERGY EFFICIENCY REQUEST

The Administration requested $4,987,800 to provide energy efficiency retrofit projects at 12 of its facilities. These retrofits would consist of modernizing or expanding existing systems, upgrading lighting, and improving air control systems. The funding would be provided through rental rates for state buildings (Service Revolving Fund). While independent rate buildings (typically those funded by lease-revenue bonds) had slight adjustments in their rental rates to cover the cost of these efficiency projects, other state building rates were held steady. The cost to fund these projects can be covered by savings already realized within the "building rental account," allowing rates to remain the same as last year.

DGS has determined which buildings in its portfolio would benefit most from these upgrades. Most of the identified projects will include lighting system upgrades. Typically, 65% of energy usage stems from heating, ventilation, and air conditioning (HVAC). Most DGS owned building operate on out of date systems that are inefficient and difficult to maintain. Upgrading these systems presents opportunity not only for energy savings, but savings on maintenance costs as well.

COMMENTS

The Department has been working with the Investor-Owned Utilities (IOUs) to determine which buildings would benefit from these improvements the most, and how to go about making the improvements. They have helped complete energy audits, preliminary assessments, and data analyses.

In discussions with the Department, estimates show that they expect to achieve approximately $1.3 million in annual savings, for an approximate pay-back period of 5 years. These savings also account for potential rebates and other incentives provided through the IOUs. Many rebates are available for the implementation of energy efficiency measures, but funds must be spent up-front to implement the project. For this reason, the state has underutilized these opportunities. This proposal fully funds the projects proposed for the 12 buildings. Any rebates or incentives received pursuant to these projects would then be utilized to 1) AVOID future rate increases based on increased energy costs, or 2) Initiate further energy efficiency projects in state owned buildings.

The Department also stated that they have new tools in place that allow them to track these efforts better than before. They utilize the Energy Star Portfolio Manager to track energy consumption, and as a member of the Climate Action Team, that participate in the Climate Action Registry. In addition to the utilities baseline, measurement and verification associated with the rebates and incentives, these tools should enable the department to provide significant details to verify the success of these efforts.

If the Committee chooses to move forward with this proposal, staff would strongly recommend reporting requirements to include:

1. What rebates and other incentives were received?

2. What was that extra funding used for?

3. What savings were achieved through the proposed projects?

4. What lessons can be taken from this project to implement similar efficiency projects in other buildings, as well as for new state buildings being constructed now and in the future?

The Committee may also wish to inquire as to whether federal stimulus funds were considered as a funding source for this proposal.

Because of uncertainty in regards to what potential rebate/incentive funds will be used for, the Committee may wish to include a reporting requirement, either through Trailer Bill, Budget Bill, or Supplemental Reporting Language. This report should include at a minimum:

1. What projects were completed.

2. What savings were achieved.

3. What rebates were received.

4. How those funds are going to be used (the Committee could also decide they want 30 day notification from DOF prior to the actual expenditure of any rebate funds received pursuant to these projects).

ISSUE 2: SUPPLEMENTAL REPORTING LANGAUGE – CONSOLIDATION OF MOVING REQUESTS

The following Supplemental Reporting Language was included in the 2008-09 budget for the Department:

> "The Department of General Services (DGS) shall report to the chairs of the budget committee of each house of the Legislature and the Legislative Analyst's Office regarding existing leased space in the City and County of San Francisco. The report shall include:
>
> - Projected need for future space in the San Francisco area.
> - The DGS practices in regards to reviewing potential consolidation of space requests from multiple departments.
> - The DGS review of alternative locations for space requests in the City or County of San Francisco.
> - An accounting of identified program needs for locating in the City or County of San Francisco, with particular attention to those that may be candidates for consolidation in the next three years.
>
> The department may satisfy this reporting requirement by providing an existing report that contains the requested information."

COMMENTS

The Department indicates that this report is still in the review process. The Committee may wish to ask for any information the Department can share prior to the final report being available.

The Department indicated to staff that they are beginning the process of developing a "Bay Area Regional Facilities Plan." This information, when available, may also be of particular interest to the Committee.

ITEM 5225 DEPARTMENT OF CORRECTIONS AND REHABILITATION

The mission of the California Department of Corrections and Rehabilitation (CDCR) is to enhance public safety through safe and secure incarceration of offenders, effective parole supervision, and rehabilitative strategies to successfully reintegrate offenders into our communities.

The CDCR is organized into twelve programs: Corrections and Rehabilitation Administration; Corrections Standards Authority; Juvenile Operations; Juvenile Education, Vocations, and Offender Programs; Juvenile Parole Operations; Juvenile Health Care Services; Adult Operations; Adult Parole Operations; Board of Parole Hearings; Community Partnerships; Adult Education, Vocations, and Offender Programs; and Correctional Health Care Services.

Currently there are 33 adult prisons, 13 adult community correctional facilities, and six juvenile facilities in California that house more than 170,000 adult offenders and nearly 2,000 juvenile offenders. In addition, there are more than 120,000 adult parolees and more than 2,000 juvenile parolees supervised by the CDCR.

The Governor's Budget proposed expenditures of $9.7 billion ($9.2 billion General Fund) and 62,706.3 positions for the CDCR. The following is a three-year summary of positions and expenditures (dollars in thousands):

	Positions			**Expenditures**	
2007-08	2008-09	2009-10	2007-08	2008-09	2009-10
58,284.2	67,862.4	62,706.3	$10,094,632	$10,356,399	$9,736,025

2009-10 Budget Act. The budget adopted in February for the CDCR differed from the Governor's Budget in that General Fund expenditures were increased by $374.2 million, as follows:

- $598.4 million General Fund, related to estimated savings resulting from various proposed correction reforms (such as parole changes and credit enhancements), was restored.
- $219.5 million General Fund was restored due to the exclusion of the drug and alcohol beverage tax.
- $35.7 million General Fund related to a proposed increase to the custody staff overtime base (Issue 1) was removed.
- $8 million General Fund related to various proposed capital outlay projects was removed.
- $400 million General Fund was vetoed by the Governor.

ISSUE 1: ADJUSTMENT TO OVERTIME BASE BUDGET

The Governor's budget proposed $35.7 million General Fund in 2009-10 to increase the overtime base budget in Program 25 (Adult Operations) for custody staff.

COMMENTS

The declared overtime base budget for custody staff (Correctional Officers, Sergeants, and Lieutenants) has remained the same for several years. Since 2001-02, this declared base has been $104.3 million. The CDCR has noted that, while this base has not changed, salaries for these positions have increased by 34.2% since 2001-02 resulting in unfunded overtime costs. The CDCR has been absorbing these costs by redirecting resources from other programs.

Although this request is to adjust the custody staff overtime base for salary increases, the CDCR's custody staff overtime expenditures are still approximately $400 million higher than the Department's proposed base (see LAO comments below). The CDCR has reported that it has taken steps, such as adjusting sick leave policies and filling vacancies, to reduce overtime expenditures. However, the CDCR continues to have difficulty reconciling drivers of actual overtime costs.

LAO COMMENTS

According to the LAO, the CDCR’s basic methodology for calculating its request provides a generally reasonable accounting of its loss of buying power for overtime. However, it does not address a more fundamental question: How much funding for overtime does the department really need? The answer to such a question depends on factors such as vacancy rates, utilization of sick leave and vacation, and frequency of operational activities that drive overtime costs (such as medical transportation of inmates to outside medical facilities). The Department’s request does not factor in any of these issues.

Furthermore, the LAO finds that the CDCR’s identified base level of funding for overtime ($104.3 million) does not include about $49 million in additional overtime funding provided by the Legislature since 2004-05 for activities such as medical guarding and staffing of administrative segregation housing units. The Department’s total overtime budget for all staff classifications is actually about $159 million. In addition, the 2004-05 Budget Act included a $100 million augmentation to the CDCR’s budget to support an additional 1,239 correctional officers who would be used as relief officers to fill positions that become vacant as a result of sick leave, vacation, and other leaves. The Department argued at the time this augmentation was considered by the Legislature that these additional positions would reduce the reliance on overtime.

Lastly, the LAO reports that in 2007-08, the CDCR spent about $656 million dollars for overtime (all classifications). About 84% ($551 million) of this spending went for Department security-related staff who make up just over half of the Department’s total positions. The actual CDCR spending level for overtime exceeds the Department’s base funding level by almost a half billion dollars. However, the Department has been unable to identify the key causes for this excessive spending. Although the Department reports that it has an automated system in place to track overtime usage and its causes, inconsistencies in how the information has been recorded at each institution make the data unreliable.

ISSUE 2: APRIL FINANCE LETTER – TECHNICAL ADJUSTMENTS

An April 1 Finance Letter proposes to transfer the following funding from the CDCR to the Medical Care Services budget (under the jurisdiction of the Receiver appointed by the *Plata* court) in order to ensure appropriate reflection of expenditures. This request has a net zero General Fund impact:

- Transfer $2.8 million for the administration of tuberculosis testing and Hepatitis B vaccinations for CDCR employees.

- Transfer $2.3 million and reschedule $260,000 to conduct health care screenings to determine an inmates' eligibility for transfer to out-of-state correctional facilities, and to monitor and oversee the delivery of medical care to inmates housed at out-of-state correctional facilities.

- Reschedule $4.8 million for the leasing of all health care program facilities.

COMMENTS

TB Testing and Hepatitis B Vaccinations.
State law requires that all CDCR employees get an annual TB test. New hires are also offered a Hepatitis B vaccination, which they can refuse if they choose. Historically, the Department has used CDCR clinical staff to perform this testing and vaccination. In 2007 the Receiver decided that CDCR clinical staff would no longer perform this function and the Legislature approved funding for the CDCR to contract out for this service.

The decision that CDCR clinical staff would no longer perform this function was made by the previous Receiver. The current Receiver has agreed to resume this function and, as such, the CDCR propses to transfer the majority of funding approved last year to the Medical Care Services Budget.

Out-of-State Health Care Screenings.
This funding was approved in the 2007-08 and 2008-09 budget processes, however, it was coded to the CDCR programs in error. This request corrects this technical budgeting error.

Division of Health Care Services (DHCS) Leasing.
In the past, the CDCR Office of Space Planning was responsible for the management of facilities leasing for the DHCS Dental and Mental Health Administration. The Reicer's office was responsible for its own leasing. On September 5, 2008, a court order directed the Receiver's office to assume responsibility for the leasing of all headquarters and regional office space for the medical, dental, and mental health programs.

Staff notes that the maojority of the funding being transferred was approved last year for the consolidation of the three main Dental, Mental Health and Administration units into a single space at a location in the Sacramento. However, this consolidation did not take place.

ISSUE 3: APRIL FINANCE LETTERS – MENTAL HEALTH CRISIS BED STAFFING

April 1 Finance Letter proposals request the following resources to staff a Mental Health Crisis Bed Facilities (MHCBF) and a Mental Health Crisis Bed Unit (MHCBU) in accordance with the delivery of mental health service improvements required by the *Coleman* court:

- $4.6 million and 43.5 positions for the MHCBF at the California Medical Facility (CMF).

- $3.6 million and 40 positions for the MHCBU at San Quentin (SQ).

COMMENTS

The Mental Health Program Guide requires that an inmate suffering from an acute, serious mental disorder resulting in serious functional disabilities, or who is dangerous to self or others, be transferred to a MHCBU for short term care. If an institution does not have a MHCBU, or the are no MHCBU beds available at the institution where the inmate is currently housed, the inmate is transferred to another MHCBU. Per the Mental Health Program Guide, an inmate must be transferred within 24 hours of referral.

The MHCBF at CMF and the MHCBU at SQ are both part of the Mental Health Services Delivery System and, as such, are monitored by the *Coleman* court. There are currently over 330 mental health crisis beds located at 20 institutions. Unlike other smaller MHCBU, the unit at SQ and the facility at CMF accept/will accept inmates from statewide institutions.

California Medical Facility.
The MHCBF at CMF was designed to accommodate 50 of the most severely mentally ill patients who are experiencing crises too severe to be managed by psychiatrists and psychologists in other facilities. Unlike MHCBUs, which are single-space units, the MHCBF at CMF is designed as two separate 25-bed units at one facility. In 2007-08, 180.2 positions were provided to staff the MHCBF on a limited-term basis. In 2008-09 135 permanent positions were approved. This FL requests additional permanent staff based on workload experience since the MHCBF opened in June 2008.

San Quentin.
The requested positions are scheduled to begin in November 2009, two months before the scheduled January 2010 operational date that has been targeted by the Receiver for the Central Services Health Building. The MHCBU will be located inside of this new structure. The MHCBU at SQ was developed to address the *Coleman* court directives regarding the delay of obtaining admission to crisi beds.