

**ASSEMBLY BUDGET SUBCOMMITTEE NO. 5
ON TRANSPORTATION AND INFORMATION TECHNOLOGY****Assemblymember Mike Feuer, Chair****WEDNESDAY, MAY 7, 2008****ROOM 127 – 4:00 PM**

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ITEMS TO BE HEARD

ITEM 2720 CALIFORNIA HIGHWAY PATROL

ISSUE 1: OPEN ISSUE: NEW STAFFING

This issue was held open at the April 16th hearing to provide the Subcommittee members more time to consider the information provided at the last hearing.

The Governor's proposed budget includes 120 new officer positions and 44 other new positions. Due to existing vacancies and backlog in hiring, the budget does not include new funding for the officer positions, but does include \$4 million for the 44 other positions.

The proposal for new officers is the continuation of the effort to address the well documented problem of the CHP not growing adequately to reflect the state's significant population and vehicle miles traveled growth.

COMMENTS:

This issue was held open at the previous hearing due to concerns that: 1) the new officers would not be hired until 2009-10; and 2) the need for the additional 44 other new positions.

At their May 5th hearing, the Senate Subcommittee took the following actions that addressed these issues:

- Approved no CHP Officer positions for 2008-09, but approved 120 new Officer positions for 2009-10. Added Supplemental Report Language (SRL) on CHP vacancies and the updated Officer hiring plan due next March 1, so the 2009-10 budget can be further adjusted as warranted based on the number of academy graduations.
- Rejected the new staff and related funding requested for Direct Managerial and Support / Base Deficiencies.
- Approved 8.0 new positions to shift IT workload from contractors to state staff, and reduced funding by \$144,000 to reflect the savings from avoiding costly contracting out for these services.

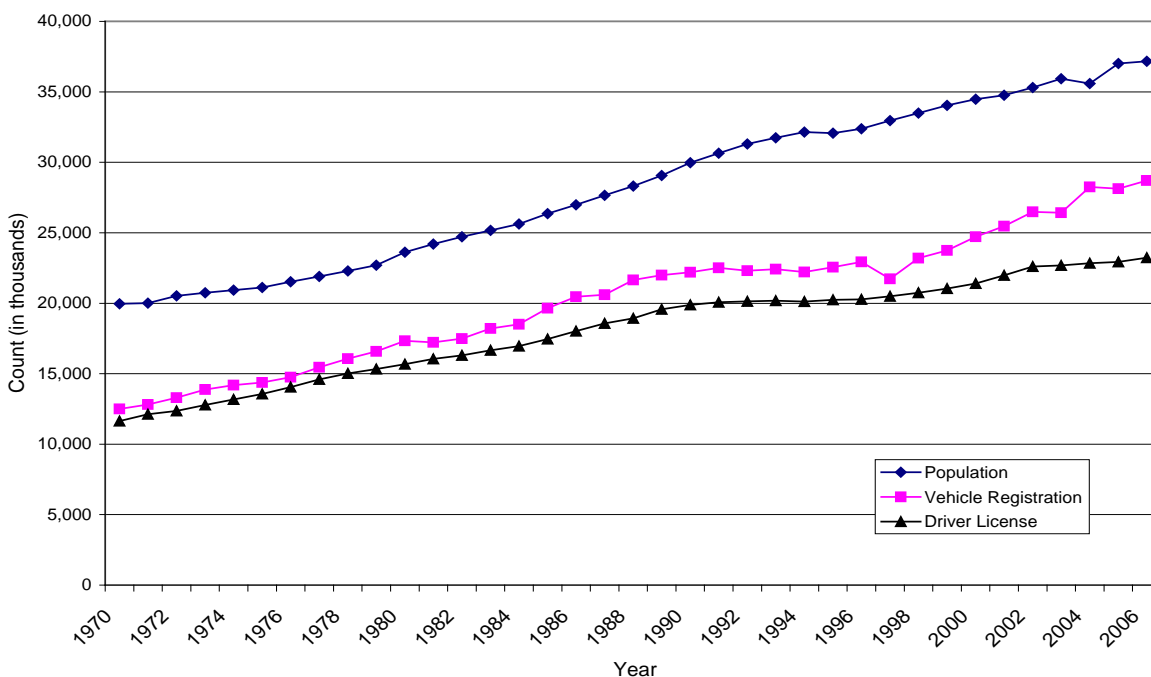
The CHP is satisfied with Senate's action, and the Subcommittee should consider conforming to the Senate.

Also, at the April 16th hearing, the Subcommittee requested the CHP provide historic data regarding officer staffing levels. That information is contained in the charts below and clearly demonstrates the need for additional officers.

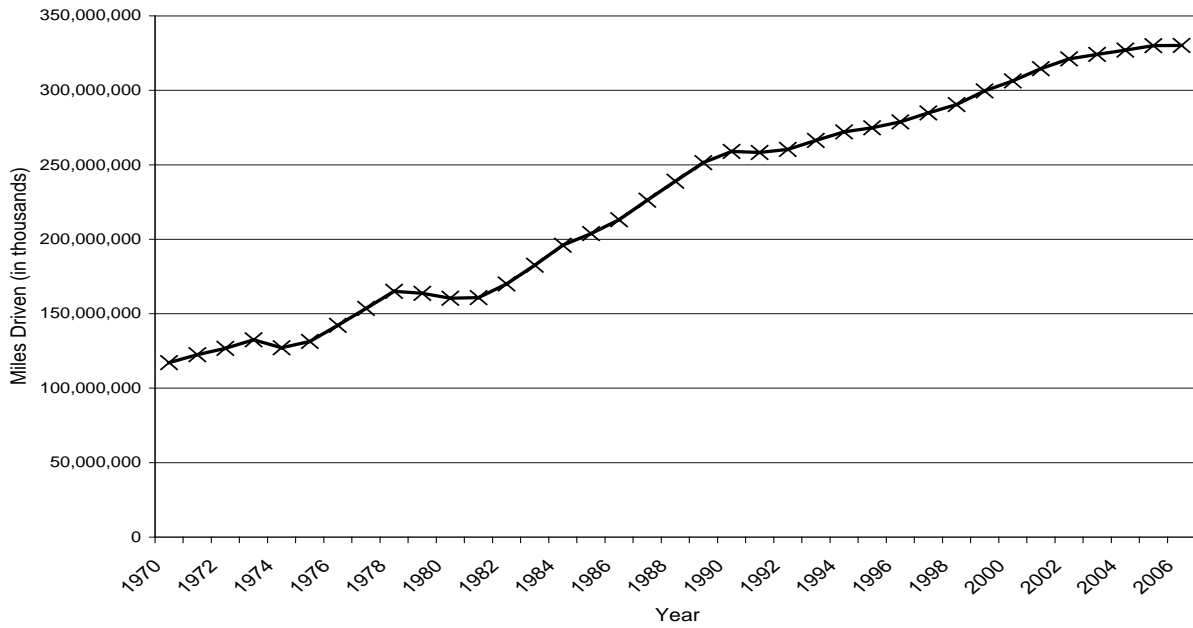
It is also important to note, that the current condition of the Motor Vehicle Account cannot sustain any increases in additional CHP officers. This Subcommittee approved a fee increase at the April 16th hearing that is necessary to fund the current CHP staffing levels as well as any increase.

While it passed this Subcommittee, it did not receive unanimous support which puts in jeopardy the fee increase being included in the final budget package later this summer. This is the case since in recent years, even majority vote fee increases have needed to be taken out of the final budget package in order to achieve the 2/3 vote necessary to pass the budget.

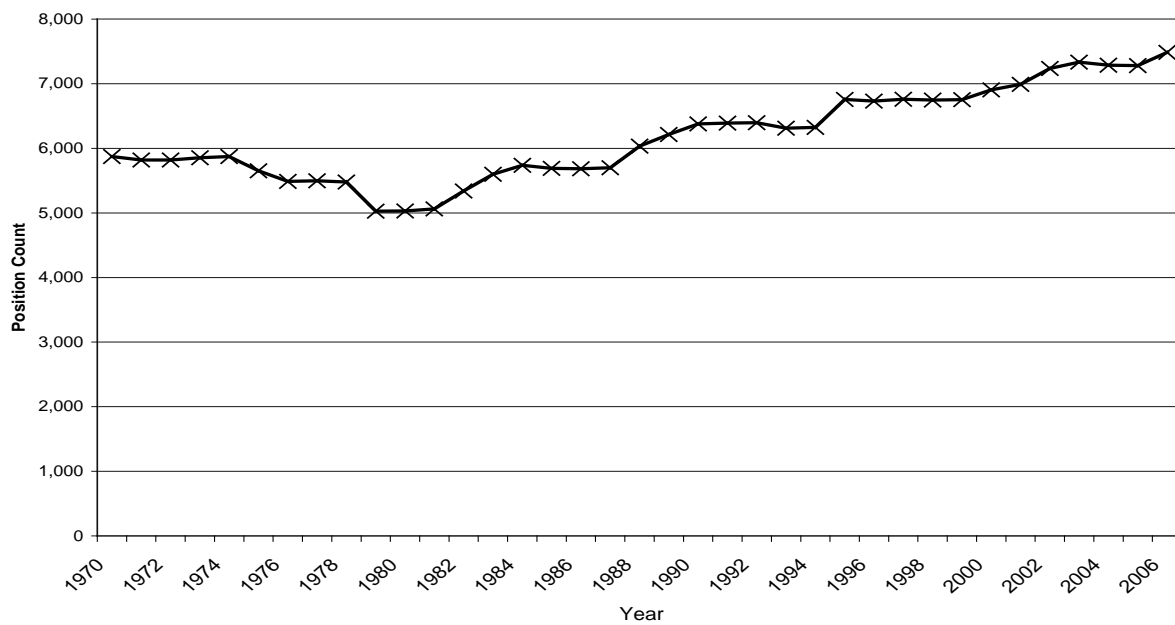
Change in CA Population, Vehicle Registrations, & Licensed Drivers from 1970 to 2006



Change in the Number of Miles Driven by Californians from 1970 to 2006



Change in CHP Uniformed Staffing from 1970 to 2006



ITEM 8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

The Financial Information System for California (FI\$Cal), is a “Next Generation” information technology (IT) project. The purpose of this project is 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 management, project accounting, and human resources management.

FI\$Cal will be a single Enterprise Resource Planning (ERP) system, a set of software applications that will integrate and streamline the aforementioned business processes. Aging legacy systems, inefficient “shadow” systems, and duplicate processes have been identified throughout the state’s departments and agencies, and FI\$Cal is the multi-agency project proposed to solve these system failures. FI\$Cal will be rolled out in 5 “Waves”, over a multi-year period, to more than 100 departments and agencies. FI\$Cal will be managed by a partnership of the Department of Finance (DOF), the State Treasurer’s Office (STO), the State Controller’s Office (SCO), and the Department of General Services (DGS).

The FI\$Cal project was proposed during the 2007-08 budget process as an entirely General Fund project. However, due to a number of factors including General Fund expense, the Legislature requested more information on alternative funding scenarios, vendor accountability, and formalization of control agency roles.

ISSUE 1: GOVERNOR'S FI\$CAL PROPOSAL AND FINANCE LETTER

The 2008-09 Budget proposes to proceed with statewide implementation of FI\$Cal over 8 years, with a total cost of \$1.6 billion paid over 10 years.

The Governor's proposed budget for FI\$Cal in 2008-09 is \$40.1 million (\$2.4 million General Fund, and \$37.7 million special funds). In addition the Administration submitted a Spring Finance Letter requesting budget bill language providing the Department of Finance authority to expend from the FI\$Cal line item and to extend the Department of Finance's delegated authorities to the FI\$Cal project.

The funding beyond 2008-09 for this multi-year project would come from a combination of Bond Anticipation Notes (BANs) and Certificates of Participation (COPs). Issuing BANS, which are short term bonds collecting capitalized interest, would fully fund FI\$Cal through 2011-2012. In 2012, state departments and agencies benefiting from FI\$Cal would begin to “purchase” COPs out of their appropriated budgets, effectively beginning to pay for the use of FI\$Cal (paying off the BANs and funding ongoing costs). Every state department/agency will purchase some amount of COPs that support the initial system development, and departments that will transition to the new system in “Wave 1” will pay an additional share.

Allocations to project costs will be determined annually, based on total departmental expenditures. At the end of each year, actual departmental use will be determined and allocations accordingly re-determined. Departments are expected to pay their shares of the project's costs using their departmental/agency funding sources (i.e. General Fund, and various special funds) in the ratio they are received.

COMMENTS:

LAO Alternative:

The LAO concluded that the benefits of proceeding with FI\$Cal outweigh the benefits of canceling the program altogether, but identified it as a "close call." The LAO offers an alternative which provides for greater legislative review, lower initial costs, and less reliance on borrowing. The alternative extends the FI\$Cal timeline by one year, and the cost by approximately \$67 million over the life of the project. Key components in the LAO's recommendation include:

- ◆ **Adjust the Schedule.** In order to facilitate legislative review and oversight, the project schedule should be adjusted so that the report on the status of Wave 1 implementation would be presented to the Legislature no later than March 1 after implementation.
- ◆ **Pause for Legislative Approval.** Rather than the 30-day review period provided in the administration's plan, we recommend that the Legislature decide whether to proceed with full implementation during the regular budget process or through separate legislation. Unlike the administration's proposal, the project would not proceed with activities to prepare additional departments for system installation until the Legislature has reviewed the report and decided to continue the project. The advantage of this approach is twofold, (1) the Legislature has time to conduct a full inquiry about the project status and, (2) departments that will be implemented in the second phase of the project are not spending project implementation funds until the Legislature has approved the project to continue.

This approach will add a year to the total project schedule because subsequent departments would not begin their one-year preparation until after the Legislature's review. LAO's estimate is that over the ten-year schedule, this will increase project cost by approximately \$67 million, (about \$20 million in 2008-09 dollars) compared to the administration's estimates.

- ◆ **Limit Borrowing During the Initial Phase of Development.** The LAO estimates the total cost of the first four years of their alternative through Wave 1 implementation to be \$461 million. The LAO indicates given the state's fiscal situation and the need to update the state's financial systems, a reasonable case can be made to borrow during 2008-09 and 2009-10. However, beginning in 2010-11, the LAO believes it makes sense to use a more balanced approach—a combination of additional bond financing and pay-as-you-go appropriations. Bond

authority of \$277 million represents about 55 percent of estimated Wave 1 project costs. This financing approach will allow adequate time for the administration to set budget priorities that could substantially reduce or even eliminate further borrowing. The Legislature could revisit the issue of additional bond financing, if and when it decides to authorize the remainder of statewide implementation.

- ◆ **Expenditure of Bond Proceeds Subject to Appropriation.** In order to increase legislative oversight of funding, we recommend requiring the administration to obtain annual budget act authority to expend bond proceeds.

Additional Comments:

The LAO alternative provides the Legislature the chance to evaluate Wave 1 and make any appropriate changes before the state commits to Wave 2.

The LAO originally thought their alternative would result in an addition year for implementation, however FISCAL program staff believes that the LAO alternative will add two years to the project, because Wave 2 preparations (not simply implementation) will be halted pending review. The additional time, and perhaps cost, would be offset by any costs avoided with the improved oversight of the project.

The LAO and the Administration are working on various language issues regarding the LAO alternative.

ITEM 0502 OFFICE OF THE CHIEF INFORMATION OFFICER

The Office of the Chief Information Officer (OCIO) establishes and enforces statewide information technology strategic plans, policies, standards, and enterprise architecture, and provides review and oversight of information technology projects for all state departments.

ISSUE 1: PROPOSED OCIO BUDGET

Senate Bill 90 (Committee on Budget and Fiscal Review) of 2007 authorized the Office of the State Chief Information Officer (OCIO) to establish and enforce information technology (IT) strategic plans, policies, standards, and enterprise architecture; and approve, suspend, terminate, and reinstate IT projects for all state departments (with certain exceptions). Additionally, the bill called for the transfer, effective January 1, 2008, of the majority of the Office of Technology Review, Oversight, and Security (OTROS) from the Department of Finance to the OCIO. The measure also required the OCIO to produce an annual IT strategic plan beginning January 15, 2009.

On December 6, 2007, the Governor appointed Teresa (Teri) M. Takai as the state Chief Information Officer (CIO). Ms. Takai previously served as director of the Michigan Department of Information Technology (MDIT) beginning in 2003, and also served as the state's Chief Information Officer. In this position, she restructured and consolidated Michigan's resources by merging the state's information technology into one centralized department to service 19 agencies and over 1,700 employees.

The Governor's proposed budget includes \$6.7 million for the OCIO in 2008-09.

COMMENTS:

The OCIO should provide a brief overview of the proposed budget for their office and outline the steps she has taken to date to implement SB 90.

ITEM 1995 DEPARTMENT OF TECHNOLOGY SERVICES

The Department of Technology Services (DTS) was created in 2005 by the reorganization and consolidation of the Stephen P. Teale Data Center (Teale), the Health and Human Services Data Center (HHSDC), and certain telecommunications functions of the Department of General Services. The DTS serves the common technology needs of state agencies and other public entities. The DTS maintains accountability to customers for providing secure services that are responsive to their needs and represent best value to the state. Funding for DTS is provided by contracts with other state departments.

The Governor's proposed budget includes \$279.6 million (special funds) for the DTS.

ISSUE 1: PROPOSED BUDGET AND FINANCE LETTER

The Governor's proposed budget includes \$279.6 million (special funds) for the DTS.

In addition, the Department of Finance has submitted a Spring Finance Letter requesting Budget Bill Language authorizing the Department of General Services to enter into a long term lease with a purchase option for a new Central California Data Center.

This Finance Letter is associated with the most significant proposal in the Governor's budget for DTS, which calls for \$673,000 for a Facilities Project Office to coordinate various office relocations, including move to a new Central Valley Data Center to replace the current data center in Sacramento's Cannery Park. The Cannery facility is outdated and is within the 100 year flood plain.

COMMENTS:

DTS should provide a brief overview of their budget Governor's proposed budget, including the Facility Project Office proposal and Finance Letter.

INFORMATIONAL ITEM: CONTRACTING OUT INFORMATION TECHNOLOGY WORK

The state contracts out a significant amount of Information Technology (IT) work. It makes sense for the state to use contract work for certain IT tasks. When the work is specialized or temporary, or when there is not an adequate employee pool, then it is necessary for the state to contracting for IT services.

However, in recent years, the state may have become too reliant on IT contracts rather than on state staff. Typically, contract positions are much more expensive than state staff.

The purpose of this Informational Item is to determine:

- ◆ How many IT contracts does the state have;
- ◆ How much is being spent on IT contracts (both General Funds and special funds); and
- ◆ How much can be saved by shifting to state staff the IT contract work that can be done by state staff.

COMMENTS:

SEIU Local 1000 issued a report in March, 2008 regarding IT contracts. The report asserts IT contracts have grown rapidly, oversight has waned and the state could save as much as \$100 million annually shifting to state staff. (Copies of this report were distributed to subcommittee members with this agenda and the copy can be found at the SEIU Local 1000 website at: <http://www.seiu1000.org>.)

It is important that the Subcommittee members get IT contract information from sources broader than just the SEIU report. Therefore, it is critical for the Administration to address the issues outlined above and to point out any disagreements that they may have with the SEIU report.

Assembly Bill 2603 (Eng), which is currently making its way through the Legislative process would require the state to track and report costs for personal service and consulting contracts (including for IT) in the same manner that it tracks wages and salaries for the state workforce and would require the Department of Finance to report the information to the Legislature.

The policy bill process is the best choice for dealing with the important statutory changes that should be considered to improve oversight of IT contracts.

However, with the budget deficit likely to grow well beyond the current estimate of \$8 billion, it is important for the Legislature cut all of the unnecessary expenditures in the budget.

Therefore, at a later hearing, this Subcommittee should consider approving a Budget Control Section directing departments and agencies to achieve a certain amount of savings (perhaps as much as \$100 million) by converting costly IT contracts to state staff.