Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Tom Berryhill
Senator Norma Torres

Thursday, May 23, 2013
10 a.m.
Room 112
Consultant: Brady Van Engelen

PART B

Item Number and Title

0690	Office of Emergency Services
0840	State Controller's Office
0890	Secretary of State
1110	Department of Consumer Affairs
1690	Seismic Safety Commission
2240	Department of Housing and Community Development
7760	Department of General Services
7870	Victim Compensation and Government Claims Board
8955	California Department of Veterans Affairs

(See Table of Contents on page 1 for a More Specific Listing of Issues)

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AGENDA –VOTE ONLY ITEMS

Item	Department	Page
0690	**Office of Emergency Services**	**2**
	Issue 1 –Disaster Response Account	2
1110	**Department of Consumer Affairs**	**2**
	Issue 2 – BreEZe	2
	Issue 3 – Veterinary Medical Board	3
	Issue 4 – Bureau of Private Postsecondary Education	3
7760	**Department of General Services**	**4**
	Issue 5 – Extension of Liquidation Period for Grant Funds	4
	Issue 6 – ADA Compliance	4
	Issue 7 – GS $mart	5
8955	**California Department of Veterans Affairs**	**6**
	Issue 8 – Enterprise Wide Veterans Homes Information System	6
	Issue 9 – Adjustment for Federal Per Diem for Veterans Homes	7
	Issue 10 – Current Year and Budget Year Savings	7

AGENDA – DISCUSSION / VOTE ITEMS

Item	Department	Page
0840	**State Controller's Office**	**7**
	Issue 1 – Integrated Data Management System Cost Increase	7
	Issue 2 – Unclaimed Property Division	8
	Issue 3 – 21st Century Project	9
0890	**Secretary of State**	**12**
	Issue 1 – Business Programs Divisions Backlog	12
1110	**Department of Consumer Affairs**	**13**
	Issue 1 – CURES database	13
	Issue 2 – California State Athletic Commission	15
1690	**Seismic Safety Commission**	**16**
	Issue 1 – Permanent Funding Trailer Bill	16
2240	**Department of Housing and Community Development**	**17**
	Issue 1 – Housing Element Review	17
7870	**Victims Compensation and Government Claims Board**	**18**
	Issue 1 – Trauma Resource Center	18
8955	**California Department of Veterans Affairs**	**19**
	Issue 1 – Central Coast Cemetery at Fort Ord	19
	Issue 2 – West Los Angeles Veterans Home	20
	Issue 3 – Veterans Claims and Rights	21

Issues Proposed for Vote Only – Issue Descriptions

Office of Emergency Services

Issue 1 – Sunset of the Disaster Response Account

Governor's Budget Request: The Governor's May Revise includes a request for trailer bill language that would extend the sunset date of the Disaster Response Emergency Operations Account through January 1, 2019.

Background: On April 11th the Senate Budget Subcommittee No. 4 took action on a request to reduce the 2013-14 General Fund contribution to the California Disaster Assistance Act by $10.0 million. This would provide the account with $39.1 million for 2013-14 and should not impact the state's ability to match the portion required for either a state or federally declared disaster.

Staff Comment: The requested change does not impact the state's matching requirements for local projects in the event of either a state or federally declared disaster.

Staff Recommendation: Adopt trailer bill language.

Department of Consumer Affairs

Issue 2 – BreEZe

Governor's Budget Request: The Governor's budget includes a request for $7.67 million in additional funding for continued support of the Department of Consumer Affairs, Consumer and Client Services Division's automated licensing and enforcement system. This request also includes a request for $4.188 million in additional funding for all boards and bureaus to fund credit card processing fees on behalf of users of credit card payments through the BreEZe project. The total project cost for 2013-14 will be $11.995 million.

Background: The Department of Consumer Affairs is the umbrella agency for 37 business and professional licensing entities (collectively referred to as boards and bureaus) that regulate over 2.7 million businesses and professionals, in over 250 license categories. The BreEZe project began with the approval of the Feasibility Study Report on November 30, 2009. In Fiscal Year 2010-11, the Department of Consumer Affairs gained approval of a Budget Change Proposal to redirect funding from the existing iLicensing Project, plus augment budgets for the BreEZe project to support the procurement and implementation of an integrated licensing and enforcement system, in support of the Department of Consumer Affair's Consumer Protection Enforcement Initiative. Additionally, in Fiscal Year 2011-12, the department gained approval to appropriate $1.2 million, on a one-time basis, to the BreEZe project. BreEZe is designed to bring all of the Department of Consumer Affairs' Boards and Bureaus into an integrated licensing and enforcement system.

Staff Comment: According to the most recent update to the Special Project Report (SPR), a number of defects occurred while conducting User Acceptance Testing. The reported defects that occurred during the User Acceptance Testing have caused a delay in the originally proposed timeline. The 2009 Feasibility Study Report estimated a project go-live date of July 2012, and the most recent update to the SPR noted that the vendor, Accenture has proposed a go-live date of May 2013.

Since initially hearing this item in the subcommittee, staff has had time to review additional details and is satisfied with the progress of this IT project.

Staff Recommendation: Approve as budgeted.

Issue 3 – Veterinary Medical Board

Background: Created in 1893, the Veterinary Medical Board (Board) licenses and regulates veterinarians, registered veterinary technicians (RVTs), RVT schools/programs and veterinary premises/hospitals, through the enforcement of the California Veterinary Medicine Practice Act.

The Board protects the public from the incompetent, unprofessional, and unlicensed practice of veterinary medicine. The Board requires adherence to strict licensure requirements for California veterinarians and RVTs. The pet-owning public expects that the providers of their pet's health care are well-trained and are competent to provide these services. The Board assures the public that veterinarians and RVTs possess the level of competence required to perform these services by developing and enforcing the standards for examinations, licensing, and hospital and school inspection.

The Board also conducts regular practice analyses to validate the licensing examinations for both veterinarians and RVTs. Additional eligibility pathways have also been approved for licensure of internationally trained veterinary graduates and certification of RVTs to allow qualified applicants from other states in the U .S. and countries around the world to come to California and to improve the provision of veterinary health care for consumers and their animals. The Board also states that its mission is to protect consumers and animals through the development and maintenance of professional standards; the licensing of veterinarians and registered veterinary technicians; and through diligent enforcement of the California Veterinary Medicine Practice Act.

Staff Comment: Over the past several years, the Board's workload has increased. This workload increase has led to a significant backlog in the intake cycle time, time required for cases requiring formal discipline, and the average number of days from receipt of a complaint to the closure of an investigation. However, there has only been a minimal increase in staffing at the Board over that same period of time. A lack of additional resources has led to a significant backlog at the Board. The number of licensed veterinarians has increased twelve percent and the number of registered veterinary technicians has increased twenty-five percent and there has been a 43 percent increase in the number of general complaints received by the Board.

To address the both the ongoing workload and the current backlog, staff recommends increasing the expenditure authority by $359,000 and providing two two-year limited-term and three permanent staff positions to the Board.

Staff Recommendation: Increase the Veterinary Medical Board expenditure authority by $359,000 and authorize a total of five staff positions; two two-year limited-term and three permanent to the Veterinary Medical Board.

Issue 4 – Bureau of Private Postsecondary Education

Background: At a May 9 hearing Senate Budget Subcommittee No. 4 adopted budget bill language that extended the amount of time that the Bureau of Private Postsecondary Education's fund reserve limit can be in excess of six months of operating costs through Fiscal Year 2013-14. It has been brought to staff's attention that the Bureau is up for sunset review during the 2014 calendar year. It may be more suitable to extend the current proposal an additional six months to January 1, 2015 in order to ensure that the policy committees are afforded the opportunity to make any adjustments that are brought to their attention during the sunset review process.

Staff Recommendation: Amend budget bill language to further extend their exemption from the fund balance cap until January 1, 2015.

Department of General Services

Issue 4 – Extension of Liquidation Period for Grant Funds

Governor's Budget Request: The Governor's May Revise includes a request to add an item to the budget bill that would authorize the extension of the liquidation period for $3.19 million in grant funds to construct alternative fuel stations. The Department of General Services entered into an agreement on September 30, 2010, with the California Energy Commission to administer a grant to construct the 75 E-85 ethanol fueling stations throughout California, and the agreement is set to expire on March 31, 2014. Authorization was originally provided in the Budget Act of 2010, which allowed the Department of General Services to provide reimbursement payments to the contractor for the design and construction of the program through June 30, 2013. There are currently 27 fueling stations in operation, the remaining fueling stations are in various stages of planning, permitting, property lease negotiations and design.

The proposed language that will be needed to ensure that the funds remain available throughout the completion of the program is below:

7760-491—Reappropriation, Department of General Services. Notwithstanding any other provision of law, the period to liquidate encumbrances of the following citations are extended to June 30, 2014:

0666—Service Revolving Fund
(1) Item 1760-001-0666, Budget Act of 2010 (Ch. 712, Statutes of 2010) for the balance of Reimbursement—CEC

Staff Comment: Staff has no issues with extending the liquidation period.

Staff Recommendation: Adopt proposed budget bill language.

Issue 5 – Special Repairs: Americans with Disabilities Act Compliance

Governor's Budget: The Governor's budget requests an augmentation of $11 million in Service Revolving Fund authority for special repair projects associated with Americans with Disability Act (ADA) compliance.

Background: Total repairs are projected to cost approximately $110 million and will be conducted over the next ten years. The augmentation will require an increase in the Building Rental Account and the Individual Rental Rate, which are managed by the DGS. In 2009, DGS conducted a survey of all of the buildings with ADA deficiencies, and the study found deficiencies in nearly every building in the DGS portfolio. DGS has calculated that the repairs will require $82 million and there is approximately $28 million in deferred maintenance that will need to be addressed, as well. DGS has identified a ten-year timeline to complete the work identified in the deficiencies study.

LAO Recommendation: The LAO recommends that the Legislature reject the proposal because a temporary, across-the-board $0.10 rate increase is an inappropriate way to fund special repairs across multiple facilities. The rental rates should be set at amounts sufficient to cover debt service, ongoing operations, and maintenance costs, as well as build up a reserve for the repair or replacement of building systems and equipment.

Accordingly, the LAO recommends that the Legislature direct DGS to adjust existing rates to meet each facility's individual needs over time. While more complex, such individual adjustments would result in rental rates that more accurately reflect the cost of operating and maintaining each building. For buildings with significant ADA compliance issues and deferred maintenance, the new building rate may need to include a temporary multi-year increase to cover these one-time costs, as well as an increase in the base rental rate to prevent the accumulation of additional deferred maintenance. For newer buildings, DGS also may determine that minor rate increases are needed to establish a sufficient reserve for future scheduled maintenance and special repairs.

Staff Comment: The Governor's proposal distributes the total cost for special repairs equally to all buildings. This approach recognizes that special repair needs will change from year to year based on emergency repairs, equipment and systems failures, and other factors in the

prioritization of repairs. The LAO recommendation attempts to more accurately reflect the cost of operating and maintaining each building but does not account for unavoidable changes in priorities due to unforeseen events. Consequently, there is a continuous reprioritization of the items on the special repair list. A uniform rate increase gives DGS the flexibility to reprioritize as needed to react to unforeseen events. The Assembly has adopted this proposal as budgeted.

Staff Recommendation: Approve as budgeted.

Issue 6 – GS $mart

Governor's Budget: The Governor's May Revision includes a request for the addition of trailer bill language that would modify the GS $mart program, within the Department of General Services.

Background: The GS $mart program serves as the state's financial marketplace, providing state entities with lease purchasing opportunities. There are high-cost items, such as a $6 million dollar generator, or a $5 million airplane that agencies are not capable of purchasing in a single budget year. The program allows an agency to spread the cost of specified goods over several years versus paying for them all in one fiscal year at tax-exempt rates.

Staff Comment: The proposed trailer bill language would not generate any General Fund or Special Fund cost savings in the Budget Year, or future budget years. Additionally, the proposed trailer bill language does not include any mechanisms to ensure that the Legislature is aware of a state entity utilizing the GS $mart program. While there is a need to place the program in statute, a May Revision Finance Letter would not be the preferred approach. There are significant policy changes included in this May Revision Finance Letter and those changes merit a larger discussion than what can be provided in the limited time remaining.

Staff Recommendation: Reject proposed May Revision Finance Letter.

Department of Veterans Affairs

Issue 7 – Enterprise-wide Veterans Homes Information System (Ew-VHIS)

Governor's Budget Request: The Governor's 2013-14 Budget includes a request for $1.8 million to fund the implementation of the Enterprise-wide Veterans Homes Information System (Ew-VHIS) at the Yountville Veterans Home.

Background: The Ew-VHIS is designed to provide an integrated level of care to all eight homes within the CDVA veterans home network. Prior to the original request made in 2007, CDVA operated three veterans homes that were semi-autonomous. According to the California Technology Agency, total project costs are estimated to be $36.7 million. The original Feasibility Study Report, submitted in 2007, estimated the total project cost to be $33.9 million.

The Ew-VHIS has now been installed, configured, and implemented at Headquarters and at the homes in Barstow, Chula Vista, West Los Angeles, Ventura, and Lancaster. Implementation at

Yountville, which has the largest resident population and staffing, represents the third wave. Funding to support the implementation of the Ew-VHIS was included in the proposal to support the opening of the Redding and Fresno veterans homes.

Prior to the acquisition and implementation of the Ew-VHIS, the veterans homes of California (Yountville, Barstow, and Chula Vista) utilized a software platform (Meditech) that did not have full functionality for Long-Term Care purposes, and the Meditech platform was only partially used at the Chula Vista and Barstow facilities. According to CDVA, the Meditech platform lacked the capability to develop a long-term care plan in an electronic format, and lacked a continuum of care account for each patient.

An additional concern raised by CDVA is the need for an integrated network that can be more closely monitored at CDVA's headquarters in Sacramento. According to CDVA, a new integrated network will provide headquarters with the opportunity to improve administrative procedures, business processes, and will provide a greater level of clinical data management capabilities within the network.

Staff Comment: Senate Budget Subcommittee No. 4 originally heard this item on April 11th and the item was held open.

Staff Recommendation: Approve as budgeted.

Issue 8 – Adjustment to Federal Per Diem for Veterans Homes

Governor's Budget Request: The Governor's May Revise includes a request to decrease the General Fund contribution to the California Department of Veterans Affairs and increase the Federal Fund expenditure authority by $625,000.

Background: The federal government pays a per diem rate for every resident that is housed in the state's veterans homes. This $625,000 augmentation is the net change to federal reimbursements, resulting from a decrease in the projected number of residents housed in the state's veterans homes in fiscal year 2013-14, and an increase in the per diem rate.

Staff Comment: Staff has no issues with this request as it results in a net zero difference in overall expenditures within the Department.

Issue 9 – Current Year and Budget Year Savings

Governor's Budget Request: The Governor's May Revise includes a request for a one-time reduction of $12 million General Fund in current year 2012-13, and $5.5 million General Fund in budget year 2013-14.

Background: This request is due to the delay in opening the skilled nursing facility at the West Los Angeles veterans home, and the just-in-time hiring being conducted at the Redding and Fresno Veterans homes. The skilled nursing facility was originally budgeted to begin admittance in February 2012, however admittance did not begin until later in the fall of 2012. The delay in admittance was due to licensing issues related to providing food services to the skilled nursing

facility residents. This delay has pushed the ramp-up of staff beyond the original 2010 hiring plan, which has generated one-time savings in the current year and budget year.

Staff Comment: Staff does not have any issues with the request.

Staff Recommendation: Adopt May Revise request.

Issues Proposed for Discussion / Vote

0840 CALIFORNIA STATE CONTROLLER

Issue 1 – Integrated Data Management System

Governor's Budget Request: The Governor's May Revise includes a request for $3.018 million ($651,000 General Fund) in Fiscal Year 2013-14 and $3.48 million ($751,000 General Fund) in 2014-15 through 2017-18, for costs associated with the Integrated Data Management System technology services.

Background: The Integrated Data Management System (IDMS) is comprised of a suite of software products that run on the mainframe housed at the Office of Technology Services. The systems are wholly integrated and allow for direct interface and/or provide for files to be passed between each unique system. The Controller's Office is highly dependent on IDMS applications, and use the business functions for personnel, payroll, fiscal, and audits. There are a total of fifteen unique IDMS supported applications that the SCO utilizes.

The increased costs are associated with the fact that SCO is now one of only two state entities (California Highway Patrol is the other) that utilize IDMS applications and, therefore, are paying for a much higher share of the costs than before when the costs could be distributed across multiple agencies. IDMS related costs in the 2011-12 budget year were $185,000 and have increased substantially due to the continued migration of other departments that are no longer reliant on IDMS.

Staff Comment: IDMS applications perform a number of functions that are assumed to be replaced by either the 21st Century Project or FI$Cal. Therefore, it would not be cost effective to identify an intermediate platform until 21st Century and FI$Cal are implemented and able to replace the IDMS applications.

A five-year contract was recently negotiated with the IDMS vendor. Annual costs for the SCO to continue to use IDMS are reflected in the May Revise request. However, as previously noted, if the other user of IDMS were to leave, costs would increase to $4.6 million annually. Given that there is a possibility of a requested future cost increase associated with the California Highway Patrol migrating to another platform, it may be worth considering approving the requested amount for 2013-14. Future requests, which may include the additional costs associated with the other user migrating, will be considered in subsequent budget years. This will also afford the Legislature the opportunity to hear regular progress reports on the migration process.

Staff Recommendation: Approve requested $3.018 million for Fiscal Year 2013-14 in May Revise Letter.

Vote:

Issue 2 – Unclaimed Property Division

Governor's Budget Request: The Governor's May Revise includes a request to revise the existing provisional language for Item 0840-001-0970 to better define the expenditures paid from that account.

Background: Administration of the Unclaimed Property Program is a responsibility of the SCO, per Code of Civil Procedure § 1300-1615. The Code of Civil Procedure provides the SCO with a continuous appropriation to carry out and enforce the Unclaimed Property Law. In addition to the continuous appropriation currently in statute, there is an item in the budget bill that provides the SCO with an appropriation for $35.06 million for the administration of the Unclaimed Property Program, as it relates to the administration of the program. The proposed budget bill language is below:

Provisional language for Item 0840-001-0970

The funding provided in Item 0840-001-0970 shall cover costs for personal services and related operating expenses and equipment (including legal costs that are not related to enforcing the recovery of property, and system related costs) for the Unclaimed Property Program. Continuous appropriations form the Unclaimed Fund are allowed for other program costs authorized under Section 1584(b) and Section 1325 of the Code of Civil Procedure. These continuous appropriations shall not be used to cover spending authorized under Item 0840-001-0970.

Staff Comment: It appears the proposed amendments to the provisional language would more clearly delineate which appropriations are supposed to pay for specific costs assumed by the SCO's Unclaimed Property Division. Staff recognizes the need for a clear delineation between the direct appropriation provided in statute and the appropriation provided in budget bill language. However, it may be more appropriate to review both, the language in statute, and the budget bill language, in order to make a more informed decision. Staff believes that there could be more value added to a thorough review of both the appropriation provided in statute and the budget bill language. Unfortunately, the late nature of this proposal has not provided the subcommittee with the time necessary to conduct that level of review. Therefore, it is in the subcommittee's best interest to reject the proposed budget bill language

Staff Recommendation: Reject proposed budget bill language without prejudice. This issue may be reconsidered in the 2014-15.

Vote:

Issue 3 – 21st Century Project

Governor's Budget Request: The Governor's May Revise includes a request for 40 positions and $14.556 million ($11.92 million General Fund) for a one-year limited-term in 2013-14, to support multiple efforts related to the suspension of MyCalPAYS and the 21st Century Project.

Background: The State Controller's Office (SCO) is responsible for disbursement of pay to the state's 249,000 employees. In 2004 the Department of Finance (DOF) approved the justification documents, submitted by the SCO, requesting an updated payroll system that would provide a greater level of integration. The SCO procured Commercial Off the Shelf (COTS) software in 2005 and intended on utilizing that COTS software to update the state's payroll system.

The Department of General Services (DGS) awarded the second contract to a different vendor on February 2, 2010. An updated Special Project Report (SPR 4), that was issued prior to the contract being awarded, identified the method that would eventually be utilized to implement the new MyCalPAYS system. The first, and smallest phase, would consist of converting payroll for the approximately 1,300 SCO staff to the new payroll system.

The initial pilot, which was deployed in June of 2012, revealed a significant volume of errors. The SCO issued a cure letter in October of 2012 to the vendor, SAP, requesting that the vendor deliver the resources necessary to correct the identified errors. SCO was not satisfied with the response provided by the vendor and subsequently terminated the contract for MyCalPAYS in February 2013. Due to the contract being terminated, the Technology Agency had little choice but to suspend the 21st Century Project.

SCO's request is broken into multiple segments, which include continued lease obligations, consulting contracts for both internal and external consultants, costs associated with legal proceedings for the likely legal dispute between the vendor and SCO, and data center costs. Including the proposed Control Section 25.25, the costs associated with this request total $14.55 million. A more specific cost breakdown is provided below:

- $3.985 million for the 40.0 one-year limited-term positions within the payroll services division.
- $1.615 million for lease obligations which extend through May 31, 2014.
- $453,000 for interdepartmental consulting which includes funding to support project oversight provided by the Technology Department and labor relations support provided by CalHR.
- $3.58 million for external consulting services which includes costs associated with seeking outside legal counsel, external payroll reconciliation consultants and project management consultants.
- $4.93 million for data center service costs and Information Technology costs which represents the funds necessary to receive data center services and infrastructure requirements.
- $2.268 million is also a requested and represented by the addition of a Control Section. The added Control Section would allow SCO to augment their budget to pay for

additional Office of Technology Service Costs if the SCO is unable to accelerate suspension efforts.

In addition to the funding requests, the SCO has requested the addition of provisional item under 0840-001-0001. The provisional item would allow a further augmentation SCO's budget by $2.266 million from all fund sources for payment of data center costs to the Office of Technology related to the suspension of the 21st Century Project. The requested language includes a 30-day notification to the Joint Legislative Budget Committee.

Staff Comment: The 21st Century Project has suffered multiple cost-overruns and timeline setbacks, which led to the termination of the contract with the first vendor, Bearing Point, in 2009. This project has received increased scrutiny from the Legislature in prior years and was subject to quarterly reporting requirements.

Staff recognizes that there is a need to conduct payroll reconciliation for the 1,300 staff at the SCO that were impacted by the initial phase of the 21st Century Project. This request should be viewed under the premise that is the only function that the SCO will be performing. When viewed under that premise, this request should raise several flags. While the firm lease term obligations are through May 31, 2014 it's unclear what, if any, effort has been made to relieve the state of the $1.6 million requested in this May Revise Letter. Furthermore, the 40.0 requested positions seem to be excessive. There are a number of legal related positions requested in the May Revise Letter that seem to have more to do with what will be a pending legal case with the vendor of the 21st Century Project rather than SCO staff payroll reconciliation. Given that, it may be necessary to reduce the number of staff included in order to reduce the General Fund expenses as the state has already assumed a large cost burden for this project with little to no return.

There are a number of complex IT related functions that the state currently does not have the capacity to perform, and the external consultants requested in this May Revise Letter are expected to perform those functions. In the interest of ensuring that SCO staff receive the pay and benefits owed to them, staff believes the $2.58 million of the external costs requested may be justified. Included in this portion of the request, is $1.0 million for external legal consultants. It is unclear to staff what value external legal consultants will provide in the payroll reconciliation process. Particularly, when you take into account that this May Revise request includes a $215,00 internal contract with CalHR. Presumably, CalHR is advising SCO payroll reconciliation efforts on pay and benefits-related matters.

Furthermore, staff would not recommend that either the requested provisional language or the requested Control Section be adopted, in its current form. Any language that the Legislature agrees to should include not only a notification to the Joint Legislative Budget Committee, but also an authorization. This will ensure that the Legislature continues to play an active role in the payroll reconciliation process throughout the fiscal year.

Senate Budget Subcommittee No. 4 still intends on conducting a very in-depth oversight hearing related to the suspension of the 21st Century Project. The project was suspended after dedicated over $254 million towards its implementation. Prior to its suspension, total project costs were estimated to be $373 million per the Special Project Report 5 (SPR5). Given that the oversight hearing has still not been conducted it may be wise to provide only the funding necessary until the prospective hearing date. The remainder of the funds will be available upon Joint Legislative Budget Committee authorization.

Staff Recommendation: Reduce position authority to 30.8 for project administration and "Do the Math." Redirect $2.0 million related to outside legal services, and savings associated with the 9.2 postions requested in the proposal. This funding will support an assessment that shall be conducted. The report, at a minimum, should include the issues referenced in LAO's March Budget Recommendation. Funding shall be available for two months. The remainder of the requested funds for shall be available upon Joint Legislative Budget Committee notification. Notification will be related to project updates that will be determined at a later date. Amend budget bill language to include authorization from Joint Legislative Budget Committee.

Vote:

0890 CALIFORNIA SECRETARY OF STATE

Issue 1 – Business Programs Divisions Backlog

Governor's Budget Request: The Governor's May Revise includes a request to increase Business Fees expenditure authority by $5.68 million. The requested funds will provide the business programs division with an additional 56 three-year limited-term positions.

Background: The Governor recently signed AB 113 (Chapter 3, Statutes of 2013), which appropriated $1.6 million in business fees funds in the current year, to address the business filings backlog at the Secretary of State's office. At the time, it was estimated that there were 123,000 business filings in the backlog. The requested funds are anticipated to support the same number of positions in the Business Programs Division within the Secretary of State's office that the funds in AB 113 supported. It is the Secretary of State's goal to achieve and maintain a five-day processing time for business filings until an automated system can be fully implemented.

Additionally, the Governor's May Revise includes a request that budget bill language be added to Item 0890-001-0228 to require the Secretary of State to report to the Department of Finance and the Joint Legislative Budget Committee on the Business Program Division's efforts in maintaining the five business day processing time and its management of staff and resources.

Provisions:

1. *The Secretary of State shall report to the Department of Finance and the Joint Legislative Budget Committee on performance of its Business Filings Division (BPD). The report shall include a summary of performance over the preceding quarter including average processing time, number of filings processed, the number of expedited filings, total outstanding filings, a summary of number of staff in the BPD, the number of vacant positions and vacancy rate, the hours of overtime worked, number of temporary workers, and hours they worked.*

2. *The report required in Provision 1 shall be made for each month through December 2013 and quarterly thereafter (January, March, April, June). However, if the December 2013 or any subsequent report indicates that the average processing time for business filings is more than 5 days, the Secretary shall include a plan to come in compliance with the 5-day standard and shall provide monthly reports until it is in compliance. The reports in this section shall be due on the 15th of the month following the reporting period.*

Staff Comment: It is worth noting that Senate Budget and Fiscal Review Subcommittee No. 4 approved a request of an increase of $3.27 million in reimbursement authority for the Secretary of State's office to continue the development of the Business Connect Project. The Business Connect Project will allow for real-time filing of business records, allow government agencies to access information about businesses in a timely manner, and allow for more secure and timely processing of payments. The project is anticipated to reach full implementation in June 2016.

Staff Recommendation: Approve May Revise request.

Vote:

1110 DEPARTMENT OF CONSUMER AFFAIRS

Issue 1 – Controlled Substance Utilization and Review System (CURES)

Background: The Controlled Substance Utilization and Review System (CURES), is an electronic database of prescription drugs issued by doctors. In 1996, the Legislature initiated the development of the CURES system in an attempt to identify solutions addressed while utilizing an antiquated system of triplicate copying.

The implementation of CURES represented a significant improvement over the state's prior utilization of a triplicate copying system, however, it did not address the need for providing healthcare practitioners and pharmacists with access to timely information to proactively diminish and deter the use of controlled substances. To address this issue with CURES, the DOJ initiated the Prescription Drug Monitoring Program (PDMP), which allows prescribers and dispensers to access data at the point of care. The PDMP system is utilized by the DOJ to collect and store data on the prescription of controlled substances (Schedule II through Schedule IV). State law mandates that the DOJ assist law enforcement and regulatory agencies with the diversion, and resultant abuse, of controlled substances.

The California Budget Act of 2011 eliminated all General Fund support of CURES/PDMP, which included funding for system support, staff support and related operating expenses. To perform the minimum critical functions, and to avoid shutting down the program, the DOJ opted to assign five staff to perform temporary dual job assignments on a part-time basis. Currently, there are five healing arts boards within the Department of Consumer Affairs that provide the Department of Justice funding to manage the CURES program. Funding to support the program is derived from fees assessed on the boards which support the operation and maintenance costs of the CURES program, which is maintained at the DOJ.

Staff Comment. The current CURES database is significantly underutilized. The DOJ estimates that only 3.6 percent of licensed prescribers are utilizing the system in the state. However, it is worth noting that the DOJ does not believe that the current software platform could accommodate the additional 236,000 registrants that are in the state. The Department of Justice is redirecting resources to support the operation of CURES/PDMP. The redirection is not sustainable for the long-term.

According to the DOJ, modernization costs will be approximately $2.1 million for an upgraded CURES database. The modernization would occur over a two-year period and the costs associated with maintaining the current system, while the modernization occurs, would be $1.8 million. Total modernization costs would be approximately $3.9 million.

To address the build out of a new system, it may be worth considering splitting the estimated $3.9 million cost to build the new CURES database among the following boards that currently either prescribe or dispense controlled substances: The Medical Board, the Pharmacy Board, the Dental Board, the Board of Registered Nursing, the Osteopathic Medical Board, the Veterinary Medical Board, the Physician Assistance Board, the Optometry Board, the Podiatric Board, and the Naturopathic Board. The $3.9 million would be split over the lifecycle of the development of the new database, which is currently estimated at two years. The contribution from each board would be determined by the number of schedule II through IV licensees within each respective board.

Staff recommends directing the Department of Finance to coordinate with the Department of Consumer Affairs to identify appropriate amounts for each respective board that either dispenses or prescribes controlled substances. The identified amounts should total approximately $3.35 million for fiscal years 2013-14 and 2014-15. The $3.35 million dollar figure takes into account the annual contribution of $296,000 provided to the DOJ to manage the CURES database from the Medical Board, Dental Board, Board of Pharmacy, Board of Registered Nursing, and the Osteopathic Board. The increased expenditure authority will support the development of an updated CURES database. Senate Budget Subcommittee No. 5 will recommend an increased reimbursement authority for the DOJ, so the funds can be distributed towards the modernization of the CURES database.

To ensure a higher level of participation by the end-user, which is comprised of the ten boards contributing to the development of a new CURES database, staff recommends including budget bill language that generates participation from the Department of Consumer Affairs during the development phase of the new CURES database. The proposed budget bill language should include that it is the Legislature's intent that the CURES database be jointly developed by the Department of Consumer Affairs and the Department of Justice in order to meet the needs of the boards funding the system. The language should also reference that, prior to any reimbursements being provided to the Department of Justice, an interagency agreement shall be reached between the Department of Justice and the Department of Consumer Affairs regarding the development and implementation of an upgraded CURES database and approval of a Feasibility Study Report by the Department of Technology.:

Staff Recommendation: Increase expenditure authority for the ten boards within the Department of Consumer Affairs, to total $3.941 million. This will take into account the current appropriation of $296,000 annually provided by Department of Consumer Affairs Boards for

fiscal years 2013-14 and 2014-15. The actual augmentation will amount to $3.35 million over two budget years. Adopt proposed budget bill language.

Vote:

Issue 2 – California State Athletic Commission

Governor's Budget Request: The Governor's May Revise includes a request for the inclusion of budget bill language that would authorize the California State Athletic Commission (Commission) with up to $200,000 in order to adequately staff events and provide biannual Athletic Inspector training, as per Business and Professions Code § 18615.

Background: Senate Budget Subcommittee No. 4 has already taken action to reduce the commission's budget by $814,000. The reduction results in the commission's 2013-14 budget being revised to $1.19 million. Action taken by the committee was in response to lingering solvency concerns of the Athletic Commission Fund. The Commission has requested that language be included that provide for the Commission to meet the requirements of Business and Professions Code § 18615, which requires semiannual training of inspectors that are assigned to regulate events by the Commission.

Staff Comment: According to the Commission, the estimated cost of semiannually training of the state's inspectors is $155,000. The $200,000 augmentation would provide for the necessary funds for Athletic Inspectors at sporting events, or for the required semiannual athletic inspector training. The proposed budget bill language is below:

Item 1110-001-0326……

Provisions:

1. The amount appropriated in this item may include revenues derived from the assessment of fines and penalties imposed as specified in Section 13332.18 of the Government Code.

2. *Provided that sufficient funds are available and upon request by the Department of Consumer Affairs, the Department of Finance may augment this item by up to $200,000 not sooner than 30 days after notification in writing is provided to the chairpersons of the fiscal committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee. This augmentation shall only be provided for additional funding needed for Athletic Inspectors at sporting events or for Athletic Inspector training.*

Staff Recommendation: Staff has no issues with this request as it ensures compliance with Business and Professions Code § 18615 and ensures the fund will remain solvent. Adopt proposed budget bill language.

Vote:

1690 SEISMIC SAFETY COMMISSION

Governor's Budget Request: The Governor's May Revise includes a request via trailer bill language to establish the Seismic Safety Account within the Insurance Fund. The Seismic Safety Account would then be utilized, at the discretion of the Legislature, to fund Seismic Safety Commission related activities.

Background: The Seismic Safety Commission was originally created in 1975 and was supported by the General Fund. The Commission's mission is to investigate earthquakes, research earthquake related activities and recommend to the Governor and the Legislature policies and programs needed to reduce earthquake risk. Additionally, the Commission is responsible for managing *California's Earthquake Loss Reduction Plan 2007-2011.*

The Commission currently has one office that houses 6.4 positions and supports the Commissions activities including the bi-monthly meetings at various sites statewide. The use of the Insurance Fund for the Commission was designed to be a short term solution. However, the ongoing budget concerns in the state have forced the Commission to utilize the Insurance Fund as a more permanent source of funding.

Staff Comment: The Governor's January 2012-13 Budget included a request to fund the Seismic Safety Commission with direct support from the Insurance Fund. However, when reviewing the January submission to re-approve the use of the Insurance Fund as a funding source it was brought to the Legislature's attention that use of the Insurance Fund as originally structured by the Commission would be unconstitutional. Specifically, Article XIII, Section 28 (f) of the California Constitution specifies that, with limited exceptions, the state's insurance tax shall be in lieu of all other state and local taxes. This seismic safety assessment imposed on the gross receipts of insurers of commercial and residential properties is a tax under the provisions of Proposition 26.

The Commission, with technical assistance from the Department of Finance, has submitted a revision to their original request that would have the Department of Insurance calculate an annual assessment not to exceed $0.15 on commercial and residential property policy holders to be collected by insurers. According to Legislative Counsel the proposed trailer bill language does not raise the constitutional concerns referenced above but, in accordance with Proposition 26, is subject to a supermajority vote.

In addition to the proposed trailer bill is a request to loan $1.122 million General Fund to the Insurance Fund in order to support the costs associated with the operation of the Seismic Safety Commission for Fiscal Year 2013-14.

Staff Recommendation: Reject proposed trailer bill language. Approve $1.122 million direct appropriation from the General Fund to the Seismic Safety Commission for Fiscal Year 13-14 on a one-time basis. Remove budget bill language referencing General Fund under Department of Insurance budget item.

Vote:

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1 – Housing Element Review

Governor's Budget Request: The Governor's 2013-14 budget includes a request for $649,000 to fund five two-year limited-term positions from the Air Pollution Control Fund. This request is necessary to implement the state's only oversight role in reviewing and approving regional and local governments' housing land-use.

Background: State law requires each city and county to adopt a general plan containing at least seven mandatory elements, including housing. Unlike the other general plan elements, the housing element is subject to detailed statutory requirements and mandatory review by a state agency, the California Department of Housing and Community Development (Department). Housing elements have been mandatory portions of local general plans since 1969. This reflects the statutory recognition that housing is a matter of statewide importance, and cooperation between government and the private sector is critical to attainment of the State's housing goals.

In 2007, the Legislature enacted SB 375 (Chapter 728, Statues of 2007), which sought to help the state achieve greenhouse gas emission goals, outlined in AB 32 (Chapter 488, Statutes of 2006), by reducing vehicle emissions. SB 375 requires regional greenhouse gas reduction targets, requires regional agencies to prepare land use plans for the regions that will help achieve the greenhouse gas reduction targets (known as a Sustainable Communities Strategy), and provides incentives for high-density, transit-oriented housing projects.

SB 375 links, for the first time, regional planning efforts for transportation and housing. Under the bill, all transportation and housing planning processes are put on the same eight-year schedule; housing plans must be updated once every eight years, which will now align with two 4-year Regional Transportation Plan planning cycles. The single largest sector of greenhouse gas emitters are cars and light trucks. While greenhouse gas emissions can be reduced by creating more fuel efficient vehicles, it is also a necessity to reduce the number of miles traveled to achieve the state's standards. Specifically, SB 375 integrated and aligned planning for housing, land use, transportation and greenhouse gas emissions.

This change in timing will have a dramatic impact on HCD. Instead of receiving housing elements on a staggered schedule, SB 375 changes require that 85 percent of the state's 539 cities and counties will be submitting housing elements in calendar years 2013 and 2014. According to HCD, most jurisdictions submit a draft nine months prior to their due date. HCD spends, on average, 120 hours of staff time per element review. Further compounding time requirements spent on each jurisdictional review, is the fact that most local governments submit at least four drafts prior to final submission of an element review.

Staff Comment: HCD serves as the only state entity with the capacity to ensure that local governments are conforming to land-use strategies that will locate their higher density and infill housing closer to jobs, services and transportation modes. A reduction in overall vehicle trips and vehicle miles travelled are critical components of achieving Greenhouse Gas emission reduction targets. Furthermore, HCD's element review process supports removal of regulatory barriers implementing the streamlining, intended by SB 375.

Staff Recommendation: Approve as budgeted.

Vote:

7870 CALIFORNIA VICTIM COMPENSATION AND GOVERNMENT CLAIMS BOARD (VCGCB)

Issue 1 – Trauma Recovery Center

Background: The California Victim Compensation Program (CalVCP), administered by the VCGCB, provides compensation for victims who suffer physical or emotional injury, or the threat of physical injury, as a direct result of a violent crime. Crimes covered by the program include domestic violence, child abuse, sexual and physical assault, homicide, human trafficking, robbery, and vehicular manslaughter.

Subject to specified eligibility criteria, CalVCP compensates eligible victims for various crime-related expenses that are not covered by other sources. Services covered include medical and dental care, mental health services, income loss, funeral expenses, home security, rehabilitation and relocation. Funding for the program is provided by the Restitution Fund, which derives its revenue from restitution fines and orders, diversion fees, and penalty assessments levied on persons convicted of crimes and traffic offenses. CalVCP also receives federal grant monies from the Victims of Crime Act (VOCA).

In order to receive compensation, victims must apply and provide specified documentation. The waiting period to receive indication of application for compensation has been documented to take up to three months or more to receive.

Staff Comment: The subcommittee may want to consider expanding the TRC model, which has been very successful at providing victim's services more cost effectively than individual reimbursements to victims for seeking their own mental health and medical services. In addition to the cost containment for each individual victim that occurs when TRC as the provider is paid by VCGCB (because it seeks to serve as many people as possible, as opposed to a victim potentially incurring more expensive services elsewhere), the TRC has served many more victims in need of mental health services than the entire panel of San Francisco fee-for-service providers. The TRC provides services more efficiently, and is able to reach more people (which often mitigate cost savings).

Staff Recommendation: Adopt draft trailer bill that establishes a grant program to be administered by the Victim Compensation and Government Claims Board (VCGCB) which will provide for the creation and funding of Trauma Recovery Centers (TRCs) across the state.

Increase expenditure authority for the VCGCB by $2.0 million for the administration of the grant program.

VOTE:

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (CDVA)

Issue 1 – Central Coast Veterans Cemetery at Ford Ord

Background: In 1991, Fort Ord was announced for closure by the United States Base Realignment and Closure Commission. Upon closure, the Fort Ord Reuse Authority (FORA) Base Reuse Plan was established to oversee the process of converting the land from military to civilian use. FORA set aside 178 acres for a veterans cemetery. Legislation enacted in 2006 (AB 3035 Laird, Chapter 291, Statutes of 2006), created an endowment fund to allow local veterans to raise money to finance the initial planning and design process, as well as the ten percent matching funds, required by the U.S. Department of Veterans Affairs (USDVA), for beginning the construction project. The balance of the construction costs will be repaid through reimbursements by the USDVA. Public Law 105-368, which went into effect in 1999, authorized USDVA to provide up to 100 percent of the development cost for an approved project.

August 15, 2013 is the federally-imposed (USDVA) deadline for the state's grant application, including a certification of matching funds signed by a senior state official. In order to achieve this deadline, approximately $2.5 million is needed in the Endowment Fund in early July for the Department of Finance to approve the project, per statute requirements.

Staff Comment: There is existing authority (Chapter 22, Statutes of 2011) for the endowment fund to transfer funds, when available, from the endowment fund to the operation fund for the purposes of completing the preliminary plan phase of the capital outlay project. However, there is no cash in the endowment fund available for transfer. While the intent has been for the local community to raise the necessary funds, the economic situation, existing since at least 2006, has preempted options available to the community to raise funds for the endowment. In order to move forward, an option needs to be developed that will provide the cash to proceed with planning, while maintaining the initial intent that this project have no General Fund impact.

Staff Recommendation: Staff recommends including the following language in the Budget Act of 2013.

8955-011-0001—For transfer by the Controller, upon order of the Director of Finance, from the General Fund to the California Central Coast State Veterans Cemetery at Fort Ord Endowment Fund …….... 2,500,000

Provisions:
1. The funds appropriated in this item shall be reimbursed by the California Central Coast State Veterans Cemetery at

Fort Ord Endowment Fund from the proceeds of any construction grant received from the State Veterans Cemetery Construction Grant Program for the purposes of constructing the California Central Coast Veterans Cemetery.

2. Funds shall be reimbursed to the full extent of the grant award no later than 24 months after construction is completed.

3. The Secretary of Veterans Affairs shall report annually, by January 10 of each year, commencing on January 10, 2015, to the Director of Finance, the Chairperson of the Joint Legislative Budget Committee, and the chairpersons of the fiscal committees of each house of the Legislature on all expenditures made pursuant to Provision 1 to include progress on reimbursing the General Fund pursuant to Provision 2.

The proposed budget bill language will provide the Fort Ord Endowment Fund with the necessary funds to begin the construction of the California Central Coast Cemetery. Budget bill should include spending authority related to this project. The funds are expected to be repaid in full by the U.S. Department of Veterans Affairs.

Vote:

Issue 2 – Conversion of Skilled Nursing Facility to Domiciliary Care at West Los Angeles Veterans Home

Governor's Budget Request: The Governor's May Revise includes a request for a reduction of 35.6 positions and $3.2 million General Fund in 2013-14. The reduction will total 67 positions, and $5.1 million ongoing, to accurately reflect the conversion of two units in the West Los Angeles home from skilled nursing to domiciliary care.

Background: The West Los Angeles facility was originally designed and constructed to provide 396 beds, consisting of 84 residential care facility for the elderly and 313 skilled nursing facility level of care beds. The proposal will result in a reduction of 84 skilled nursing facility level of care beds and will result in a total of 228 skilled nursing facility beds at the West Los Angeles home.

Currently, there are no domiciliary level of care beds available for the estimated 676,219 veterans in any of the greater Los Angeles area veterans homes. This proposal will also provide the estimated 9,419 homeless veterans in the region with some form of either long-term care or supportive housing.

Staff Comment: As of April 4, 2013, there were 65 residents approved for admission in the Skilled Nursing Facility. The scheduled reduction in skilled nursing beds would not displace any veterans at the facility and would provide veterans, in need of a home, with a bed that has a respectable level of privacy. Furthermore, the conversion of the skilled nursing beds into domiciliary level of care units, would be in alignment with both federal and state goals. Governor

Davis issued Executive Order D-53-02, which addressed the need for greater resources to support the state's homeless veterans population.

Staff Recommendation: Adopt proposed May Revise request.

Vote:

Issue 3 – Veterans Claims and Rights

Background: In California, both the state Department of Veterans Affairs (Cal Vet) and County Veterans Service Offices (CVSOs) work to assist veterans in receiving federal benefits they are owed, including medical care, education, burial, and compensation and pension benefits. According to internal USDVA documents obtained and published by the Center for Investigative Reporting, California veterans filing claims for the first time face extremely long waits before their claims are processed. This can lead to disabled veterans suffering from severe health issues, unemployment or other problems waiting more than a year for federal assistance.

The table below shows the average processing times for the three USDVA offices in California and the national average. Nationally, it is taking nearly one year to process new claims; and in two of California's offices, the processing time is closer to two years.

Office	Average Processing Time - Days
Los Angeles	619.4
Oakland	617.8
San Diego	283.3
National Average	349.6

Some states have sought to address the USDVA's claims backlog. Texas, for example, has committed $1.5 million to create "State Strike Force Teams" to work with federal officials in processing requests for claims. The teams consist of claims counselors who work inside federal veterans offices to help expedite claims' processing. The state has signed a Memorandum of Understanding with the federal government to allow the strike force teams to work with USDVA officials. Between July and 2012 and January 2013, the state workers assisted more than 10,000 veterans whose claims were stuck in the backlog and forwarded 2,950 cases to the federal government for approval.

Cal Vet provided a plan to the subcommittee last week, although the plan was not included in the Governor's May Revise. The plan includes:

- California Veterans Service Representative Academy. Cal Vet proposes to conduct several week-long workshops across the state to better train CVSOs and others who assist veterans in accessing claims. Training will include curriculum related to handling more complicated claims, including assisting veterans with Post-Traumatic Stress Disorder, Traumatic Brain Injury and Military Sexual Trauma. Cal Vet states that it has restructured some administrative costs that allow it to conduct these trainings without new funding.

- Strike Teams. Cal Vet states that it has held discussions with the federal VA offices in Oakland, Los Angeles and San Diego regarding a limited-term collaboration that would

allow state employees to work in regional offices to address the California backlog. The department's plan would be to deploy two employees to each office, with one addressing backlog issues and one working to ensure that new claims coming in to the federal office have been properly developed. The department states that it intends to hire individuals with claim filing or adjudication experience so that little new training is required. The department also notes that these new state workers currently could only assist on claims developed by CVSOs or the state; claims developed by other veterans organization such as the American Legion and Veterans of Foreign Wars could not be addressed. Thus the department proposes to work with those groups to enter into agreements that would allow the state employees to assist with those claims as well.

Staff Recommendation: Provide $500,000 General Fund and six three-year limited-term positions to the CDVA to establish strike teams that will assist in alleviating the current number of claims backlogged at the USDVA. CDVA may utilize additional General Fund resources if any General Fund savings materialize from this effort during the 2013-14 Budget Year. In addition, require the department to prepare a report due March 1, 2014, and annually for the next two years, to describe the implementation of this plan and its outcomes.

Vote