

SUBCOMMITTEE NO. 4

Agenda

Senator Gloria Negrete McLeod, Chair
Senator Noreen Evans
Senator Doug La Malfa



Thursday, March 22, 2012
9:30 a.m. or Upon Adjournment of Session
Room 112

Consultant: Brady Van Engelen

Item Number and Title

2150	California Department of Financial Institutions
2180	California Department of Corporations
1760	California Department of General Services

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AGENDA – VOTE ONLY ITEMS

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AGENDA – DISCUSSION / VOTE ITEMS

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Issues Proposed for Vote Only:

	Issue	2012-13 Amount	Fund Source	Staff Recommendation
Department of General Services (1760)				
1	Board of State and Community Corrections: Budgeting and Accounting Contract Services	\$250,000	Service Revolving Fund	APPROVE

Vote:

Issues Proposed for Vote Only – Issue Descriptions**California Department of General Services****Issue 1 – Board of State and Community Corrections: Budgeting and Accounting Contract Services**

Governor’s Budget Request: The Governor’s 2012-13 budget is requesting augmentation to fill three permanent staff positions totaling \$250,000 to perform budgeting and accounting functions to a new state agency client, the Board of State and Community Corrections.

Background: As part of the Governor’s public safety realignment of 2011, AB 109 was enacted for lower-level offenders to be sentenced, treated, housed and supervised at the local level. Additionally, SB 92, which eliminated the Corrections Standards Authority with California Department of Corrections and Rehabilitation (CDCR) and reorganized the Corrections Standards Authority to an independent Board of State and Community Corrections was passed. With the passage of SB 92, Corrections Standards Authority is to become a separate entity independent from Department of Corrections and Rehabilitation and reconstituted as an independent Board of State and Community Corrections commencing on July 1, 2012.

The Board of State and Community Corrections believes that it would be more efficient to contract its budgeting and accounting functions post reorganization to the Department of General Services (DGS), Contracted Fiscal Services. As a result, the Board of State and Community Corrections has requested DGS’ Contracted Fiscal Services serve as the budgeting and accounting entity for the Board of State and Community Corrections. Currently, DGS’ Contracted Fiscal Services does not have ample staff to perform the budgeting and accounting functions for the Board of State and Community Corrections in addition to its current responsibilities and has requested that three additional staff be provided on a full cost recovery basis. The Board of State and Community Corrections is requesting funding for various external contractual work including budgeting and accounting services in their 2012-13 Budget Change Proposal.

2150 CALIFORNIA DEPARTMENT OF FINANCIAL INSTITUTIONS

Department Overview: The Department of Financial Institutions (DFI) was established effective July 1, 1997, to regulate depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. In addition, the Department licenses and regulates issues of payment instruments, including companies licensed to sell money orders and/or travelers checks or licensed to engage in the business of transmitting money abroad, and business and industrial development corporations. Programs are supported by assessments of the various industries, license and application fees, and charges for various other services.

Budget Overview: The Governor's Budget provides DFI with 263.1 positions and \$35.4 million (no General Fund). This is an increase of \$900,000 and no increase in positions. The Department of Financial Institutions is largely funded by assessments on financial institutions.

Expenditures	2010-11	2011-12	2012-13
Banks	\$20.8	\$22.5	\$22.9
Money Transmitters	\$2.9	\$3.1	\$3.3
Credit Unions	\$6.5	\$7.3	\$7.4
Other Programs	\$1.2	\$1.5	\$1.5
Total Expenditures	\$31.6	\$34.5	\$35.2
Personnel Years	269.2	263.1	263.1

The Governor's Budget includes a proposal to combine the Department of Financial Institutions with the Department of Corporations. This new entity would be referred to as the Department of Business Oversight. At this point, other than it would likely be considered as part of the Governor's Reorganization Plan, there are limited details available.

Issues Proposed for Discussion / Vote

Issue 1 – Conversion of Bank Examiner Positions

Governor's Budget Request: The Governor requests the conversion of 5.0 limited term positions to permanent status. The limited term positions are currently funded at the Senior Financial Institutions Examiner level and this Budget Change Proposal will retain that funding and position authority permanently.

Background: The Banking Program within the Department of Financial Institutions is responsible for the supervision and regulation of banks, industrial banks, foreign banks, savings associations, trust companies, business and industrial development corporations and bank holding companies. The mission of the program is to protect the public and ensure the safety and soundness of licensees through an extensive supervision process that includes on-site examinations, off-site monitoring, the enforcement of laws and regulations, and a licensing application screening process.

In 2010, the Legislature approved five limited term positions within the Department's Banking Program that were requested in a Spring Finance Letter. The limited term positions were originally approved under the assumption that financial conditions would improve and the number of troubled financial institutions would decrease over time. According to the Department of Financial Institutions, the number of problem licensees has in fact increased and the workload for examiners has also increased. The increased workload means that examiners are now conducting additional on-site examinations, taking enforcement action when necessary, and providing additional off-site monitoring of licensee's.

According to the Department of Financial Institutions, the Banking Program is allocated 105 examiner positions. However, due to the hiring freeze, the Program is operating with 90 examiners. Their workload projections reflect a need for 110 examiners in order to properly carry out its stated mission.

Hearing Questions: The Subcommittee may want to hear from the Department of Financial Institutions on the following issues:

1. *Did the Department explore the option of waivers or any other method to retain staff other than requesting these positions be converted to permanent staff?*

Staff Comment: According to the Department of Financial Institutions, the Banking Program is allocated 105 examiner positions. However, due to the hiring freeze, the Program is operating with 90 examiners. Their workload projections reflect a need for 110 examiners in order to properly carry out its stated mission. The Department of Financial Institutions indicates that per State Personnel Board regulations the individuals in those positions cannot be extended on another limited-term basis. The personnel currently in the requested positions have been trained by the Department of Financial Institutions and it is in the consumer's best interest that they remain at the department.

Staff Recommendation: Approve as Budgeted and Supplemental Reporting Language (SRL)

Vote:

Issue 2 – Conversion of Credit Union Examiner Positions

Governor’s Budget Request: The Governor’s 2012-13 Budget requests the conversion of 3.0 limited term positions to permanent status. The limited term positions are currently funded at the Senior Financial Institutions Examiner level and this Budget Change Proposal will retain that funding and position authority permanently. This request will reflect a cost of \$326,000 in the budget year and \$326,000 in budget year plus one.

Background: The Credit Unions Program within the Department of Financial Institutions is responsible for the continued oversight of its credit union licensees and is required by statute to examine each of its credit union licensees at least once every two years. Three limited term positions were approved as part of a Spring Finance Letter in 2010.

Similar to the bank examiner positions, conditions in the industry have not improved enough to mitigate extra workload conditions for credit union examiners. The department expects this will result in actual workload increases in some areas and has increased workload requirements related to enforcement actions. According to metrics utilized by the Department to determine the overall health of a State chartered credit union, the number of licensees operating in a satisfactory condition in 2010 was slightly over fifty percent. Particularly, full safety and soundness examinations are expected to increase in 2012 and 2013 and follow-up examinations are expected to increase in 2012 and in 2013 as well.

Hearing Questions: The Subcommittee may want to hear from the Department of Financial Institutions on the following issues:

1. *Did the Department explore the option of waivers or any other method to retain staff other than requesting these positions be converted to permanent staff?*

Staff Comment. Normally, staff would recommend that a continuation of limited term status for the requested positions, unfortunately, The Department of Financial Institutions indicates that per State Personnel Board regulations the individuals in those positions cannot be extended on another limited-term basis. The personnel currently in the requested positions have been trained by the Department of Financial Institutions and it is in the consumer’s best interest that they remain at the department. In light of the constant fluctuations to the industry, it may be in the Subcommittee’s best interest to ask for a review of examiner positions at the Department of Financial Institutions in two years.

Staff Recommendation: Approve as Budgeted and SRL.

Vote:

2180 CALIFORNIA DEPARTMENT OF CORPORATIONS

Department Overview: The Department of Corporations, under the direction of the California Corporations Commissioner, provides consumer and investor protections by regulating the conduct of a variety of businesses, including securities brokers and dealers, investment advisers and financial planners, and certain fiduciaries and lenders. The Department also oversees the offer and sale of securities, franchises, and off-exchange commodities.

The mission of the Department of Corporations is to ensure an orderly and transparent marketplace for investors, borrowers, and industry through licensure and oversight. Promote financial literacy and educate the public about the risks and rewards in investing and borrowing. Foster a professional and innovative working environment. Protect the public from fraud and abuse through enforcing California's financial services laws.

The Governor's 2012-13 Budget proposes a total of \$45.3 million and 314.7 Personnel Years for the Department of Corporations. The department is funded from special funds and reimbursements, with the largest amount of support provided by the State Corporations Fund.

As mentioned earlier, the Governor's Budget proposes to combine the Department of Corporations with the Department of Financial Institutions to create new entity currently referred to as the Department of Business Oversight and would fall under the Business and Consumer Services Agency. Both entities currently regulate and provide oversight to business entities within the financial industry so there is merit to the Governor's proposal, but there is still a limited amount of details on this proposal.

Expenditures	2010-11	2011-12	2012-13
Investment Program	\$16.1	\$24.0	\$23.2
Lender-Fiduciary Program	\$16.1	\$22.8	\$22.1
Total Expenditures	\$32.1	\$46.8	\$45.3
Personnel Years	275.4	313.8	314.7

<i>Issues Proposed for Discussion / Vote:</i>
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Issue 1 – Information Technology Quality Network Project (DOCQNET)

Governor's Budget Request: The 2012-13 Budget requests the reappropriation of 7.0 limited term positions and \$6.1 million over two years in order to complete the Department's replacement of many of its Information Technology platforms.

Background: In January 2007, the California Bureau of State Audits found that the Department failed to meet many of its regulatory requirements and mandatory time frames and demonstrated a lack of timeliness in resolving complaints from the public. The audit went into greater detail describing many of the manual processes required to track regulatory progress, billing information, and complaints. The audit concluded with a recommendation that the Department should "consider assessing the need for new automated data systems or determining whether its current systems are capable of collecting the necessary information".

Many applications were built in-house using tailor-made software or by small consulting firms. The systems were developed in a variety of languages and on different platforms. The existing project is one of several designed to unify, standardize, and combine data. Subsequently, the Department conducted a Feasibility Study Report (FSR) that found there was a lack of integration amongst the various Information Technology platforms at the Department.

The approved FSR indicated a completion date for this project by June 2012. However, hiring freezes, work furloughs, and unexpected leaves of absence have stalled the project and it is unlikely that it will meet the projected completion date. The Department currently projects that the contract will be executed by April 2012 and the project will be complete by June 2014.

Hearing Questions: The Subcommittee may want to hear from the Department of Corporations on the following issues:

1. *Did the Department have a workaround solution for unexpected hardware/software failures?*
2. *Has the Department considered the impact that the proposed merger will have on the implementation of the Information Technology Network Platform? Will there be any compatibility concerns that need to be addressed?*

Staff Comment: Committee staff does not have any issues with extending the timeline for the already approved Information Technology Quality Network Project.

Staff Recommendation: Approve as budgeted.

Vote: