Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Michael J. Rubio, Chair
Senator Noreen Evans
Senator Doug LaMalfa

Thursday, May 26, 2011
10:00 a.m.
Room 112

Consultants: Brian Annis, Kris Kuzmich, and Seija Virtanen

AGENDA PART B

DEPARTMENTS TO BE HEARD

(Please See Detailed Agenda on Pages 2 and 3 for More Specific Listing and Order of Departments and Issues to Be Heard)

0510	Secretary for State and Consumer Services
0520	Secretary for Business, Transportation, and Housing
0840	State Controller
0845	Department of Insurance
0911	Citizens Redistricting Commission
0950	State Treasurer
1705	Fair Employment and Housing Commission
1730	Franchise Tax Board
1760	Department of General Services
2240	Department of Housing and Community Development
2400	Department of Managed Health Care
8820	Commission on the Status of Women
8860	Department of Finance
8885	State Mandates
8940	Military Department
8955	California Department of Veterans Affairs
9600	Debt Service General Obligation Bonds & Commercial Paper
9620	Cash Management and Budgetary Loans
9860	Capital Outlay Planning and Studies Funding
CS 3.91	Reductions in State Operations
CS 4.30	Lease Revenue Payment Adjustments
CS 13.25	Reorganizations and Consolidations

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AGENDA – VOTE ONLY ITEMS

(Please see summary chart on Pages 4 and 5)

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only:

	Issue	Amount	Fund Source	Staff Recommendation
	Treasurer's Office (0950)			
1	Budget Bill Language for Bond Issuance Costs	$0 and BBL	Not applicable	APPROVE
	Department of General Services (1760)			
1	California Institute for Women Walker Clinic and Infirmary Buildings Structural Retrofit Project Reappropriation	$5,951,000	Seismic Bonds	APPROVE
2	Office Building 10 Renovation Project Extension	$437,000	Lease-Revenue Bonds	APPROVE
3	California Department of Transportation District 3 Office Replacement Project Extension	$851,000	Lease-Revenue Bonds	APPROVE
4	Provisional Language, California Health Care Facility Construction Services	N/A	N/A	APPROVE, as specified
	Department of Housing and Community Development (2240)			
1	Community Development Block Grant Service Funding Adjustment	$1,100,000 shift to local assistance and (-) 10 positions	Federal Funds	APPROVE
2	Propositions 46 and 1C Liquidation Extension Building Equity and Growth in Neighborhoods	N/A	N/A	APPROVE
3	Liquidation Extension *Vega et al. v. Richard Mallory* Settlement	N/A	N/A	APPROVE
4	Federal Neighborhood Stabilization Program Round 3	$11,300,000	Federal Funds	APPROVE
	Department of Managed Health Care (2400)			
1	Federal Grant Funds	$3,900,000	Federal Funds	APPROVE
	Commission on State Mandates (8885)			
1	Conforming Changes for State Local Realignment	$0 and BBL	N/A	APPROVE
2	Savings Based on State Controller's April 30 Report	-$3,900,000 (savings)	GF	APPROVE
	Debt Service General Obligation Bonds & Commercial Paper (9600)			
1	May Revision: New Estimates of Bond Debt Service	-$267,000,000 (savings)	GF	APPROVE
	Cash Management and Budgetary Loans (9620)			
1	Intra-year Payment Deferrals / Cashflow Loans	-$50,000,000 (savings)	GF	APPROVE

Issues Proposed for Vote Only, Continued:

	Capital Outlay Planning and Studies Funding (9860)			
1	Unallocated Capital Outlay Budget Reduction	$500,000	GF	APPROVE
	Lease-Revenue Payment Adjustments (CS 4.30)			
1	Various Lease-Revenue Bond Debt Service Adjustments	$471,000 $4,047,000	GF Other Funds	APPROVE

Vote:

Issues Proposed for Vote Only – Issue Descriptions

STATE TREASURER (0950)

Department Overview: The State Treasurer's Office (STO), a constitutionally established office, provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants drawn by the State Controller and other state agencies.

January Governor's Budget Overview: The Governor proposed expenditures of $27.4 million ($4.7 million GF) and 229.7 positions – an increase of $981,000 (a GF increase of $43,000) and no change in positions. The year-over-year budget increase is primarily a result of employee compensation adjustments.

March Budget: In the March budget package, the Legislature approved the Treasurer's budget as proposed by the Governor.

Issue 1 – Budget Bill Language for Bond Issuance Costs

Budget Request: In the Governor's May Revision, the Treasurer's Office requests new budget bill language that would allow a GF augmentation of up to $800,000 only if needed due to a cancelled bond sale. If bonds are sold at market, bond proceeds are used to pay advertising expenses and rating agency fees. In rare cases, bond sales have been cancelled after costs are incurred for advertising expenses and rating agency fees. In those cases, there is no timely mechanism for the Treasurer to obtain funding for these costs.

Staff Comment: The Treasurer is not requesting a budget augmentation, but rather language that would allow the Director of Finance to approve an augmentation of up to $800,000 only if necessary due to a cancelled bond sale. Any such approval by the Director of Finance would be followed by notification to the Joint Legislative Budget Committee.

Staff Recommendation: Approve the May Finance letter.

DEPARTMENT OF GENERAL SERVICES (1760)

Department Overview. The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security.

Budget Overview. The January Governor's Budget provides the DGS with 3,923.8 authorized positions and $1.1 billion ($5.5 million GF). This is a decrease of eight positions and $18.5 million. As a central service agency, the vast majority of DGS' budget is comprised of special fund and reimbursement revenue, received for services performed for other state departments and agencies.

Issue 1 – California Institute for Women Walker Clinic and Infirmary Buildings Structural Retrofit Project Reappropriation

Governor's Request. In an April Finance Letter, the Governor requests to reappropriate a total of $5.951 million (seismic bonds) of working drawing and construction funds for the structural retrofit of the Walker Clinic and Infirmary Buildings at the California Institute for Women, Corona (CIW).

2010-11 Budget. The 2010-11 Budget provided funding in the amount of $5.452 million for the construction phase of the CIW project; total estimated costs are $6.402 million, including $85,000 – study phase, $393,000 – preliminary plans, and $472,000 – working drawings.

Background. The CIW houses all custody levels of female inmates and functions as a reception/processing center for incoming female inmates. In addition to its large general population, CIW houses inmates with special needs such as pregnancy, psychiatric care, methadone, and medical problems. The Walker Clinic and Infirmary Buildings were assessed and found to be seismically deficient, placing inmates, staff, and visitors at risk in the event of an earthquake. This project consists of a "structural only" retrofit, whereby the majority of the work will be accomplished with minimum disruption to existing interior work space functions.

Working drawing funds were originally provided in 2007-08; construction funds were provided in 2010-11. The schedule for this project was delayed due to the Pooled Money Investment Board's December 2008 action freezing all disbursements from AB 55 loans (which in turn caused numerous project suspensions). The CIW project was subsequently reactivated and working drawings are substantially complete; however, some minor work remains outstanding. As a result, it will not be possible for DGS to proceed to bid for construction by June 30, 2011. Therefore, in order to complete the design and eliminate the risk of losing the availability of construction funds, DGS is requesting a one-year reappropriation of funds until June 30, 2012.

Staff Comment. This project has been in the design phase for over four years; DOF indicates that this project will proceed to the construction phase in 2011-12. Further, DOF has verified that there are no intersections between this project and the federal receiver or AB 900 prison construction program.

Staff Recommendation. Approve the April Finance letter.

Issue 2 – Office Building 10 Renovation Project Extension

Governor's Request. In an April Finance Letter, the Governor requests to extend by one year the encumbrance and liquidation period for $437,000 (lease-revenue bonds) in construction funds for the Building Office 10 Renovation project.

2010-11 Budget. The 2010-11 Budget extended by one year, until June 30, 2011, the liquidation period for $569,000 (lease-revenue bonds) for the construction phase of the Office Building 10 Renovation project. It was reported at that time that while the project was substantially complete, some minor work related to the floors in the building remained outstanding, necessitating the one-year extension.

Background. Office Building 10 is located at 721 Capitol Mall. Built in the 1950s, it is one of the oldest buildings located on this part of Capitol Mall. It is a six-story, 148,000 gross square foot building that was renovated from January 2006 through October 2007 and was accepted in December 2007. Prior to its renovation, Office Building 10 was occupied by the Department of Education for 31 years; the Department of Rehabilitation has occupied the building since October 2007. The 2010-11 extension allowed completion of post-construction work to correct first floor junction boxes and the surrounding flooring. The current extension request will accommodate completion of a number of accessibility and security items identified after occupancy, primarily related to the installation of security card readers for strategic points within the building. This work cannot be completed prior to expiration of the current liquidation period of June 30, 2011. Therefore, DGS requests a one-year extension of the liquidation period to complete the project.

Staff Comment. The Office Building 10 Renovation project is now three and half years from acceptance. In 2010-11, the liquidation period was extended by one year to allow for floor repairs. DGS is requesting an additional one year extension in 2011-12. Given that this project was accepted nearly three and a half years ago, a question can be raised about how the needed work could still be considered "post construction warranty work." The fund source is lease revenue bonds, and the use of those funds is for either the Office Building 10 project or debt service related to the project. DOF has indicated that it is more cost effective and efficient to use the existing construction contract for one more year to finish this work; letting a new contract would add time to the schedule to get the needed repairs done. Further, the tenant in the building is the Department of Rehabilitation, so the accessibility issues need to be resolved. Approximately $200,000 of the $437,000 available will be used for this work in 2011-12; the remaining funds will then go to debt service.

Staff Recommendation. Approve the April Finance letter.

Issue 3 – California Department of Transportation District 3 Office Replacement Project Extension

Governor's Request. In an April Finance Letter, the Governor requests to extend by one year the encumbrance and liquidation period for $851,000 (lease-revenue bonds) in construction funds for the California Department of Transportation District 3 Office, Marysville, Office Replacement project.

Background. Funds were originally provided in 2003-04, reappropriated in 2005-06 with an additional supplemental appropriation that year. These funds must be liquidated by June 30, 2011, or the authority will revert. Although construction is currently nearing completion, the project suffered a schedule delay due to the Pooled Money Investment Board's December 2008 action freezing all disbursements from AB 55 loans. As a result of this delay, DGS extended the construction completion date to April 15, 2011. However, DGS is still seeking Leadership in Energy & Environmental Design (LEED) certification and requires additional time to complete close-out activities related to contract acceptance. As a result, DGS requests a one-year extension of the liquidation period to complete the project.

Staff Recommendation. Approve the April Finance letter.

Issue 4 – Provisional Language, California Health Care Facility Construction Services

Governor's Request. In a May Revision Finance letter, the Governor requests to add provisional budget bill language that authorizes the DOF to augment DGS for additional workload costs related to construction inspection services for the California Health Care Facility (CHCF) project in Stockton.

Background. Funding for the CHCF project is pending approval by the State Public Works Board, thus the timing of the CHCF project is uncertain. Site construction is anticipated to begin in late 2011 or early 2012 and the facility will be staffed and occupied by December 2013. As a result of this uncertainty, the level of resources required to provide mandated inspection services is also unknown. This language will enable the DGS to request funding based on the timing of inspection services after project funding has been secured. It will also provide DOF time to review and approve resources requested and require notification to the Legislature.

Staff Comment. This provisional language is warranted. However, staff notes that the proposed language would allow DGS, with the prior written consent of DOF and based on any augmentation made in accordance with the provision, to potentially increase rates charged to other departments for services or the purchases of goods. Staff notes that no compelling case has been made as to why, under any circumstance, an augmentation under this provision would result in a DGS need to increase other departments' rates. Therefore, in considering this request, staff recommends that the following wording be removed from the proposed language:

1760-001-0602

1. (a) Notwithstanding Provisions 3 and 4 of Item 1760-001-0666, the Director of Finance may augment Item 1760-001-0602, when the State Public Works Board has approved the California Health Care Facility project in Stockton. Any augmentation that is deemed necessary on a permanent basis shall be submitted for review as part of the normal budget development process. Any augmentation made in accordance with this provision shall not result in an increase in any rate charged to other departments for services of the purchase of goods ~~without the prior written consent of the Director of Finance~~.
   (b) Any augmentation made pursuant to Section (a) of this provision shall be reported in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee within 30 days of the date the augmentation is approved. This notification shall be provided in a format consistent with normal budget change request, including identification of the amount of, and justification for, the augmentation, and the program that has been augmented.

Staff Recommendation. Approve the May Finance letter, as modified.

DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT (2240)

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

Budget Overview. The January Governor's Budget provides the HCD 598.6 authorized positions and $256.0 million ($8.8 million GF). This is a decrease of 6.5 positions and $490.0 million. The majority of the HCD's expenditures are supported by general obligation bond revenue; the HCD's budget has been steadily decreasing in recent years due to the pending exhaustion of housing bond funds.

Issue 1 – Community Development Block Grant Service Funding Adjustment

Governor's Request. As part of the January budget, the Governor requests a shift of $1.1 million in federal budget authority from State Operations to Local Assistance and a reduction of ten positions for the Community Development Block Grant (CDBG) program to reflect a correction in federally allowable administrative costs. To accommodate the reduced level of program administration funding, HCD plans to make programmatic changes which are discussed further below.

Prior Subcommittee Action. This request was denied without prejudice at the Subcommittee's January 27, 2011 hearing, to allow time for the impacts of these proposed changes to be fully analyzed and determine if there were other approaches that could be developed that would have less programmatic impact on recipient communities.

Background. HCD's CDBG program was established over twenty-eight years ago to address the fact that California's non-entitlement jurisdictions, which are smaller communities (many of which are rural and economically distressed), lack the resources and/or economies of scale to receive, award, and monitor these federal grants in an efficient and effective manner that allocates the funds to the most pressing needs, meets all federal requirements, and protects against fraud. HCD's CDBG program currently serves 168 non-entitlement jurisdictions.

Although HCD has authority for 28 positions, the federal funding available is only sufficient to support 18 of those positions. The source of the current problem is a combination of short- and long-term factors and some recent issues regarding the funding for the HCD administration of the CDBG program, including: (1) the complexity and scope of the program makes it labor intensive to administer; (2) the federal allowance for state administration costs for the program is minimal; and, (3) the $1.1 million increase in the program budget in 2007-08, which included a shift of $697,000 CDBG program administration funding from GF to federal funds, cannot be sustained due to federal restrictions.

In response to concerns raised at the Subcommittee's January 27, 2011, hearing HCD worked with its CDBG Advisory Committee, comprised of a combination of CDBG jurisdictions, consultants, and non-profit organizations, to develop and finalize a set of new policies to ensure the broadest possible eligibility for local governments and the continued effective operation of this valuable federal resource, as follows:

1. Super NOFA – One combined Notification of Funding Availability (NOFA) to be released annually each January.
2. 50 Percent Rule – Jurisdictions with open contracts must expend 50 percent of their funds before being eligible for additional funding to encourage jurisdictions to spend the funds and increase the State's expenditure rate with federal Housing and Urban Development. This policy would also increase the number of jurisdictions that HCD funds as new jurisdictions will be coming in every other year for funding.
3. Funding Based on Demand – The amount of funds eligible for an activity would be determined by demand or regulatory minimum requirements.
4. Increased Maximums – Increase the maximum funding requests to $2 million (from $1 million) and increase the maximums on the activities. The biggest increase would be for the Public Improvement projects from $800,000 to $1.5 million. In HCD roundtables and committee meetings, it has been a common theme that jurisdictions want the ability to fund public improvement projects and that the current maximum was too low.
5. Limit of Three Activities per Application – A jurisdiction may be awarded one, two, three, or none depending on demand for each activity.

Staff Comment. The budgetary adjustment must be adopted due to federal requirements; the question of how it will be implemented and its impact on recipient communities raised concerns for the Subcommittee when this request was heard earlier this year. The revised implementation policies before the Subcommittee respond to those concerns and should ensure the broadest possible eligibility for the recipient communities.

Staff Recommendation: Approve the budget request.

Issue 2 – Propositions 46 and 1C Liquidation Extension Building Equity and Growth in Neighborhoods

Governor's Request. In a May Revision Finance letter, the Governor requests an extension of the liquidation dates for the three Building Equity and Growth in Neighborhoods (BEGIN) program Budget Act appropriations. The affected budget act appropriations and liquidation dates are for the 2005-06, 2006-07, and 2007-08 fiscal years. For the 2005-06 and 2006-07 appropriations, it is requested that the liquidation period be extended from June 30, 2011, to June 30, 2013. For the 2007-08 appropriations, it is requested that the liquidation period be extended from June 30, 2012 to June 30, 2013.

Background. The BEGIN programs make grants to qualifying cities, counties, or cities and counties to be used for down payment assistance to qualifying first-time home buyers of low and moderate incomes purchasing newly constructed homes in a BEGIN project. In order to qualify, an applicant city, county, or city and county must provide regulatory relief and fee reductions to developers. The Administration is seeking these liquidation extensions because while the applicant jurisdictions have provided the regulatory relief as required by the BEGIN awards, additional time is needed for liquidation to provide the time necessary to fulfill the final steps of the program obligations, complete projects, and find qualified homebuyers.

Staff Comment. While these appropriations were originally made in different years, the requested liquidation extensions are two years and one year, respectively. The Administration indicates this is to reduce administrative program costs by placing these appropriations on the same “cycle.”

Staff Recommendation. Approve the May Finance letter.

Issue 3 – Liquidation Extension Vega et al. v. Richard Mallory Settlement

Governor’s Request. In a May Revision Finance letter, the Governor requests an extension of the liquidation date until June 30, 2014, for the $601,000 GF appropriation provided by Chapter 163, Statutes of 2006, for the costs of settlement in the case of *Vega et al. v. Richard Mallory*, California Department of Housing and Community Development (Sacramento County Superior Court, Case No. 97AS06548).

Background. The HCD Office of Migrant Services (OMS) provides safe, decent, and affordable seasonal rental housing and support services for migrant farmworker families during the peak harvest season through grants to local government agencies that contract with HCD to operate OMS centers located throughout the state. HCD obtains and administers funds for the construction and rebuilding of OMS centers

Chapter 163 provided the final funding for HCD to complete the repayment process prescribed by the *Vega v. Mallory* Settlement, which addressed overcharges by the OMS to center residents. The settlement provides that any remaining funds, after payment of all center resident claims, be used for OMS center repairs. However, the term of liquidation under Chapter 163 will expire before HCD can complete the process to utilize the remaining funds for OMS center repairs.

HCD reports that the court-appointed third-party settlement administrator did not notify HCD of the last payment being made in time for HCD to begin the process, as stated in the settlement, to utilize the remaining funds for OMS center repairs. Nonetheless, failure to use those funds for that purpose would be a violation of the settlement agreement by the HCD. This request would provide an extension to June 30, 2014, which is enough time for the OMS program to complete the process required through the settlement agreement as well as the usual repair process used by the state, thereby satisfying the requirements of the *Vega v. Mallory* settlement.

Staff Recommendation. Approve the May Finance letter.

Issue 4 – Federal Neighborhood Stabilization Program: Round 3

Governor’s Request. In a May Revision Finance letter, the Governor requests approval for an increase in the Federal Fund Loan Assistance budget act authority of $11.3 million (federal funds) for the Neighborhood Stabilization Program, Round 3 (NSP3), as authorized by the Wall Street Reform and Consumer Protection Act of 2010. No additional authority is requested for state operations because HCD is reassigning staff to address this workload for the next five years.

Background. The federal NSP program is intended to assist states and local governments in the redevelopment of abandoned and foreclosed residential properties. The federal Department of Housing and Urban Development developed a formula for distributing funds based on the highest need resulting from home foreclosures. California received $145 million in Round 1 funding; HCD subsequently allocated those funds for statewide distribution. In Round 2, California localities received $314 million; HCD did not receive any funds in Round 2. Round 3 funding was restricted to areas of greatest need. HCD applied for and was granted $11.3 million in Round 3 federal funds to continue to manage and distribute funds to assist in solving California's problems of blighted neighborhoods.

HCD is reserving $590,000 of the total grant award for program administrative costs over the next five years. No additional budget authority is needed to because HCD expects to reassign existing staff to address the NSP3 workload; the position assigned to NSP1, where workload is declining, will move to the NSP3 as workload there begins to increase in 2011-12.

Staff Recommendation: Approve the May Finance letter.

DEPARTMENT OF MANAGED HEALTH CARE (2400)

For overview and budget information regarding this department, please see page 30 of this agenda.

Issue 1 – Federal Grant Funds

Governor's Request. In a May Revision Finance letter, the governor requests a reappropriation of $3.9 million in federal grant funds for activities to raise consumer awareness about federal health care reform and the Patient Protection and Affordable Care Act.

Background. In January 2011, the Joint Legislative Budget Committee (JLBC) approved $4.2 million federal funds expenditure for the Department of Managed Health Care (DMHC) to perform education and outreach activities to raise consumer awareness about federal health care reform. Due to delays in executing contracts for the provision of outreach and education services, DMHC will be unable to expend the entirety of the grant funds in the current fiscal year. This request is to allow DMHC to expend the remainder of the funds during the 2011-12 fiscal year.

DMHC intends to expend the grant funds for website design and content, translation services to provide consumer friendly access, enhancement of the communications system with upgraded hardware, and creating an online grievance/Independent Medical Review application that permits the efficient handling of increased consumer calls and complaint cases.

Staff Recommendation: Approve the May Finance letter.

COMMISSION ON STATE MANDATES (8885)

Department Overview: The Commission on State Mandates (Commission) is responsible for determining whether a new statute, executive order, or regulation contains a reimbursable state mandate on local governments and determining the appropriate reimbursement to local governments from a mandate claim. This budget item appropriates the funding for the staff and operations costs of the Commission, and appropriates non-education mandate payments to local governments. The Constitution, as amended by Proposition 1A of 2004, requires that the Legislature either fund or suspend local mandates – in most cases, if the Legislature fails to fund a mandate, the legal requirements are considered suspended pursuant to the Constitution. Payments for mandate costs incurred prior to 2004 are one exception noted in the Constitution, as are mandates related to labor relations.

Governor's January Budget Overview: The January Governor's Budget proposed expenditures of $56.7 million ($53.7 million GF) and 11.0 positions, a decrease of about $27.9 million over the adjusted current-year budget and no change in positions. It should be noted, the 2010-11 adjusted funding level is after the prior Governor's veto of $131 million. The Governor's budget includes the continuation of certain mandate suspensions, some new mandate suspensions, and deferrals of mandate payments to generate GF savings of about $321.7 million. The savings measures include: (1) savings of $94.0 million by deferring payment of pre-2004 mandate claims; (2) savings of $172.6 million by suspending certain local mandates; and (3) savings of $55.1 million from deferring payment on expired mandates or some mandates exempt from the requirements of Proposition 1A of 2004. Under (2) above, most mandates are proposed for suspension except those related to law enforcement and tax collection. Generally, the Governor proposed to fund only mandates related to law enforcement and local property tax collection.

March Budget Package: In March, the Legislature adopted a budget for the Commission similar to that proposed by the Governor ($53.7 million GF). However, in adopting the revised realignment package, the Legislature included a costs offset in another budget item for local law enforcement mandates, because those costs would be covered from new realignment revenues. The realignment action resulted in technical changes to the Commission on State Mandates item where those law enforcement mandates were deleted from the list of funded mandates.

May Revision: The Governor's May Revision includes several adjustments to the Commission on State Mandates Budget that result in a net GF cost reduction of $3.9 million.

Issue 1 – Conforming Changes for State Local Realignment

Governor's Request: In the May Revision, the Governor has modified his local realignment proposal to remove the $50.9 million associated with law enforcement mandates. To technically conform to this proposal, the mandates budget item needs to be modified to again list all the law enforcement mandates. Due to how this was budgeted in March with offsetting savings in another budget item, the $50.9 million is currently built into the mandates budget item and no changes are required to the level of appropriation.

Staff Comment: The public safety realignment proposal is primarily in the venue of Budget Subcommittee #5. Any changes by subject matter to the realignment package should be properly reflected in the budget for the State Mandate Commission.

Staff Recommendation: Conform the mandates budget to the final realignment package.

Issue 2 – Savings Based on State Controller's April 30 Report

Governor's Request: In the May Revision, the Governor requests a funding reduction of $3.9 million GF to reflect a revised cost estimate for law enforcement and property tax mandate reimbursements.

Staff Comment: The January budget is built on estimates of mandate claims, and the April State Controller report is updated for actual claims.

Staff Recommendation: Approve the May Revision request.

DEBT SERVICE GENERAL OBLIGATION BONDS & COMMERCIAL PAPER (9600)

Department Overview: Debt service payments are continuously appropriated, and therefore not appropriated in the annual budget bill. This item in the Governor's Budget displays the estimated debt service costs for each General Obligation bond (GO bond). Some bond costs are offset by special funds or federal funds – primarily by the transportation debt service fund. Other bonds are "self-liquidating," or have their own dedicated revenue (i.e., the Economic Recovery Bonds [ERBs] receive a quarter-cent of the sales tax) – the self-liquidating bonds are not included in this item.

January Governor's Budget Overview: The January Governor's Budget includes $4.9 billion in General Fund costs for GO debt service and related costs. In addition to this amount, $792 million in debt costs are funded from other funds (i.e., $778 million is from the Transportation Debt Services Fund that is associated with the truck-weight-fee proposal). Finally, federal bond subsidies, through the Build America Bonds (BABs) program, provide $351 million in 2011-12. The table below, with data from the January Governor's Budget, shows the three-year GO bond costs (in millions):

	2009-10 Actual Cost	**2010-11 Estimated Cost**	**2011-12 Estimated Cost**
General Fund cost	$4,639	$4,890	$4,927
Other funds cost	$239	$644	$792
Federal subsidy (Build America Bond Program)	$155	$300	$351
TOTAL Item 9600	**$5,033**	**$5,834**	**$6,070**
Economic Recovery Bonds (not included above)	$1,566	$1,351	$1,407

(see issue on next page)

Issue 1 – May Revision: New Estimates of Bond Debt Service

Governor's Proposal: As indicated above, funds for bond debt service are continuously appropriated and are considered one of the highest priorities for state expenditures. The Administration has new estimates for the cost of debt service in 2010-11 and 2011-12 that result in General Fund cost savings that total $267 million. One reason for the 2011-12 savings is that the Administration proposes to reduce its Fall 2011 bond sales from $5.8 billion to $1.5 billion. The Administration indicates that as of April 2011, total cash of $10.8 billion remains from prior bond issuances. So the new bond issuance of $1.5 billion would be sufficient to continue the bond program until a Spring 2012 issuance. The table below, with data from the Governor's Budget and May Revision, shows the three-year GO bond costs (in millions):

	2009-10 Actual Cost	**2010-11 Estimated Cost**	**2011-12 Estimated Cost**
January Budget General Fund cost	$4,639	$4,890	$4,927
May Revision Budget Adjustment	$0	-$140	-$126
Final Estimate of Cost	**$4,639**	**$4,749**	**$4,800**

Staff Recommendation: Approve the Administration's new cost estimate for GO bond debt service.

CASH MANAGEMENT AND BUDGETARY LOANS (9620)

Department Overview: This budget item appropriates funds to pay interest costs on General Fund borrowing used to overcome cash flow imbalances during the fiscal year. Because receipts and disbursements occur unevenly throughout the fiscal year, the General Fund borrows in most years, even though each budget is balanced when enacted and funds are repaid within the fiscal year. Interest is paid on both internal borrowing (such as cashflow loans from special funds) and for external borrowing (such as Revenue Anticipation Notes [RANs]). This item additionally pays interest costs for budgetary borrowing by the General Fund from special funds. Budgetary borrowing is across fiscal years and is scored as a budget solution, whereas cashflow borrowing is not counted as a budget solution (only a cash solution).

January Governor's Budget Overview: The January Governor's Budget included $300 million for interest costs on cashflow borrowing and $62 million for interest costs on budgetary borrowing – all General Fund. Of the cashflow amount, $100 million is for internal borrowing and $200 million is for external borrowing. Overall, expenditures in this item are up significantly – a total of $362 million is proposed for 2011-12, versus revised expenditures of $230 million in 2010-11. The year-over-year difference is primarily explained by the late budget last year that delayed the RAN sale until late in 2010. The Administration assumes the 2011-12 RAN sale will occur in July, resulting in a longer borrowing period and higher interest costs.

March Budget Action: The Legislature approved most of the Governor's cost assumption in the March budget package. An exception was that interest costs for special fund budgetary loans were reduced from $62.0 million to $57.7 million due to related budget action on special fund loans.

Issue 1 – Intra-year Payment Deferrals / Cashflow Loans

Governor's Proposal: The Administration has new estimates for the interest cost on special fund cashflow loans. The cost estimate is revised down from $100 million to $75 million in both 2010-11 and 2011-12. Estimated total GF savings over the two years totals $50 million.

Staff Recommendation: Approve the Administration's new cost estimates for special fund cashflow loans.

CAPITAL OUTLAY PLANNING AND STUDIES FUNDING (9860)

Issue 1 – Unallocated Capital Outlay Budget Reduction

Governor's Request. In a May Revision Finance letter, the Governor requests a decrease of $500,000 GF to reflect the reduction of the Unallocated Capital Outlay budget.

Background. The Unallocated Capital Outlay Budget provides funding to state agencies to develop design and cost information for new projects, known as "budget packages." The January Governor's Budget included $500,000 for these purposes in 2011-12. In prior years, the total funding provided was $1 million. This request would effectively zero out these funds in 2011-12.

Due to the current fiscal condition of the state, fewer infrastructure projects are being authorized and, as such, the state is preparing fewer budget packages. As a result, the Administration has determined that the $500,000 budgeted for 2011-12 is not needed because there are sufficient funds remaining for carryover from the 2010-11 appropriation. To the extent that it is determined that funds for budget packages are needed in 2012-13, it is anticipated that a request will be submitted through the normal budget process.

Staff Recommendation: Approve the May Finance letter.

LEASE REVENUE PAYMENT ADJUSTMENTS (CS 4.30)

Issue 1 – Various Lease-Revenue Bond Debt Service Adjustments

Governor's Request. In a May Revision Finance letter, the Governor requests various technical adjustments to amounts budgeted for lease-revenue debt service payments in 2011-12. The total of these changes is a decrease of $471,000 GF and a decrease of $4.047 million (other funds).

Background. Control Section 4.30 authorizes the Director of Finance to adjust amounts in appropriation items for rental payments on lease-purchase and lease-revenue bonds. In the case of the budgeted amounts for lease-revenue bond debt service in 2011-12, the decreases to the budgeted debt service amounts are a result of an update in the estimates of when bonds will be able to be sold.

Staff Recommendation: Approve the May Finance letter.

0840 STATE CONTROLLER

Department Overview. The State Controller is the Chief Fiscal Officer of the state. The primary functions of the State Controller's Office (SCO) are to provide sound fiscal control over both receipts and disbursements of public funds; to report periodically on the financial operations and condition of both state and local government; to make certain that money due the state is collected through fair, equitable, and effective tax administration; to provide fiscal guidance to local governments; to serve as a member of numerous policy-making state boards and commissions; and, to administer the Unclaimed Property and Property Tax Postponement Programs.

Budget Overview. The January Governor's Budget provides the SCO with 1,491 authorized positions and $218.9 million ($76.5 million GF). This is an increase of two positions and $65,000.

Issues Proposed for Discussion / Vote

Issue 1 – Local Government Oversight Initiative (April Finance Letter and May Revision Finance Letter)

Governor's Request. In an April Finance Letter, the Governor requests increased expenditure authority of $2.098 million (reimbursements) to support 16.4 existing positions to provide increased oversight of local government entities under the SCO's existing statutory authority.

In a separate May Revision Finance letter, the Governor requests increased expenditure authority of $1.44 million (GF) and ongoing to support 11.8 positions for increased oversight of local government entities under the SCO's existing and proposed statutory authorities.

Prior Subcommittee Action. The April Finance letter was held open at the Subcommittee's May 5, 2011, hearing, pending receipt of a systematic plan from the SCO detailing how the SCO would execute the additional activities, as well as an audit plan and a benefit/cost assessment of the additional financial monitoring.

Background. Generally speaking, direct state oversight of local governments is currently limited to state and federal pass-through funding. Counties receive a large share of state/federal pass-through funding to administer a number of statewide programs under state supervision, such as health and welfare. As a result, they receive direct state oversight, including SCO audits. For cities and special districts, state oversight is more limited to the few grants or allocations of state/federal pass through funding, such as Gas Tax allocations, distributed by the state. In addition, current statute provides for a more indirect oversight of local government funding using the following three elements:

1. <u>Annual Audits</u>. Each local government entity is required to have an annual audit performed by an independent auditor. If the local government has over $500,000 in federal expenditures, it must also have a single audit. Local governments are required to submit these single audits to the SCO.
2. <u>Financial Transaction Reports</u>. Statute requires the SCO to collect a report of annual financial transactions from each county, city, and special district and to publish them in

reports available to the Governor, legislature, and general public. Statute further provides that, if the reports are not made in the time, form, and manner required, or if there is reason to believe a report is false, incomplete, or incorrect, the SCO shall appoint a qualified accountant to make an investigation and to obtain the information required. Statute specifies that the SCO's enforcement costs are to be reimbursed by the local government entity in question. Statute also specifies that the Controller can impose financial penalties for late filing (or failure to file) of a financial transaction report by a local government entity. The penalties range from $1,000 to $5,000, dependent the total revenue of the government entity. On average, approximately $251,000 in such penalties is invoiced each year with approximately $100,000 received, which is then deposited into the GF.

3. Accounting and Audit Guidelines. Uniform accounting guidelines are intended to provide local governments with the information necessary to implement and operate a common accounting and reporting system. Currently such guidelines are only required for counties and special districts.

With regard to the financial transaction reports, these reports represent the only source of available statewide financial data on local government entities. According to 2010 estimates, the SCO staff spent more than 1,100 hours annually on monitoring the submissions and collecting forfeitures (required payments to the state for failure to file the financial report with the SCO). The SCO indicates that the reports are subject to automated edits that do not necessarily identify all the issues that warrant attention. For instance, the SCO does not presently have the resources to compare these reports between years or between similar entities. In addition, the current analyses of all of the complaints that are being submitted to the SCO (since the City of Bell stories were reported last year) are being done through staff redirections. To the extent that an analysis results in a need for further investigation, additional redirections would be needed.

Staff Comment. The current approach is not working at an optimal level to protect taxpayers from waste, fraud, and abusive financial practices. In response, the SCO has developed a Local Government Oversight Initiative, which is intended to increase oversight of local government financial matters. There is merit in increasing oversight, as most state money is spent at the local level.

As noted above, the SCO's initiative is presented in two requests. The April Finance letter consists of using the SCO's existing statutory authority to expand oversight and utilizing reimbursements from local governments to fund the SCO's costs. More specifically, this request would rely on increased expenditure authority of $2.1 million (reimbursements) to support 16.4 positions on an ongoing basis. This request focuses on the financial transaction reports detailed above and would provide resources to the SCO to investigate and prepare annual financial transaction reports for all non-filers, as well as conduct investigations of individual financial issues that indicate some information in an annual transaction report is "false, incorrect, or incomplete." However, as noted in the SCO's submitted audit plan, "the only way to determine the precise level of workload is to actually perform it." This raises questions about the long-term level of workload, as well as whether the SCO will be able to secure sufficient reimbursements. Failure to secure sufficient reimbursements would put the GF at risk for being the fund source to support these activities. Therefore, in considering this request, the Subcommittee may wish to: (1) reduce the resources by half; (2) make the approval three-year limited-term; and (3) adopt placeholder supplemental report language to require an annual report documenting the level of effort and findings and outcomes, to ensure that the

Subcommittee has a future opportunity to revisit this initiative and ensure desired outcomes are being achieved.

With regard to the May Revision Finance letter, this request proposes a mix of current and proposed statutory authority (the SCO is sponsoring two pending bills) to increase oversight by: (1) increasing the types of audits of local government that are submitted to the SCO; (2) increasing the number of quality control reviews of audits of local government; (3) posting all local government audits to, and establishing a "dashboard" of information on each city, county, and special district on, the SCO's website; (3) increasing the current penalties for failure to file annual transaction reports; and (4) expanding the collection and reporting of local government compensation data to include all local government entities. This request would rely on new GF spending of $1.44 million to support 11.8 positions on an ongoing basis. As noted above, it is not clear that the workload here is ongoing and sustainable. Further, the SCO is sponsoring two bills, AB 229 (Lara) and AB 276 (Alejo), to make the statutory changes necessary for the SCO to carry out the new duties under this request as well as increase the penalties. As such, and in considering this request, the Subcommittee may wish to defer to the policy process and then consider any requests to further expand the SCO's local government oversight activities once the bill process has concluded and as part of the 2012-13 budget process in January of next year.

Staff Recommendation:

- **April Finance letter**: Approve the April Finance letter as modified: (1) three-year limited-term basis $1.049 million (reimbursements) to support 8.2 existing positions and (2) placeholder supplemental report language requiring the SCO to report annually on its level of effort and findings and outcomes related to increased oversight of local government finances.

- **May Finance letter**: Reject the May Finance Letter and defer to legislative policy process.

Vote:

Issue 2 – Unclaimed Property Holder Compliance Initiative

Governor's Request. In a May Revision Finance letter, the Governor requests increased expenditure authority of $2.414 million (Unclaimed Property Fund - UPF) and 22.6 positions for 2011-12 ($2.442 million and 23.6 positions in 2012-13; $2.438 million and 23.6 positions in 2013-14 and ongoing) to develop and implement a holder outreach and compliance program to identify and contact non-reporters or inconsistent reporters of unclaimed property and bring them into compliance with the Unclaimed Property Law.

Related 2011-12 Budget Action. As part of the March 2011 Budget package, the Legislature approved the following related to the Unclaimed Property Program: (1) $293,000 (UPF), one permanent and 3.1 two-year limited term positions, for support of increased accounting workload; and (2) a two-year augmentation of $300,000 (UPF) for unclaimed property legal costs.

Background. Under the Unclaimed Property Law (UPL), the SCO is responsible for safeguarding unclaimed property until it is returned to its rightful owner. The UPL was enacted to ensure that property is returned to its rightful owner(s) and to prevent holders of unclaimed property from transferring it into their business income. Holders of unclaimed property must report and remit unclaimed property to the SCO after a specified period of time. In 2009, the SCO Division of Audits issued its first ever comprehensive analysis of holder compliance with the UPL by using Franchise Tax Board audits. The analysis identified 1.3 million active California-based businesses, of which at least 1,238,000 did not file an unclaimed property report with the SCO. The SCO believes that 34.5 percent of those filers are not required to file; of the remaining 851,000 businesses the SCO currently only receives 17,000 reports on an annual basis for a compliance rate of two percent. The SCO presents that a larger holder outreach unit would allow the SCO to contact non-compliant entities to bring them into compliance with the UPL. Of the 22.6 positions requested, 5.3 would be for outreach activities.

The SCO is also requesting to expand the audit activities under the Program, including desk reviews of businesses that have been audited to ensure they are still reporting on a yearly basis, and desk reviews of other businesses that have reported in the past to ensure they are reporting consistently. Of the 22.6 positions requested, 17.3 would be for audit activities.

The SCO estimates that this initiative will reunite owners with an estimated $113 million of their property over the next five years. Over the same five-year period, the increased efforts will result in remittance of approximately $136 million to be held in perpetuity for owners to claim. The SCO indicates that its initiative is self-funded and is estimated to result in net receipts to the GF in 2011-12 of $16.8 million, including $9.7 million from holder penalty and interest.

Staff Comment. In prior years, the SCO performed approximately 50 audits per year of unclaimed property holders within California. That audit work was reduced due to a budget reduction to the Unclaimed Property Program. To absorb those reductions, the SCO focused on work to return property to its rightful owner(s), as that is the goal of the program. Without an audit presence, the risks to holders for non-compliance diminish.

Staff Recommendation: Approve the May Finance letter.

Vote:

0845 DEPARTMENT OF INSURANCE

Department Overview. The California Department of Insurance (CDI) regulates the California insurance market and enforces the California Insurance Code, conducting examinations and investigations of insurance companies and producers and working to ensure the financial solvency of companies so that they will meet their obligations to policyholders and claimants. CDI investigates more than 300,000 complaints annually and responds to consumer inquiries. CDI also reviews and approves insurance rates to enforce the statutory requirement that rates are not excessive or unfair. CDI also administers the conservation and liquidation of insolvent and delinquent insurance companies and fights insurance fraud in conjunction with local and state law enforcement agencies.

Budget Overview. The January Governor's Budget provides CDI with 1,338 authorized positions and $224.94 million (Insurance Fund and reimbursements). This is an increase of 71 positions and $16.4 million.

Issue Proposed for Discussion / Vote

Issue 1 – Federal Health Care Reform: Additional 2011-12 Positions

Governor's Request. In a May Revision Finance letter, the Governor requests an increase of $748,000 (Insurance Fund) ongoing for eight existing positions to address the increased workload associated with defining and implementing federal health care reform (Patient Protection and Affordable Care Act – PPACA).

Prior 2011-12 Budget Actions. The Legislature approved earlier this year, as part of the March budget package, a total of 71 positions and $9.8 million (Insurance Fund) for the CDI, as follows:

2011-12 Funds	Positions	Function	Chapter Citation
$1,200,000	10 (9 2-year limited term and 1 1-year limited term)	PPACA and additional workload associated with the review of health insurance rate filings.	Chapter 661, Stats of 2010 (SB 1163)
$642,000	6 staff counsel, all 2-year limited-term	PPACA, additional rate filings, and new cancellation and non-renewal appeal process.	Chapter 658, Stats of 2010 (AB 2470)
$107,000	1 staff counsel, 2-year limited-term	PPACA and additional policy form review activities required as a result of the implementation of the California Health Benefits Exchange.	Chapters 659 and 655, Stats of 2010 (SB 900 and AB 1602, respectively)
$8,000,000	54 positions, permanent	Increased workload and to meet statutory mandates.	No change in statute cited.

Background. On March 23, 2010, President Obama signed the PPACA into law, a comprehensive health reform proposal intended to expand coverage, control health care costs, and improve the health care delivery system. The PPACA makes several fundamental changes to the private health insurance market, including setting up a new competitive private health insurance market through state Exchanges beginning in 2014, and prohibitions on lifetime benefit coverage limits and rescissions of coverage. In 2010, several state statutory changes were enacted to align California law with the new federal mandates under the PPACA. These statutory changes drove the 2011-12 budget requests summarized in the above chart.

The CDI requests these additional resources to implement PPACA for the following purposes: (1) providing expertise and consultation regarding legal and implementation issues to various CDI units; (2) legal consultation regarding proposed legislation; and (3) implementation of new legislation, policy monitoring, analysis, and recommendation regarding current and future impacts of health reform on CDI. Additionally, there will be workload associated with the coordination of future implementation activities with the Legislature, the Governor, the U.S. Department of Health and Human Services, and the National Association of Insurance Commissioners (NAIC), as well as mandated reporting requirements. The positions requested are as follows:

Positions	Classification	Funding
1.0	Associate Health Program Advisor	78,000
2.0	Health Program Specialist I	173,000
1.0	Health Program Specialist II	96,000
4.0	Staff Counsel	401,000
	TOTAL	**748,000**

LAO Recommendation. We recommend the Legislature reject the May Revision request for $748,000 in special funds to pay for eight currently authorized positions. Our analysis finds that the department has funding for 17 staff that is in excess of the level of resources justified on a workload basis. The department can redirect funds to pay for the eight positions.

Staff Comment. Unlike the regulatory adoption process here in California, PPACA devolved certain responsibilities for the regulatory process to the NAIC. Therefore, staff concurs that it is critical for the California Insurance Commissioner and key staff representatives to participate in NAIC activities related to the development of model laws and regulations for PPACA.

However, while the function of the eight positions being requested here is different from the Subcommittee's prior 2011-12 actions, these positions are proposed as permanent whereas the 17 PPACA-positions already approved are all limited-term. In discussions with staff, the CDI could not provide a clear explanation as to why these eight positions are proposed as permanent. In addition, post Subcommittee approval of the 54 position request earlier this year, the LAO was able to finalize its workload analysis of that request. The analysis found that of the 54 positions approved, 17 positions were unjustified.

Therefore, in considering this request, the Subcommittee may wish to consider not approving the request for increased expenditure authority and instead direct the CDI to absorb the workload within the January budget request. With 17 of those 54 positions determined to not be justified by the workload, there is ample capacity to absorb the workload in this May Revision request.

In either case, the Subcommittee may also wish to make any action here approved on a two-year limited-term basis, to ensure that all positions at CDI related to PPACA “cycle off” in two years' time to allow a full review of the workload and ensure the appropriate budget resources are provided. This is especially important because the full extent of the workload related to PPACA and changes in statute is not fully known.

Staff Recommendation: Deny the request for increased expenditure authority, and instead direct the Department of Insurance to absorb the workload in this request within the previously approved 54 positions.

Vote:

0911 CITIZENS REDISTRICTING COMMISSION

Issue Proposed for Discussion / Vote

Issue 1 – Citizens Redistricting Commission Continuing Activities

Governor's Request. In a May Revision Finance letter, the Governor requests that $400,000 GF be added to the 2011-12 budget to provide additional resources necessary for the Citizens Redistricting Commission (Commission) to complete the required redistricting maps by the constitutional deadline of August 15, 2011, and to perform related support activities. In addition, the Governor requests that provisional budget bill language be added to allow the Commission access of up to $1.5 million GF for litigation support activities in 2011-12.

Background. Proposition 11, the Voters FIRST Act, was approved by the voters on the November 4, 2008, General Election Ballot. Proposition 11 changed the state's redistricting process by establishing a 14-member Citizens Redistricting Commission (Commission) to draw the new district boundaries for the State Assembly, State Senate, and Board of Equalization beginning with the 2010 Census and every ten years thereafter. Proposition 11 specifies that a minimum of $3 million in funding be provided, or the amount appropriated for the previous redistricting plus the Consumer Price Index, whichever is greater.

Per the requirements of Proposition 11, the 2009-10 Budget appropriated $3 million GF for Proposition 11 implementation costs over a three-year period for the Commission, State Auditor, and Secretary of State. Additionally, the 2010-11 budget included provisional budget bill language to provide an expedited request process should the Commission demonstrate it required funding greater than the $2.5 million (amount that remained from the 2009-10 $3 million GF appropriation) for its costs from January 1, 2011, to June 30, 2011.

Proposition 20 was approved by the voters on the November 2, 2010 General Election Ballot, requiring changes and expansions to the 2008 amendments to the California Constitution. The 2010 amendments added California's 53 Congressional Districts to the Commission's redistricting responsibilities and expanded the criteria for the district mapping process. The amendments also shortened the completion date for all four maps and supporting reports to no later than August 15, 2011, thereby reducing the time allowed for the Commission's mandatory submission of the four maps to the Secretary of State by one month. These amendments were made with no additional appropriation of funds to support the expanded responsibilities and requirements.

In May 2011, the Joint Legislative Budget Committee approved the $1 million GF available through the 2010-11 budget provisional language. The Commission reports that it will have expended the entirety of the available funds by the end of 2010-11.

Staff Comment. The Commission has made a compelling case for the need for additional funds in the amount of $400,000 GF to complete its mandated work by the August 15, 2011, deadline. The proposed provisional budget bill language is similar to the approach taken in 2010-11, whereby there were some unknowns about the Commission's workload but a need for the Commission to have an expedited process and access to additional funds upon demonstrated need. At this point, it is not certain that litigation will be filed challenging the certified maps, but it would be wise to plan for that contingency. However, it is also important to not over appropriate this budget item; under the terms of Proposition 11, the total funding provided to this item creates a permanent baseline GF funding amount adjusted for inflation in future years. The Administration's May Revision proposal strikes the right balance to ensure this effort is appropriately and adequately funded.

Staff Recommendation: Approve the May Finance letter.

Vote:

2400 DEPARTMENT OF MANAGED HEALTH CARE

Department Overview. The Department of Managed Health Care (DMHC) was established in 2000, when the licensure and regulation of the managed health care industry was removed from the Department of Corporations and placed in a new, stand-alone, department. The mission of DMHC is to regulate, and provide quality-of-care and fiscal oversight for Health Maintenance Organizations (HMOs) and two Preferred Provider Organizations (PPOs). These 94 Health Care Plans provide health insurance coverage to approximately 64 percent of all Californians. Recent statutory changes also make DMHC responsible for the oversight of 240 Risk Bearing Organizations (RBOs), who actually deliver or manage a large proportion of the health care services provided to consumers. Within the Department, the Office of the Patient Advocate helps educate consumers about their HMO rights and responsibilities.

Budget Overview. The January Governor's Budget provides DFI with 250.2 authorized positions and $35 million (no GF). This is an increase of 2.7 positions and $55,000 over 2010-11.

Issue Proposed for Discussion / Vote

Issue 1 – Consumer Participation Program Sunset

Governor's Request. The Governor has no request.

Background. The Consumer Participation Program is housed within DMHC. Under this program, the DMHC Director may award advocacy and witness fees to a person or organization which represents the interests of consumers and has made a substantial contribution on their behalf to the adoption of a regulation, Director's order or decision affecting a significant number of consumers. The Director may identify regulatory proceedings in which he or she believes consumer participation would be helpful and anticipates that fees may be awarded. A person or organization desiring to participate in a proceeding and seek an award of fees will submit a *Petition to Participate in a Proceeding*. Current statute sets the total amount of compensation annually at $350,000. Similar programs currently exist at the Public Utilities Commission and at the Department of Insurance.

Staff Comment. It is important to note that the organizations receiving compensation are not being paid to advocate for consumers, they are being paid to inform the rulemaking process and to represent the experience of consumers with regard to what they have learned as they advocate.

Staff Recommendation: Approve trailer bill language to extend the Consumer Participation Program sunset until January 1, 2018.

Vote:

8885 STATE MANDATES

For additional background on the Commissions on State Mandates, including their total budget, please see the write-up in the vote-only section of the agenda.

Issues Proposed for Discussion / Vote

Issue 1 – Local Agency Formation Committees (LAFCO) Mandate

Governor's Request: In the May Revision, the Administration proposes: (1) to increase budget funding by $277,000 GF to reflect recent action by the Commission on State Mandates to adopt cost estimates for the LAFCO mandate; and (2) to suspend the LAFCO mandate and delete funding of $277,000 (payment would still be due in a future year) . The "LAFCO mandate" is a small part of LAFCO law – specifically, the requirement that special districts file written statement to LAFCOs specifying the functions of classes of service proved by those districts.

Constitutional Requirements: Proposition 1A of 2004 amended Section 6 of Article XIII B of the State Constitution to require that reimbursement claims from local governments either be paid, or that the mandate be suspended or repealed. So the State must either pay the LAFCO mandate in this budget, or suspend or repeal the requirements for 2011-12 to defer payment of the $277,000.

LAO Recommendation: The LAO recommends the Legislature adopt trailer bill language that would have the technical effect of repealing the LAFCO mandate. Repeal would simply *authorize*, instead of *require*, LAFCOs to direct special districts to file these statements. Since LAFCOs could still require the special districts to report, overall effect on the program should be none or minor. Other requirements of the LAFCO program would remain unchanged. With the LAO recommendation, the state would not have to pay the cost of this activity in future years, but the State will eventually have to pay the $277,000 for past claims.

Staff Recommendation: Approve the LAO trailer bill language.

Vote:

Issue 2 – Local Government Employment Relations Mandate

Governor's Request: In the May Revision, the Governor proposes: (1) to increase budget funding by $4.9 million GF to reflect recent action by the Commission on State Mandates to adopt cost estimates for the LGEF mandate; and (2) to defer payment of the LGEF mandate and delete funding of $4.9 million (payment would still be due in a future year). This mandate requires local governments to respond to charges of unfair labor practices made to the Public Employment Relations Board and deduct union dues from certain employees' paychecks.

Constitutional Requirements: Proposition 1A of 2004 amended Section 6 of Article XIII B of the State Constitution to require that reimbursement claims from local governments either be paid, or that the mandate be suspended or repealed. However, labor-relations mandates are specifically excluded from this requirement and payment can be deferred without suspension or repeal of the mandate. The Governor's proposal is to defer payment of the $4.9 million General Fund to an unspecified out-year and to keep the mandate requirements on local governments in place.

LAO Recommendation: The LAO recommends approval of the Governor's proposal to defer payment of the mandate. The LAO notes that the implementing legislation did not anticipate these State costs, and that in light of this, the relevant policy committee should again review these requirements.

Staff Recommendation: Approve the May Revision request.

Vote:

8940 MILITARY DEPARTMENT

Department Overview. The California Military Department (CMD) is responsible for the command, leadership, and management of the California Army and Air National Guard and five other related programs. The CMD is organized in accordance with federal Departments of the Army and Air Force staffing patterns. In addition to the funding that flows through the State Treasury, the CMD also receives Federal Funding directly from the Department of Defense.

Budget Overview. The January Governor's Budget provides the CMD with 854.5 authorized positions and $144.3 million ($46.0 million GF). This is a decrease of 11.0 positions and an increase of $3.8 million ($1.1 million GF).

Issue Proposed for Discussion / Vote

Issue 1 – Reduce Military Retirement Program

Governor's Request. In a May Revision Finance letter, the Governor requests a decrease of $1.5 million GF and two positions to reflect a reduction in retirement benefit costs provided to eligible retired service members. The CMD has since requested to maintain $300,000 of that savings and the two positions for an expansion of the California Cadet Corps.

Background. The CMD's Retirement Program (Program 40) was established prior to the CMD's participation in the California Public Employees Retirement System (CalPERS). Program 40 provides services similar to those provided by the federal military, to persons who entered State Active Duty (SAD) prior to October 1, 1961, and have served 20 or more years, at least 10 of which have been on SAD, or have been separated for physical disability. All other permanent civil service employees have been and are covered by CalPERS. Program 40 currently provides coverage for 29 individuals (12 retirees and 17 survivors of retirees).

The CMD indicates that when the SAD personnel hired after October 1, 1961, entered PERS, the monthly payroll was done as a manual hand-typed payroll submitted to the State Controller's Office (SCO). The CMD was responsible for calculating pay and all employer costs. When the checks were received from the SCO, the CMD was responsible for releasing the warrants for CalPERS, taxes, medical, Social Security, and Medicare. At the time, the SCO did not have a system that could calculate the military pay. In the 1990's, the CMD and the SCO were finally able to get the SAD personnel on the SCO payroll system. The retirement payroll in Program 40, which also was, and still is, a manual system done by the CMD, was not combined due to the fact that the employees on this payroll never paid into CalPERS and the SCO does not have a system that would enable the CMD to transfer this manual payroll. As the direct costs for Program 40 have gone down over the years due to retiree and or survivor deaths, the distributed portion of the program has not been reduced or reallocated to other programs. This request aligns the funding with the program costs.

The mission of the California Cadet Corps is to provide California schools and students with a quality educational and leadership development program that prepares students for success in college and the work force. The funding and positions retained for the Corps expansion will fund two positions to expand the Corps by 1,000 cadets (currently there are 4,400).

Staff Recommendation: Approve the May Finance letter, as modified by the CMD's subsequent request related to the Cadet Corps expansion. With regard to the resources for the Cadet Corps, staff recommends approval on a two-year limited-term basis with placeholder supplemental report language requiring the CMD to report annually on expenditures and outcomes.

Vote:

8955 CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS

Department Overview. The California Department of Veterans Affairs (CDVA) promotes and delivers benefits to California veterans and their families. More specifically, the CDVA provides: (1) California veterans and their families with aid and assistance in presenting their claims for veterans' benefits under the laws of the United States; (2) California veterans with beneficial opportunities through direct low-cost loans to acquire farms and homes; and (3) the state's aged and disabled veterans with rehabilitative, residential, and medical care and services in a home-like environment at the Veterans Homes of California (VHCs). The CDVA operates VHCs in Yountville (Napa County), Barstow (San Bernardino County), Chula Vista (San Diego County), and Greater Los Angeles Ventura County (with homes in West Los Angeles, Ventura, and Lancaster).

Budget Overview. The January Governor's Budget proposes to continue to ramp-up admissions at the VHCs in West Los Angeles, Lancaster, and Ventura. The Governor also proposes to provide continued resources and staffing related to the construction and activation of two new VHCs, in Redding and Fresno, both of which are scheduled to begin admissions in early calendar year 2012. The January Governor's Budget provides CDVA with 2,396.5 authorized positions and $399.3 million ($253.4 million GF).

The construction cost of the VHCs was/is funded with $50 million in general obligation bonds available through Proposition 16 (2000), an estimated $212 million in lease-revenue bonds [most recently amended by Chapter 824, Statutes of 2004 (AB 1077)], and federal funds.

Issue Proposed for Discussion / Vote

Issue 1 – Program 30: Veterans Homes of California, Greater Los Angeles Ventura County

Background. The CDVA provides residential and medical care services to honorably discharged California veterans who served on active duty and are over the age of 62 or disabled. The VHCs are long-term residential care facilities that provide California's qualified aged or disabled veterans with rehabilitative, residential, medical, and support services in a home-like environment. Once an eligible veteran selects a VHC as his or her long-term care option, and is approved for admission, the veteran becomes a fee paying resident of the VHC. Spouses of veterans may also be eligible for VHC membership. The VHCs provide a long-term continuum of care, from domiciliary care at one end of the spectrum, which is similar to independent living accommodations, to skilled nursing care at the other end of the spectrum, which provides continuous skilled nursing or rehabilitation services.

March 2011 Budget Package. As part of the March 2011 Budget package, the following resources were approved for the VHCs in 2011-12:

- Net GF increase of $31.7 million for all of the VHCs, including: (1) an augmentation of $24 million for full-year and one-time adjustments to phase-in staffing and residents in the existing and new VHCs in Greater Los Angeles Ventura County (GLAVC), Redding, and Fresno; (2) $4.7 million for furlough and personal leave program reductions which are only reflected in the 2010-11 fiscal year budget; and (3) $9.3 million in increased lease-revenue bond payments for VHC-GLAVC. The expenditures are offset by an increase of $5.0 million in GF revenue.

This funding level is $8.1 million below the Governor's January budget, reflective of savings resulting from: (1) a three-month delay in the opening of the Redding and Fresno VHCs; and (2) the staggered opening of the Residential Care for the Elderly (RCFE) and Skilled Nursing Facility (SNF) levels of care at the Redding and Fresno VHCs. The opening of the Redding home will be delayed from February 2012 to May 2012; the opening of the Fresno home will be delayed from April 2012 to July 2012. In both homes, SNF residents will be admitted in January 2013. The total savings from these combined actions is $8.9 million GF; however, the reduction of offsetting revenue (federal per diem subsidies and resident fees) of $800,000 reduces the overall savings to the $8.1 million GF figure noted above.

Staff Comment. When the Subcommittee acted on Program 30 earlier this year it stated intent to reopen the VHC budget in Spring 2011 when caseloads were known to make any necessary adjustments to the 2011-12 budget to account for salary savings because not all of the positions contained in the request would be hired per the schedule. Given the action to delay the opening of the Redding and Fresno VHCs, the question before the Subcommittee is whether there is any salary savings within the GLAVC VHC request.

The chart below illustrates the resident census at the GLAVC facilities at two points in 2010-11 as compared to the census goal for 2010-11:

VHC	January 17, 2011 Census	May 17, 2011 Census	2010-11 Census Goal
West Los Angeles	21	40	39
Lancaster	22	41	54
Ventura	39	52	54

While the above chart illustrates that the Ventura and West Los Angeles VHCs are on track to reach their 2010-11 census goal, in the case of the Ventura facility that goal was originally estimated to be met in September 2010. In the case of the Lancaster VHC, while significant progress has been made since January to increase resident admissions, that facility is unlikely to reach its target, a target that was originally estimated to be reached in August of 2010.

Given these factors, it is quite likely that there is salary savings in the 2010-11 budget due to the pace of admissions at the GLAVC facilities and the admission level at VHC-Lancaster. Any GF savings in the current year will revert at the end of year automatically, but staff notes that adjustments should potentially be made to the 2011-12 GLAVC budget to account for salary savings, if identified. The LAO is working with the DOF and CDVA, but given time constraints of the May Revision, the final analysis was not complete at the time this agenda was written.

The LAO will present information to the Subcommittee at today's hearing as to its findings.

Staff Recommendation: To the degree salary savings (GF) are identified within the 2011-12 budget for the GLAVC VHC, staff recommends adoption of the LAO's findings.

Vote:

9620 CASH MANAGEMENT AND BUDGETARY LOANS

For additional background on Cash Management and Budgetary Loans, please see the write-up in the vote-only section of the agenda.

Issue Proposed for Discussion / Vote

Issue 1 – Accelerate Repayment of Special Fund Loans

Governor's Proposal: In the May Revision, the Administration proposes to accelerate repayment of $744 million in special fund loans from 2012-13 into 2011-12. Since these loans are repaid from the General Fund, this proposal is a "negative" budget solution, or a budget hit to 2011-12. However, the Governor proposes this action to begin paying off budgetary borrowing that he pegs at $34.7 billion. Among the largest categories of budgetary borrowing are deferrals to K-12 schools and community colleges ($10.4 billion), outstanding Economic Recovery Bonds ($7.1 billion) and loans from special funds ($5.1 billion). So the May Revision proposal would reduce outstanding special fund loans from $5.1 billion to $4.4 billion. The specific loan repayments are listed below.

Loans to be Repaid in 2011-12 (were due in 2012-13)
2011-12 May Revision
(Dollars in Thousands)

Org	Dept	Fund Title	Fund	Amounts
0502	OSCIO	State Emergency Telephone Number Acct	0022	$28,000
1111	DCA	Enhanced Fleet Modernization subaccount	3122	40,000
1110	DCA	Accountancy Board	0704	173
3360	CEC	Renewable Resources Trust Fund	0382	18,200
3360	CEC	Renewable Resources Trust Fund	0382	10,900
3360	CEC	Renewable Resources Trust Fund	0382	35,000
3360	CEC	Alternative and Renewable Fuel and Vehicle Technology Fund	3117	8,250
3360	CEC	Alternative and Renewable Fuel and Vehicle Technology Fund	3117	16,300
3500	DRRR	Beverage Container Recycling Fund	0133	72,277
3500	DRRR	Beverage Container Recycling Fund	0133	99,400
3500	DRRR	Electronic Waste Recovery & Recycling	3065	80,000
3560	SLC	School Land Bank Fund	0347	59,000
3680	DBW	Harbors and Watercraft Revolving Fund	0516	29,000
3790	Parks	Off-Highway Vehicle Trust Fund	0263	90,000
4140	OSHPD	Hospital Building Fund	0121	20,000
4140	OSHPD	Health Data and Planning Fund	0143	12,000
8120	POST	Peace Officers' Training Fund	0268	5,000
8660	PUC	High-Cost Fund-B Administrative Committee Fund	0470	44,000
8660	PUC	High-Cost Fund-B Administrative Committee Fund	0470	15,000
8660	PUC	Teleconnect Fund	0493	61,800
		Total		**$744,300**

Staff Recommendation: Approve the Governor's proposal to start paying down budgetary borrowing.

Vote:

REDUCING STATE GOVERNMENT

Background. The March 2011 budget package recognized $250 million GF ($163 million other funds) for savings associated with the identification of efficiencies in state operations, including identification of agencies, departments, and programs that can be reorganized to eliminate duplication and unnecessary functions; review of state peace officer and safety classifications; and reductions in other areas like contracting, fleet operations, and cell phone use. The mechanism to achieve these savings is a budget control section that provides the Administration with the authority to make the required budgetary reductions to achieve the total savings.

Working from these totals, the Administration has since identified, and in some cases already achieved, savings through a variety of executive actions, including eliminating the offices of the Secretary of Education and the American Recovery and Reinvestment Act Inspector General, banning non-essential travel, implementing a statewide building rental rate reduction, reducing the number of state-issued cellular phones, and reducing the statewide vehicle fleet, including the elimination of any non-essential vehicles and reducing the number of home-storage permits.

The May Revision builds on these executive actions and proposes to specifically reduce state operations by $82.7 million ($41.5 million GF) via the same control section mechanism included in the March 2011 budget package. These savings would be achieved through a variety of eliminations, consolidations, reductions, and efficiencies, including: (1) the elimination of 32 boards, commissions, task forces, and offices; (2) the consolidation of the State Personnel Board and the Department of Personnel Administration; (3) several changes due to realignment, including the elimination of the Departments of Mental Health and Alcohol and Drug Programs and a 25 percent state operations reduction for realigned public safety programs; and (4) various program reductions and efficiencies. The May Revision proposal also includes a comprehensive state asset review to result in the eventual disposition of non-essential or under-utilized state properties; however, any savings from this effort would be included in the 2012-13 budget.

All of the proposed eliminations and consolidations, to the degree that they require statutory changes, cannot be adopted on an urgency basis. Article 4, Section 8 (d), of the California State Constitution states that, “an urgency statute may not create or abolish any office or change the salary, term, or duties of any office, or grant any franchise or special privilege, or create any vested right or interest.” Therefore, the eliminations and consolidations all have an effective date of January 2, 2012, with the associated savings of six months.

Control Sections 3.91 and 13.25, entitled “Reductions in State Operations” and “Reorganizations and Consolidations,” respectively, are in the purview of this Subcommittee and discussed further below. In addition, also discussed below are the specific “Reducing State Government” proposals that fall within the jurisdiction of this Subcommittee. The remaining items are being addressed by the relevant Senate Budget Subcommittee with jurisdiction.

Issues Proposed for Discussion / Vote

Issue 1 – CS 3.91 Reductions in State Operations and CS 13.25 Reorganizations and Consolidations

Governor's Request. In a May Revision Finance letter, the Governor requests revisions to CS 3.91, pertaining to reductions in state operations, which was approved as part of the March 2011 Budget package. These revisions provide additional specificity regarding departmental consolidations, operational efficiencies, and other cost reduction measures.

In addition, and in a separate May Revision Finance letter, the Governor requests that a new control section be added to the 2011-12 budget, CS 13.25 entitled Reorganizations and Consolidations to reflect reorganizations and consolidations of departments or functions of departments that are approved by the Legislature.

Background. The Budget Act is divided into sections. Section 1.00 establishes a citation for the legislation. Section 1.50 provides a description of the format of the act. Section 2.00 contains the itemized appropriations. Sections 4.00 through 99.50 are general sections, also referred to as control sections, which generally provide additional authorizations or place additional restrictions on one or more of the itemized appropriations contained in Section 2.00.

CS 3.91, as approved as part of the March 2011 budget package, requires DOF to reduce each item of appropriation, with the exception of those items for the California State University, Hastings College of the Law, the Legislature, the University of California, and the Judicial Branch, in the total amount of $250 million GF ($163 million other funds) for savings achieved through departmental consolidations, operational efficiencies, and other cost reduction measures, such as reducing contracts.

The May Revision proposal would revise CS 3.91 to identify specific savings of $25.1 million GF ($11.0 million other funds) attributed to a list of departmental consolidations or eliminations identified in the "Reducing State Government" chapter of the May Revision document. The May Revision identifies an additional $16.4 million GF ($30.2 million other funds) from other operational efficiencies. The remaining savings, $208.5 million GF ($121.8 million other funds), would be achieved as proposed in the March 2011 budget package.

CS 13.25 is intended to serve as the mechanism for DOF to adjust budgets upwards, should the Legislature approve certain consolidations or other reductions that require such an action. For instance, should the Legislature approve the elimination of the Fair Employment and Housing Commission (discussed as Issue 2 below), certain functions and responsibilities would be moved to the Department of Fair Employment and Housing and that department's budget would need to be adjusted upwards.

Staff Comment. These control sections are the most effective budgetary process available at present to accomplish this task of reducing state government. Through the control sections, the DOF is given the authority to make necessary budget adjustments consistent with legislative approval. However, it is important to strike an appropriate balance and to ensure that, if the Legislature rejects some of the proposals to reduce state government, those proposals are not then adopted through the control section mechanism. In addition, the current wording of CS 13.25 is not clear as to the Administration's intent (to adjust certain budget items upwards). All of these issues can be addressed going forward; staff, therefore, recommends that the Subcommittee approve these control sections on a placeholder basis, pending further language refinements and to accommodate the work of the other budget Subcommittees who are considering reduction proposals in hearings that either occurred yesterday, are happening today or are happening tomorrow. In addition, staff recommends that the Subcommittee approve Supplemental Report Language to provide greater clarity as to legislative intent and action on the May Revision "Reducing State Government" proposals.

Staff Recommendation: Approve Control Sections 3.91 and 13.25 on a placeholder basis, along with placeholder Supplemental Report Language, pending further language refinements and to incorporate the actions of the other budget subcommittees on the May Revision proposals.

Vote:

Issue 2 – Secretary for State and Consumer Services (0510) GF Budget Reduction and Elimination of Offices of the Insurance Advisor and Privacy Protection

Agency Overview. The State and Consumer Services Agency (SCSA) oversees the departments of Consumer Affairs, Fair Employment and Housing, and General Services. The Agency also oversees the California Science Center, the California African American Museum, the Seismic Safety Commission, the Fair Employment and Housing Commission, the Franchise Tax Board, the California Building Standards Commission, the State Personnel Board, the California Public Employees' Retirement System, the California State Teachers' Retirement System, the Victim Compensation and Government Claims Board, the Office of Privacy Protection, and the Office of the Insurance Advisor.

The entities under the SCSA are responsible for civil rights enforcement, consumer protection, and the licensing of 2.5 million Californians in more than 240 different professions. Agency entities provide oversight and guidance for the procurement of more than $8.9 billion worth of goods and services; the management and development of state real estate; operation oversight of two state employee pension funds; collection of state taxes; hiring of state employees; adoption of state building standards; and the administration of two state museums. In addition, the Secretary for State and Consumer Services Agency is the Chair of the California Building Standards Commission and the Victim Compensation and Government Claims Board, and operates the Office of Privacy Protection.

Budget Overview. The Governor's May Revise Budget provides 10.1 authorized positions and $1.75 million ($202,000 GF). This is a decrease of $789,000 GF, $250,000 in reimbursements, and 5.2 positions from the January Budget.

Proposal 1: Eliminate General Fund for the Agency

Governor's Request. As part of the May Revision, the Governor requests a decrease of $965,000 all funds ($548,000 GF) in 2011-12. This would eliminate GF support for SCSA and require departments under the SCSA's purview to reimburse the SCSA for operational expenses. This decrease will be offset by an increase of $965,000 from reimbursements in 2011-12.

Background. Reimbursement-based funding is already used by the California Labor and Workforce Development Agency. This model of funding operations is based on the establishment of inter-agency agreements between the Agency and the departments it oversees. DOF has stated that the department budgets would not be increased to accommodate increased expenditures from supporting SCASA operations.

Staff Recommendation: Approve the May Revision request.

Vote:

Proposal 2: Eliminate Office of Insurance Advisor

Governor's Request. As part of the May Revision, the Governor requests a decrease of $250,000 (reimbursements) and 1.9 personnel years in 2011-12 from the elimination of the Office of Insurance Advisor (OIA).

Background. Following the removal of the Department of Insurance from the administration and the creation of an elected Insurance Commissioner pursuant to Proposition 103, the OIA was established in 1991 in order to provide the Governor's Office with independent policy advice on insurance matters makes policy recommendations on legislation. The OIA tracks, monitors, analyzes and makes policy recommendations on pending legislation affecting various lines of insurance coverage, including: annuities, automobile, bonds, commercial, disability, earthquake, flood, health, homeowners, life, long-term care, and workers' compensation.

Staff Recommendation: Approve the May Revision request.

Vote:

Proposal 3: Eliminate Office of Privacy Protection

Governor's Request. As part of the May Revision, the Governor requests a decrease of $435,000 all funds ($250,000 General Fund), as well as 3.3 positions in 2011-12, through the elimination of the Office of Privacy Protection (OPP). This would provide half-year funding for OPP, which would allow it to be phased out. The total 2010-11 budget for OPP is $701,000 and seven positions.

Background. The OPP is established in statute to "protect the privacy of individuals' personal information in a manner consistent with the California Constitution by identifying consumer problems in the privacy area and facilitating the development of fair information practices…". The OPP's mission is to be a resource and advocate on privacy issues. In addition to providing information and education for consumers, the OPP also makes privacy practice recommendations to businesses and other organizations. OPP's primary activities include:

- Providing information and assistance to individuals on identity theft and other privacy concerns;
- Educating consumers, businesses, and other organizations on privacy rights and practices;
- Coordination with law enforcement on identity theft, data breach, and other topics; and
- Providing recommendations to organization of privacy policies and practices that promote and protect the interests of California consumers.

Staff Comment. OPP has unique tasks in assisting consumers in understanding and addressing identify theft. Also, OPP is very effective in providing assistance to the Legislature in understanding challenges facing consumers and law enforcement.

Staff Recommendation: Reject the May Revision request and refer the matter to policy committee.

Vote:

Issue 3 – Secretary for Business, Transportation, and Housing (0520) Decrease State Matching Funds for Tourism Office

Governor's Request. As part of the May Revision, the Governor requests a decrease of $734,000 GF in 2011-12 for the Tourism Office.

Background. The California Office of Tourism works closely with the California Travel and Tourism Commission (CTTC) (a 501 c (6) non-profit organization) with the mission to develop and maintain marketing programs, in partnership with the state's travel industry, to promote the State of California as a premier travel destination.

The CTTC is funded primarily through assessments to businesses in the travel and tourism industry (Accommodations, Restaurant and Retail, Attractions, Transportation and Travel Industry, Passenger Car Rental Industry). These assessments are self-imposed and are renewed every six years, with the next renewal coming in 2013. In addition to the assessment fees, the CTTC also receives a total of $934,000 from the State General Fund to fund some of the Commission's marketing activities.

Staff Comment: The May Revision proposal would reduce General Fund support from $934,000 to $200,000 – enough to maintain the public-private partnership and support the Executive Director. The tourism industry would continue to support the marketing of California tourism through $50 million in industry self-assessed fees.

Staff Recommendation: Approve May Revision request.

Vote:

Issue 4 – Fair Employment and Housing Commission (1705) Eliminate the Fair Employment and Housing Commission

Governor's Request. As part of the May Revision, the Governor requests to eliminate the Fair Employment and Housing Commission (FEHC), with adjudication of employment and housing discrimination cases instead appealed to the Director of the Department of Fair Employment and Housing (DFEH) beginning January 1, 2012, effectively consolidating workload for savings of $438,000 ($344,000 GF) and 1.4 personnel years in 2011-12. This request includes proposed budget trailer bill language.

Background. The FEHC is a quasi-judicial administrative agency which enforces state civil rights laws regarding discrimination in employment, housing, and public accommodations; pregnancy disability leave; family and medical leave; and hate violence. The FEHC is comprised of seven members, appointed by the Governor and confirmed by the Senate. Members receive $100/day per diem. In 2010-11, the FEHC was budgeted at $1.2 million ($1.034 million GF) and 5.2 authorized positions. The chart below displays the 2010 FEHC case adjudication statistics:

2010 FEHC Case Adjudication Statistics

Accusations Filed by DFEH	59
Hearings calendared by FEHC for three day evidentiary hearings	55
Evidentiary hearings (number of hearings/number of hearing days)	14/29
Case Management Conferences	29
Early Mediation Evaluation Conferences	39
Settlement Conferences/Mediations with Commissioners & staff	6

As part of its proposal to eliminate the FEHC, the Administration indicates that it will consult with stakeholders and evaluate options to phase out the stand-alone FEHC that handles these cases by January 1, 2012. Under the "phase out" plan, the DFEH will employ administrative law judges and, instead of the Commission deciding cases, DFEH's Director (or his/her designee) will decide the case. Rules to interpret the Fair Employment and Housing Act will be issued by DFEH following the current public rule-making process.

Staff Comment. In considering this request, staff notes that a key issue is the adjudicative process and the retention of an entity that can effectively enforce the state's civil rights laws. More specifically, the transition must be done in a precise way to ensure that the FEHC's adjudicatory and regulatory responsibilities are transferred properly, taking into consideration potential conflicts between prosecuting cases (currently through the DFEH) and adjudicating these cases (currently through the FEHC). This request is also accompanied by lengthy budget trailer bill language. As such, and in considering this request, the Subcommittee may wish to refer this proposal to the Senate Judiciary and Transportation and Housing Committees for further review of its impacts as well as potential new approaches.

Staff Recommendation: Reject the May Revision request and and refer the matter to policy committee.

Vote:

Issue 5 – Department of Housing and Community Development (2240) Various Budget Reductions

Governor's Request. As part of the May Revision, the Governor requests to reduce the Department of Housing and Community Development's GF budget by a total of $1.168 million and 9.9 positions, as detailed in the below chart. These requests do not include any proposed budget trailer bill language.

	Description	Proposed Reduction	Fund Source
1	Eliminate Housing Policy Funding, within Division of Housing Policy Development	$1.3 million and 8.5 positions	GF
2	Eliminate Preservation Technical Assistance	$35,000	GF
3	Eliminate Redevelopment Housing Funds Oversight	$123,000 and 1.4 positions	GF
4	Eliminate Child Care Monitoring Support	$10,000	GF

General Department and Budget Background. A primary objective of the Department of Housing and Community Development (HCD) is to expand housing opportunities for all Californians. The HCD administers housing finance, economic development, and rehabilitation programs with emphasis on meeting the shelter needs of low-income persons and families, and other special needs groups. HCD also administers and implements building codes, manages mobilehome registration and titling, and enforces construction standards for mobilehomes. The January Governor's Budget provides the HCD 598.6 authorized positions and $256.0 million ($8.8 million GF). This is a decrease of 6.5 positions and $490.0 million (the majority of the HCD's expenditures are supported by general obligation bond revenue). Therefore, HCD's budget has been steadily decreasing in recent years due to the pending exhaustion of housing bond funds.

Proposal 1: Eliminate Housing Policy Funding

Background. This proposal would eliminate $1.3 million GF and 8.5 positions that support housing policy in the HCD Division of Housing Policy Development (HPD). HPD identifies California's housing needs and develops policies to meet those needs. HPD administers state housing element law, including the review of local general plan housing elements. HCD reports that administering the state's housing element law is the biggest workload driver in HPD. This reduction would decrease HPD's 2011-12 staffing level from 12.5 to 3.5 positions. With that reduced level of staff, HPD would be unable to meet its current workload and would have to ratchet down workload to meet the limited resources available.

The remaining 3.5 positions would be funded as follows: (1) $98,000 from the Air Pollution Control Fund; (2) $1.068 million from the Housing Related Parks program – this resource actually funds a total of seven positions, two of which are assigned to housing element workload; and (3) $136,000 from reimbursements funding from the HCD Division of Financial Assistance (DFA) in recognition of support to DFA programs by HPD.

Staff Comment. HCD review of housing elements has proven critical to ensuring cities and counties create opportunities (zoned land, funding, etc.) for affordable housing. Without that effort on the part of HCD, it does not appear there is another viable method to ensure compliance with housing element law. As such, the LAO is currently providing technical assistance to staff to determine the viability of alternative funding sources to support HPD's housing element-related workload. Three potential fund sources are: (1) Proposition 84; (2) Housing-Related Parks Bond (Propositions 1C and 46); and/or, (3) Proposition 46 Building Equity and Growth in Neighborhoods (BEGIN). As noted above, HRP funds currently provide support for two of the HPD's positions.

Staff Recommendation. Approve the May Revision request contingent on the identification of an alternative fund source to support housing element workload in the Housing Policy Division.

Vote:

Proposal 2: Eliminate Preservation Technical Assistance

Background. This proposal would eliminate $35,000 GF utilized to provide assistance in the prevention of subsidized housing converting to market rents upon the expiration of the subsidy period. On an annual basis, HCD has awarded a contract totaling $65,000 ($35,000 GF and $30,000 other funds) for this work.

HCD estimates that 78,503 affordable homes are determined to be at-risk of conversion by private owners over the next five years. Because it generally costs half as much and takes half the time to maintain existing affordable housing than building it new, HCD contracts with the California Housing Partnership Corp. (CHPC) to provide technical assistance on preservation issues both with project sponsors as well as to provide technical assistance to persons in preparing local housing elements that are required to include inventories of, and programs for preserving, at-risk properties. These inventories identify at-risk projects with expiring Section 8 contracts and/or federal, state or local subsidized or below market mortgages eligible for prepayment within five years of the term expiration.

HCD indicates that the CHPC investigates the status of potentially at-risk projects by utilizing specific project information from its database, contacts property owners to determine their intentions, and uses its statewide network to identify a preservation purchaser.

Staff Comment. Notwithstanding the merits of providing preservation technical assistance, it is not clear to staff why this should be a state GF cost. It is also not clear why the GF costs could not be supported by federal funds, since a great number of the state's affordable housing units are federally-subsidized and in the Section 8 program. Therefore, staff recommends the Subcommittee approve this request.

Staff Recommendation. Approve the May Revision request.

Vote:

Proposal 3: Eliminate Redevelopment Housing Funds Oversight

Background. This proposal would eliminate $123,000 GF and 1.4 positions that support HCD oversight of redevelopment agency (RDA) low- and moderate-income housing funds and an annual report on housing funds and activities.

Staff Comment. Staff notes that the primary function here is the compiling of a report of the reports submitted by RDAs. The Administration indicates that this proposal is consistent with the broader proposal to eliminate RDAs. Staff also notes that under current law RDAs are required to submit annual financial transaction and compensation reports to the State Controller's Office.

Staff Recommendation. Approve the May Revision request.

Vote:

Proposal 4: Eliminate Child Care Monitoring Support

Background. This proposal would eliminate $10,000 GF for child care monitoring support. Prior to 2004-05, HCD administered two GF-funded funds that were intended to provide loans and loan guarantees for private child care centers. In 2004-05, the Budget Act transferred the remaining money from those funds back to the GF, but the funds themselves were not abolished. In 2009, the funds were abolished as part of the general government budget trailer bill. HCD is proposing a state operations reduction of $10,000 GF.

Staff Comment. While it is correct that the state has not made any new awards under this program in many years, the prior awards required a commitment for the child care provider to provide care for an extended period of time. HCD indicates that there are still 14 child care loans outstanding that HCD must administer. The last of these loans have a payoff in 2033. Staff notes that $10,000 in funding would provide support for roughly 0.1 percent of one position. As such, this workload would appear to be absorbable within existing resources.

Staff Recommendation: Approve the May Revision request.

Vote:

Issue 6 – Commission on the Status of Women (8820) Elimination of the Commission on the Status of Women

Department Overview. The Commission on the Status of Women (CSW) is an independent, non-partisan agency working to advance the causes of women. Toward that end, the CSW influences public policy by advising the Governor and the Legislature on issues impacting women and educating and informing its constituencies-thereby providing opportunities that empower women and girls to make their maximum contribution to society. The CSW consists of a 17-member body including the Superintendent of Public Instruction, the Labor Commissioner, three Assembly members and three Senators. Nine of the 17 members are public members: one appointed by the Speaker of the Assembly; one by the Senate Committee on Rules; and seven are appointed by the Governor. Public members serve four-year terms and are reimbursed for necessary expenses.

Budget Overview. The Governor's January Budget provided the CSW with $467,000 total funds ($464,000 GF and $2,000 reimbursements) and 4.3 positions.

Governor's Request. As part of the May Revision, the Governor requests a decrease of $234,000 all funds ($233,000 GF) and 2.1 personnel years in 2011-12 in order to eliminate the CSW.

Background. The Governor's justification for the elimination of the CSW is that there are numerous formal and informal avenues for the Governor and Legislature to seek advice on public policy issues impacting women. However, the CSW has many unique tasks. The CSW is the only state agency that looks specifically at all issues impacting women. The CSW holds public hearings across the state to gather input on issues important to women, and uses that information to develop a public policy agenda. Also, the CSW provides the Legislature, Governor, and advocates with gender analysis on proposed bills and actions. On its website, CSW provides a wide variety of information and resources on issues impacting women and girls. Also, CSW facilitates the development of coalitions of diverse organizations around various issues such as reproductive rights, paid family leave, incarcerated women, etc.

Staff Recommendation: Reject the May Revision request and refer the matter to policy committee.

Vote:

Issue 7 – Department of Finance (8860) Accelerate the End of the California Recovery Task Force

Governor's Request. As part of the May Revision, the Governor requests to eliminate the California Recovery Task Force by January 1, 2012, for savings of $0.8 ($0.4 million GF and $0.4 million Central Service Cost Recovery Fund) and 3.4 positions. This request does not include any proposed budget trailer bill language.

Background. On February 17, 2009, President Obama signed the American Recovery and Reinvestment Act (ARRA), a $787 billion federally-funded economic stimulus plan for a wide range of federal, state, and local programs as well as tax relief for qualified businesses and individuals. ARRA also created new requirements for state-level oversight and reporting of stimulus dollars provided to state entities. Both the 2009-10 and 2010-11 budgets provided funding for California's ARRA accountability framework, comprised of four organizational components: the California Recovery Task Force (CRTF); the ARRA Inspector General (ARRA IG); the Bureau of State Audits (BSA); and, the State Controller's Office (SCO). Both the BSA and SCO were pre-existing entities, while the CRTF and ARRA IG were established via Executive Order by the Governor in Spring 2009. In January 2011, Governor Brown announced he was eliminating the ARRA IG's Office six months early (funding for that office in the 2010-11 budget was provided on a one-year limited-term basis). Any outstanding audit activities of that office were transferred to the SCO or BSA.

Building on a legislative action in the March 2011 budget package, which reduced the California Recovery Task Force by $393,000 ($224,000 GF and $169,000 Central Service Cost Recovery Fund), the May Revision proposes to eliminate the Task Force on January 1, 2012, for additional savings of $800,000 ($400,000 GF) and 3.4 positions. Under the May Revision proposal, any remaining federally-mandated quarterly reporting will be decentralized to the appropriate state department.

Staff Recommendation: Approve the May Revision request.

Vote: