

SUBCOMMITTEE NO. 4

Agenda

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



Monday, February 7, 2011
2:30 p.m. or Upon Adjournment of Session
Room 112

Consultant: Kris Kuzmich

PART A

OUTCOMES

Item Number and Title

0502	California Technology Agency
8855	Bureau of State Audits
8955	California Department of Veterans Affairs

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Issues Proposed for Vote Only:

	Issue	2011-12 Amount	Fund Source	Staff Recommendation
California Department of Veterans Affairs (8955)				
1	Yountville Veterans Home: Veterans' Cemetery Renovation	\$2.4 million	Federal Funds	APPROVE
2	Yountville Veterans Home: Chilled Water Distribution System	\$2.236 million	Lease Revenue Bond Funds	APPROVE
3	Yountville Veterans Home: Steam Distribution System Renovation	\$3.387 million	Lease Revenue Bond Funds	APPROVE

Vote: Budget requests approved on a 2-0 vote; Senator Evans absent.

Issues Proposed for Vote Only – Issue Descriptions

CALIFORNIA DEPARTMENT OF VETERANS AFFAIRS (8955)

For overview and budget information regarding this department, please see page 12 of this agenda.

Issue 1 – Yountville Veterans Home: Veterans' Cemetery Renovation

Governor's Request. The Governor requests \$2.4 million (federal funds) for the construction phase of the Yountville Veterans Home cemetery restoration project. General obligation bonds have previously been approved in the amount of \$436,000 for the preliminary plans and working drawing phases of the project. The complete project costs total \$2.847 million and will be fully reimbursed by the federal government once the grant is awarded.

Background. The cemetery at the Yountville Veterans Homes is the second oldest veterans' cemetery in the nation covering approximately 10.27 acres. The cemetery is reserved for veterans who reside at any CDVA veterans home. The condition of the cemetery over the past several decades has continued to deteriorate and is considered to be in a severe state of disrepair. More specifically, much of the cemetery infrastructure, including the sewage and water distribution systems, need to be repaired and/or replaced. The objectives within this restoration project will bring the cemetery into compliance with the National Cemetery Administration standards and enable the state to maintain the cemetery grounds according to those standards in future years.

Issue 2 – Yountville Veterans Home: Chilled Water Distribution System Renovation

Governor's Capital Outlay Request. The Governor requests \$2.236 million (lease revenue bonds) to correct system deficiencies in the Chilled Water System at the Yountville Veterans Home. The additional chiller plant and replacement of cooling towers, pumps, and valves will ensure the Yountville Home has the required chiller capacity to maintain a proper temperature throughout the Home to protect the health and safety of the elderly and/or disabled veteran residents. The total estimated project cost is \$6.398 million and will be funded by: (1) \$497,000 – Veterans' Home Bond; (2) \$2.236 million – Lease Revenue Bonds; and (3) \$3.665 million – Federal Trust Fund.

Background. The chilled water system at the Yountville Home does not maintain the water at the proper temperature when the outside air temperature exceeds 96°F. As a result, patient areas exceed temperature limits mandated by the California Department of Health Services. Due to other system deficiencies (e.g., cooling towers, pumps, and valves), additional capacity solely on its own will not allow the cooling system to efficiently and effectively meet the increased demand on the chilled water cooling system. The project will renovate the chilled water system by adding chiller capacity and replacing cooling towers, chilled water pumps, condenser water pumps, automatic flow control valves, automatic water isolation valves, and bypass circuit and automatic valves. A new

400 ton chilled water system will be installed adjacent to Holderman Hospital along with a 400 kW generator to provide emergency/back-up power.

Issue 3 – Yountville Veterans Home: Steam Distribution System Renovation

Governor’s Capital Outlay Request. The Governor requests \$3.387 million (lease revenue bonds) to renovate the deteriorating underground steam distribution system at the Yountville Veterans Home. The project includes replacement of underground lines and valves and removal and replacement of badly deteriorated asbestos insulation that is a safety hazard. As part of landscaping an area disrupted by the steam line replacement project, 10 ADA-accessible parking spaces will be provided to an underserved part of the Home. The total estimated project cost is \$7.482 million and will be funded by: (1) \$3.387 – Lease Revenue Bonds; and (2) \$4.095 million – Federal Trust Fund.

Background. Steam provides heating and domestic hot water to all 120 buildings that serve the elderly and disabled veterans who reside at the Yountville Home. Steam is also instrumental in preparation of food for all residents. Furthermore, steam is used to keep the food warm to be served in the seven dining rooms used by residents or by bedside services. Last, steam is used by the heat exchanger to provide cooling for the buildings and residential areas. The steam lines are currently insulated using asbestos containing material and are badly deteriorated. As a result, loose asbestos containing material is present in several manhole accesses throughout the facility.

This project will also add 10 ADA-accessible parking spots to the Section A residence. This residence currently houses 90 members, but only has 12 parking spaces. Because the steam line renovation will disturb the landscaping adjacent to the residence, it is cost effective to fold the additional parking spaces into this project. A stand-alone parking project of this size would be unable to garner federal participation.

Renovation of the steam distribution system will ensure a safer and more energy efficient operation and the uninterrupted availability of steam for the Yountville Home’s critical daily operations.

Department Overview. The California Technology Agency (CaTA) establishes and enforces statewide information technology (IT) strategic plans, policies, standards, and enterprise architecture, and oversees IT projects and public safety emergency communications systems for all state departments. Effective January 2, 2011, Chapter 404, Statutes of 2010 (AB 2408), renamed the Office of the State Chief Information Officer the “California Technology Agency” and codified the statewide IT consolidation originally implemented by the Governor’s Reorganization Plan No. 1 in 2009.

The Officer of Technology Services (OTech) within CaTA, provides the IT processing platforms for over 500 customers, including the Executive Branch and public entities. OTech is accountable to its customers for providing secure services that are responsive to their needs and represent best value to the state. The OTech is a fee-for-service organization and operates as a 100 percent reimbursable department. OTech’s Service Level Agreements (SLAs) with its customers include a 99.9 percent service availability goal for IT services. The OTech must continue to provide sufficient processing capacity to deliver the performance and service agreed to in the SLAs.

Budget Overview. The January Governor’s Budget provides 1,364.2 authorized positions and \$486.2 million (\$3.7 million GF). The increased funding primarily reflects additional expenditure authority associated with increased computer system utilization at the state level, including mainframe processing, data storage, and server capacity.

Issues Proposed for Discussion / Vote

Issue 1 – Mainframe Processing Capacity, Database Hosting, Data Storage, and Email Hosting

Governor’s Budget Request. The Governor requests total increased expenditure authority of \$29.7 million (Technology Services Revolving Fund) and 23 positions. The increased expenditure authority is associated with increased computer system utilization at the state level, including mainframe processing, data storage, and server capacity, as illustrated in the below chart. Note, each item is described in detail beginning on the next page. The fund source for all items is the Technology Services Revolving Fund.

	2010-11 Funding Level	Description	Positions
Mainframe CPU Processing	\$5.499 million	1.616 million of Instructions Per Second (MIP)	
Midrange Server	\$8.186 million (\$2.044 ongoing)	95 addition UNIX server instances and 412 additional Windows server instances	20.0
Data Storage Capacity	\$5.366 million	Hardware, software, and connectivity components	
CA.mail and California Email Services	\$10.639 million	Implement vendor hosted California Email Services	3.0

Mainframe CPU Processing

The CaTA, on behalf of the OTech, requests increased expenditure authority of \$5.499 million (Technology Services Revolving Fund) in 2011-12 for the purchase of mainframe processing capacity [1.616 million of Instructions Per Second (MIPS)] to accommodate existing and projected increases in workload resulting from customer program growth and program changes. Costs included in this request are based on current pricing for this type of upgrade, plus the costs of supporting the components. Of OTech's current total of 500 customers, approximately 250 are mainframe processing customers. New state anti-fraud initiatives, federal reporting requirements, and natural population and caseload growth have driven a projected 14 percent increase in mainframe transactions for 2011-12. OTech's capacity must increase to provide sufficient resources for customer workloads because OTech acquires processing capacity only as needed for current workloads; i.e., the projected growth cannot be absorbed into the existing computing infrastructure.

Midrange Server

The CaTA, on behalf of OTech, requests increased expenditure authority of \$8.186 million (Technology Services Revolving Fund) in 2011-12 to: (1) purchase 95 additional UNIX server instances and 412 additional Windows server instances for growth; (2) replace 25 UNIX servers and 50 replacement Windows server instances; and (3) add 20.0 permanent staff for the support of server instances, databases, and web services. Of the total funding requested, one-time costs are \$6.142 million for the UNIX and Windows server instances and software cost and ongoing costs are \$2.044 million for the 20 additional positions. OTech's processing capacity must continue to increase to meet the ever growing IT demands of its 500 customers. Governmental programs increase their reliance on technology to meet growing program workload with greater efficiency. This saves the taxpayer funds overall, but results in a continual increase in: (1) the number of installed servers at OTech; (2) related refresh/replacement of servers; and (3) tasks needed to provide support services for this growth.

Data Storage Capacity

The CaTA, on behalf of the OTech, requests increased expenditure authority of \$5.366 million (Technology Services Revolving Fund) in 2011-12 for hardware, software, and connectivity components to ensure adequate data storage support to meet needs of customer driven workloads. Without capacity upgrades and growth, OTech will be unable to support the growth of customer programs, the systems will reach capacity, and customers will be unable to add new data.

CA.mail and California Email Services

The CaTA, on behalf of the OTech, requests increased expenditure authority of \$10.639 million (Technology Services Revolving Fund) in 2011-12 and three positions to implement the vendor hosted California Email Services (CES). The increased expenditure reflects the requirement in Executive Order S-03-10, and statutorily in Chapter 404, that all executive branch agencies are required to migrate to either the OTech operated CA.mail or the third party hosted CES by June 2011. The migration will improve security and standardization of IT across State government.

CaTA Prior Year Project Adjustments

The Governor requests prior year baseline adjustments for the CaTA's expenditure authority to align previously approved budget actions with the ongoing costs of the related projects. The adjustments result in a net reduction of \$10.2 million (Technology Services Revolving Fund) in 2010-11 and \$10.0 million (Technology Services Revolving Fund) in 2011-12. The purpose of these adjustments is to align the OTech budget with actual expenditures in order to maintain a connection between spending authority level of OTech and the actual expenditures required to support the needs of its customers.

Staff Comment. These requests are consistent with the consolidation of IT within the CaTA, which the Legislature approved in 2009 with the adoption of the Governor's Reorganization Plan No. 1. The CaTA, and OTech more specifically, must continue to provide sufficient computing capacity to deliver performance and service to its customers. These requests are integral to OTech meeting that charge and providing its customers with the agreed upon service levels.

Staff Recommendation: Approve the budget requests.

Vote: Budget requests approved on a 2-0 vote; Senator Evans absent.

Issue 2 – Independent Project Oversight

Governor's Budget Request. The Governor requests \$966,000 (Technology Services Revolving Fund) and nine permanent positions for Independent Information Technology Project Oversight (IPO) in 2011-12 and ongoing to meet workload increases and mandated responsibilities of Chapters 183 and 404, Statutes of 2007 (SB 90) and Statutes of 2010 (AB 2408), respectively, and to ensure consistent project implementation of the state's IT projects.

Background. The increased expenditure authority in this request is for a staffing expansion that the CaTA considers a critical priority due to legislative mandates, increased public visibility, and the need to ensure consistent project implementation of the state's IT projects. These positions would provide independent project management services to customer departments. The costs associated with the IT project management will be funded by the agency or department administering the project. The CaTA would be reimbursed 100 percent by the department or agency requesting the services. Once the CaTA has created a professional state governmental entity, comprised of state staff, to manage and direct IT policy, standards, and projects, the state's current reliance on high paid contractors will be diminished. The state currently spends approximately \$17.2 million annually on contracted IT project oversight and management.

Staff Comment. The proposed positions represent the beginning of the implementation of CaTA's expanded role as outlined in Chapter 404. Staff concurs that having IPO conducted in-house (as opposed to contracted out) will save the state as the state will no longer rely on highly paid contractors and will instead develop a cadre of IT professionals within state service. However, in considering this request, the Subcommittee may wish to defer action until later in the Spring so that all factors and the CaTA's resources can be considered at one time.

Staff Recommendation: Deny the budget request without prejudice and consider as part of the Spring 2011 budget process.

Vote: Budget request denied without prejudice on a 2-0 vote; Senator Evans absent.

Department Overview. The California State Auditor (Auditor) promotes the effective and efficient administration and management of public funds and programs by providing citizens and government nonpartisan, accurate, and objective assessments of state and local governments' financial and operational activities. As the independent auditor, the Auditor is the only state entity that the law grants full access to all records of state and local agencies, special districts, school districts, and any publicly created entity.

The Auditor conducts: (1) performance, financial, or compliance audits that are either mandated by statute or requested by the Legislature through the Joint Legislative Audit Committee (JLAC); (2) California's Single Audit, a combination of the independent audit of the State's basic financial statements and the independent audit of numerous federal programs administered by the State, which is required as a condition for the state to receive billions in federal funds each year; and (3) evaluations of those issues and entities identified as being high risk. Statutorily-required audits are the first priority for the Auditor, followed by those approved by the JLAC, and then those audits conducted under the Auditor's high-risk authority.

Finally, under the California Whistleblower Protection Act, the Auditor has broad authority to perform independent investigations into complaints that state employees or agencies have engaged in improper conduct. Additionally, the Auditor administers California's Whistleblower Hotline that enables the public to report improper acts committed by state agencies, departments, or employees.

Budget Overview. The January Governor's Budget provides \$24.8 million (\$14.0 million GF) and 181 positions. This is an increase of \$8.2 million (\$4.7 million GF) and 34 positions. Year-to-year, the Auditor's Budget shows only a net increase of \$5.5 million, but this is due to a reduction in contract audit work and American Recovery and Reinvestment Act audit and oversight work.

Issue Proposed for Discussion / Vote:

Issue 1 – Budget Augmentation

Governor's Budget Request. The State Auditor requests an increase of \$8.2 million (\$4.7 million GF) and 34 positions in 2011-12 to fund a two-year plan to better assist the Legislature in its oversight of government operations, including conducting additional audits, completing more high risk analyses, and better integrating the audit process with the work of legislative budget and policy committees.

Background. The State Auditor requests the increased funding as part of a two-year plan to better assist the Legislature in its oversight of government operations. Currently, the Auditor has 147 staff. In Year 1 of this plan, the Auditor proposes to increase staffing by 34 positions, to a total of 181 positions. In Year 2, an additional 37 staff would be added, bringing staffing to a total of 218 positions. The following chart illustrates this two-year staffing plan:

Staffing Categories	Current Level 2010-11	Year One 2011-12	Year Two 2012-13	Total
Audit	93	28	26	147
Investigative	9	3	5	17
Information Technology	6	2	2	10
Executive Office	6	1	2	9
Legal	4	0	2	6
Administration/Support	29	0	0	29*

**The support staff number may grow slightly during the two-year plan; if so, the number of audit positions would be decreased by a like amount.*

In Year 1, the Auditor reports that it will utilize \$3.5 million of the requested funding to contract with outside experts to conduct the federal compliance audit work, thereby allowing the Auditor to utilize the remaining \$4.5 million to recruit, hire, and train the 34 new in-house staff to conduct the additional mandated, discretionary, and high-risk audit work as well as investigations. These 34 staff will also respond to increases in other activities, such as inquiries and requests from legislative staff, legal assistance, and public record requests, due to the additional audits being completed.

In Year 2, the Auditor reports that it should have a sufficient number of trained audit and investigative staff to conduct the increase in audit work and provide the additional integration with legislative oversight. Consequently, in Year 2, the Auditor plans to substantially reduce or eliminate the contracted federal compliance work to hire the additional 37 staff.

At the end of the two-year plan, which will result in the addition of 54 new audit staff, the Auditor reports that audit production will increase from the 2010-11 average of 30 per year, to 50-55 per year, including discretionary and mandated audits, as well as more work under the high-risk authority. The additional audit staff will also reduce the time it currently takes to complete an audit, and will also reduce staff burnout and a high turnover rate. The Auditor reports that the addition of eight investigative staff over the two years will result in self-initiated statewide investigations increasing from the 2010-11 average of one per year to four to eight per year.

Chapter 160, Statutes of 2010 (AB 1749), extends the protections under the California Whistleblower Protection Act to employees of the Judicial Branch. The Auditor indicates that the expansion of its Investigative Unit under the two-year plan is due in part to the expected increase in Whistleblower activity resulting from this change in law.

The Auditor indicates that the additional audit and investigative results from the two-year plan will produce more monetary benefits for the state, and offers the following recent examples of savings from audit and investigative work: (1) \$194 million in unallowable costs, plus \$53 million in cost avoidance over seven years (State Mandates Audits, 2003 and 2009); (2) \$3.3 million revenue increase (Citation Penalty Accounts, 2010-108); (3) \$4.8 million in cost avoidance (Medi-Cal TARS, 2009-112); and (4) \$12 million cost recovery (CalWorks, 2009-101)

Staff Recommendation: Approve the budget request.

Vote: Budget request held open.

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.

Issues Proposed for Discussion / Vote:

Issue 1 – Program 30, Veterans Homes of California

Governor's Request. The Governor requests a net GF increase of \$39.8 million in 2011-12 for all of the VHCs, including: (1) an augmentation of \$32.1 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 \$5.8 million in GF revenue.

2010-11 Budget. The 2010-11 budget provided the following for the VHCs: (1) VHC-GLAVC, 101.3 positions and \$7.5 million GF to continue construction, activate business, and begin admitting veterans; and (2) VHC-Redding and VHC-Fresno, respectively, 9.3 positions and \$908,000 GF, and 8.5 positions and \$908,000 GF, for Construction Completion and Pre-Activation Phase II activities.

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. Home residents are veterans of military service ranging from World War II, Korea, Vietnam, Gulf War I, and Operation Enduring Freedom and Operation Iraqi Freedom. 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. The chart below illustrates the six VHCs that are currently operating, including their licensed bed capacity and levels of care provided:

Veterans Homes of California

	Yountville	Barstow	Chula Vista	West Los Angeles	Lancaster	Ventura
Year Established	1884	1996	2000	November 2010	February 2010	January 2010
Licensed Beds*	1,207	344	400	84	60	60
Domiciliary Care	Yes	Yes	Yes	No	No	No
Residential Care Facility for the Elderly	Yes	No****	Yes	Yes	Yes	Yes
Intermediate Care Facility	Yes	Yes	No	No	No	No
Skilled Nursing Care	Yes	Yes	Yes	Yes***	No**	No**
Memory Care	Yes	Yes	Yes	Yes	No	No

*Includes suspended beds.

**Residents needing SNF care at VHC-Ventura or VHC-Lancaster will transfer to VHC-West Los Angeles.

***To be added in 2011-12.

****Barstow is not currently licensed or budgeted for the Residential Care Facility for the Elderly level of care.

The VHC-Redding and VHC-Fresno facilities are scheduled to open in early calendar year 2012. Both of these homes will provide the following levels of care: Residential Care Facility for the Elderly and Skilled Nursing Care, including Memory Care services within each level of care.

Staff Comment. Staff agrees with the need to adequately and appropriately staff the VHC-GLAVC facilities, as well as VHC-Redding and VHC-Fresno. CDVA indicates that the hiring and occupancy timeframes have been updated to reflect admission schedules and level-of-care offerings at these homes. Further, CDVA indicates that it utilizes a “point-in-time” hiring approach, where staff is added as resident admissions increase. However, it is worth noting that in past years when this Subcommittee considered similar VHC requests, and after the May Revision when caseloads are updated, some salary savings have been found because not all of the positions contained in the requests would be hired per the updated schedules.

Staff also notes that some questions have arisen about veteran demand at the GLAVC facilities. More specifically, both VHC-Lancaster and VHC-Ventura have been open since January and February 2010, respectively. Both homes were scheduled to admit eight

residents per month for the first three months and then five residents each month thereafter until their budgeted capacity of 54 was reached in August and September 2010, respectively. As of January 17, 2011, VHC-Lancaster had 22 residents; VHC-Ventura had 39 residents. VHC-West Los Angeles opened in October 2010. It is scheduled to admit eight residents per month for the first three months and then five residents each month thereafter until it reaches its budgeted capacity of 39 as of July 2011. As of January 17, 2011, VHC-West Los Angeles had 21 residents.

The CDVA indicates that both VHC-West Los Angeles and VHC-Ventura are on track to reach their census goal of 39 and 54 respectively by the end of the 2010-11 fiscal year; for VHC-Ventura, this is ten months longer than the original schedule. In the case of VHC-Lancaster, CDVA indicates that the home may not reach its goal. The CDVA indicates that there is presently a lack of demand and applications for VHC-Lancaster; the CDVA indicates that it is engaged in a focused marketing and outreach campaign to reverse the situation. Regardless, given the current resident census at the GLAVC facilities, staff notes that there will likely be salary savings in the 2010-11 budget due to the pace of admissions and admission levels at both VHC-Ventura and VHC-Lancaster. Staff does not recommend making any current year adjustments, as five months remain in the 2010-11 year and any savings will revert to the GF automatically. However, this situation presents a challenge for the Subcommittee in its consideration of the 2011-12 request for VHC-GLAVC, as well as for VHC-Redding and VHC-Fresno.

Given the expedited timeframe for adoption of the 2010-11 budget, it will not be possible to know now what budget adjustments might need to be made to the VHC caseloads and budget post the May Revision, including if the situation at VHC-Lancaster does not reverse itself. However, it is known that some portion of the resources contained in this request will be needed at the GLAVC, Redding, and Fresno VHCs. Therefore, while staff recommends approval of this request, staff also recommends the Subcommittee clearly state its intent to reopen the VHC budget in Spring 2011 when caseloads are better known to make necessary adjustments to the 2011-12 budget.

Staff Recommendation: Approve the budget request but state intent to reopen the Veterans Home of California budget in Spring 2011 when caseloads are known and to make any necessary adjustments to the 2011-12 budget.

Vote: Budget request approved on a 2-0 vote; Senator Evans absent. Subcommittee stated its intent to reopen the VHC budget in Spring 2011.

Issue 2 – County Veterans Service Offices / Operation Welcome Home

Governor's Budget Request. The Governor requests to eliminate \$9.9 million GF (\$7.6 million local assistance and \$2.3 million state operations) support for County Veterans Service Offices (CVSOs) and Operation Welcome Home (OWH) in 2011-12.

2010-11 Budget. The 2010-11 Budget provided baseline funding of \$2.6 million GF and \$544,000 (Veterans Service Office Fund - VSOF) to counties for CVSOs. The \$2.6 million GF figure has been static since 2004. In addition, the 2010-11 Budget provided new funding to implement and sustain OWH as follows: (1) \$5 million GF in ongoing operations funding for CVSOs, Veterans Service Organizations, and Non-Profit Organizations that provide services to veterans; and (2) a one-time VSOF augmentation of \$768,000 to be spent over three years to implement the Subvention Administrative Information System, a common veteran case management application in CVSOs.

2010-11 budget provisional language restricts expenditure of the \$5 million GF provided for CVSOs and OWH. The language permits the DOF to authorize expenditure of the funds subject to 30-day prior notification to the Joint Legislative Budget Committee (JLBC) and the fiscal committees of the Legislature. The DOF notification is required to include a CDVA plan detailing: (1) the process for awarding the funds; (2) how CDVA will measure performance of funding recipients; (3) the related data collection instrument; and (4) efforts to coordinate funding recipients and other agencies working on OWH. While CDVA submitted a plan to JLBC on December 22, 2010, DOF has not provided notice of intent to authorize expenditure of the funds. Without such DOF authorization, the funds will not be spent by CDVA or CVSOs and instead will be GF savings for 2010-11.

Background. Established in 1946, CVSOs are local agencies that assist veterans in receiving the federal benefits for which they are eligible and act as the CDVA's network for claim initiation and development.

OWH began in February 2010 under the prior Administration. OWH is intended to assist veterans in receiving coordinated assistance including job placement, unemployment benefits, housing, healthcare, and federal, state, and local veterans' benefits and services. OWH was initially funded with a \$20.0 million one-time federal Labor Department grant and a three-year \$700,000 AmeriCorps grant. The \$20.0 million grant expired as of December 31, 2010. The \$5 million provided in the 2010-11 Budget was ongoing funding intended to sustain OWH.

Current law requires that the proceeds of the Veterans Service Office Fund, which is comprised of revenues from the sale of special license plates, be used to support CVSOs.

Staff Comment. The Administration's 2011-12 request is to eliminate the \$2.6 million base funding for CVSOs and the \$5 million OWH augmentation first provided in 2010-11.

Were the Legislature to adopt the Governor's 2011-12 proposal to eliminate the \$2.6 million provided to CVSOs, CVSO funding would be reduced by 15 to 17 percent in the aggregate. CDVA also estimates that approximately half of the CVSOs currently operating would cease their operations entirely. Given that the \$2.6 million represents

only 15 to 17 percent of CVSO funding, it is not clear that the state's investment is sufficient to generate a real return in terms of what workload CVSO's focus on day-to-day.

Staff notes that it could also be argued that eliminating state GF support for CVSOs is consistent with the Administration's larger plan to realign government functions by restoring to local government the authority to make decisions that are best made closer to the people, not in Sacramento. However, unlike other functions proposed for realignment in 2010-11 for which the Administration provides dedicated and ongoing revenues, no funding is proposed for CVSOs or OWH. The Administration's own budget documents state that CVSOs act as the CDVA's network for claim initiation and development and assist veterans in receiving the federal benefits for which they are eligible. It is also worth noting that \$838,000 of the \$2.6 million in base funding serves as a match for Medi-Cal for the CVSO's Medi-Cal Cost Avoidance activities to move veterans off of Medi-Cal and onto federal veterans' benefits thereby saving the state GF.

Staff Recommendation: Hold open.

Vote: Rejected Governor's proposal to eliminate funding for CVSOs and Operation Welcome Home in 2011-12 and adopted revised BBL to require release of Operation Welcome Home funds on a 2-0 vote; Senator Evans absent.