Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 5 Agenda

Senator Loni Hancock, Chair
Senator Joel Anderson
Senator Lois Wolk

Wednesday, May 25, 2011
9:00 a.m.
Room 113

Consultant: Kris Kuzmich

Outcomes

PART A

DEPARTMENTS TO BE HEARD

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

0559	Secretary for Labor and Workforce Development Agency
1900	Public Employees' Retirement System
1920	State Teachers' Retirement System
7100	Employment Development Department
7350	Department of Industrial Relations
8380	Department of Personnel Administration
8860	Department of Finance
9800	Augmentation for Employee Compensation
CS 3.60	Contribution to Public Employees Retirement Benefits
CS 3.90	Reduction for State Employee Compensation

AGENDA – PROPOSED VOTE ONLY ITEMS

VOTE: All vote-only items approved 3-0, except for Issue 3, Budget Items 9800 Augmentation for Employee Compensation and CS 3.90 Reduction for Employee Compensation, which were approved 2-1, with Senator Anderson voting no.

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

PUBLIC EMPLOYMENT AND RETIREMENT TECHNICAL ADJUSTMENTS

Issue 1 – California State Teachers' Retirement System (1920): Revised 2009-10 Creditable Compensation

Governor's Request. In a May Revision Finance letter, the Governor requests an increase of $1.375 million GF, over the January budget level, due to an increase in the creditable compensation reported by the California State Teachers' Retirement System (CalSTRS) for fiscal year 2009-10, which increases the GF retirement contribution for fiscal year 2011-12.

Background. The Governor's January Budget estimated a 2011-12 GF contribution to CalSTRS of $1.35 billion, based on the October 2010 report of prior-year teacher payroll by CalSTRS. The actual amount is determined by the last revised report of prior-year teacher payroll, which CalSTRS submitted on or before April 15, 2011, as required by law. The budgeted payment amount consists of four separate components referenced in specific sections of the Education Code, as follows:

1. <u>Defined Benefit Program [22955(a)]</u>. Requires the GF to contribute 2.017 percent of prior-year teacher payroll each fiscal year. The May Revision requests an increase of $565,000 over the January budget level of $546.3 million, for a total of $546.9 million.
2. <u>Purchaser Power Maintenance [22954].</u> One component of the CalSTRS pension benefit package is the Supplemental Benefit Maintenance Account (SBMA), which makes payments to specified teachers from available funding in order to protect benefits from erosion by inflation. Section 22954 requires the GF to contribute around 2.5 percent of prior-year teacher payroll each fiscal year. The May Revision requests an increase of $700,000 over the January budget level of $605.1 million, for a total of $605.8 million.
3. <u>Court-Ordered Interest Payments [22954.5].</u> The 2003-04 state budget withheld a $500 million state payment from SBMA on a one-time basis. The courts found this action to be unconstitutional and ordered the state to repay CalSTRS with interest. Section 22954.5 provides an appropriation for these court-ordered interest payments. The May Revision proposes no change to the January budget amount of $57 million.
4. <u>Unfunded Liability for 1990 Benefit Structure [22955(b)].</u> CalSTRS is required to perform an alternate actuarial valuation each year of its defined benefit program in order to examine what the unfunded liability of the system would be if benefits had not been improved after July 1, 1990. This particular unfunded liability arises largely due to the system's large drop in investment assets in 2008, and it appears likely to continue for the foreseeable future. When an unfunded liability is identified in the 1990 benefits structure, the state GF must begin contributing extra amounts to CalSTRS, starting at 0.524 percent of prior-year teacher payroll. The May Revision requests an increase of $110,000 over the March 2011 budget package level of $106.4 million, for a total of $106.5 million.

Staff Com ment. As required by law, this request represents a necessary technical adjustment to the GF CalSTRS payment for 2011-12.

Staff Recommendation: Approve the May Finance Letter.

Issue 2 – Reduction for Employee Compensation (CS 3.90): Savings from Elimination of Peace Officers' and Firefighters' Defined Contribution Plan (PO/FF II) for Excluded Employees in Bargaining Unit 6

Governor's Request. In a May Revision Finance Letter, the Governor requests that Control Section 3.90 be increased by $9.68 million GF to authorize a reduction of department budgets as a result of the elimination of the Peace Officers' and Firefighters' Defined Contribution Plan (PO/FF II) retirement benefit for excluded employees, including supervisors and managers, affiliated with Bargaining Unit 6 (California Correctional Peace Officers Association - CCPOA).

Background. The CCPOA and the state negotiated the PO/FF II defined contribution plan during the 1988-89 fiscal year. This employer-provided benefit, in which the state contributed two-percent of base pay for each employee to a defined contribution plan, supplemented the employees' California Public Employees' Retirement System pension benefit. However, the recently ratified 2011 Memorandum of Understanding between the CCPOA and the state eliminated the PO/FF II retirement benefit program and the state, therefore, will no longer be making any contributions to the PO/FF II program.

Staff Comment. Chapter 25, Statutes of 2011 (SB 151), ratified the new contract between the CCPOA and the state. Consistent with Chapter 25, this request makes the necessary technical adjustments to an existing budget control section to authorize a reduction of department budgets to account for excluded employees affiliated with CCPOA no longer receiving the PO/FF II retirement benefit.

Staff Recommendation. Approve the May Finance Letter to make the necessary technical (including language) adjustments to CS 3.90.

Issue 3 – Augmentation for Employee Compensation (9800); Contribution to Public Employees Retirement Benefits (CS 3.60); and, Reduction for Employee Compensation (CS 3.90): Various Technical Adjustments

Governor's Request. In a May Revision Finance Letter, the Governor requests a net reduction of $17.245 million GF as a result of several state public employee compensation and retirement technical adjustments as detailed below.

Background. Each year, the January Governor's Budget estimates the upcoming fiscal year costs for state employee compensation, benefit, and retirement costs. As part of each year's budget adoption process, therefore, these estimates need to be revised as actual numbers become known. The CalPERS Board of Administration (Board) acted on May 18, 2011, to adopt the state's employer contribution rate. In addition, with the recent ratification of six Memorandums of Understanding [Chapter 25, Statutes of 2011 (SB 151)], a variety of technical adjustments are required to the 2011-12 budget. These actions drive a series of necessary technical adjustments to various items in the 2011-12 budget to ensure the budget is accurate as it pertains to state employee compensation, benefit, and retirement costs. As noted above, the net GF reduction for the combination of all of these technical adjustments to the budget is $17.245 million over the January budget level.

- Decrease of $286,651,000 GF ($169,457,000 other special funds and $83,464,000 various other Non-Governmental Cost Funds), over the January budget level, for retirement rate adjustments to the 2011-12 retirement costs through Control Section 3.60. The adjustments are necessary because the January budget estimate of retirement costs assumed the Board would take the following two actions:

  (1) Reduce the assumed investment rate of return from 7.75 percent to 7.50 percent. On March 16, 2011, the Board voted to maintain the rate at 7.75 percent. This decision resulted in lower estimated retirement costs in 2011-12 than were assumed in the January budget level; of the total reductions indicated above, this adjustment accounts for $400,000,000 ($200,000,000 GF) savings.

  (2) Retirement rates are now estimated to be lower than originally projected in the January budget; of the total savings indicated above, this adjustment accounts for $139,572,000 ($86,651,000 GF) savings.

- As a result of the $286,651,000 GF adjustment, the fourth quarter payment to CalPERS that is deferred from 2011-12 to 2012-13 will decrease by $71,663,000. The $286,651,000 adjustment less the $71,663,000 deferral results in a total net reduction of $214,988,000 to the GF in 2011-12.

- This $214,988,000 GF reduction is mostly offset by increases in Item 9800 and Control Section 3.90 resulting from the six collective bargaining agreements [Chapter 25, Statutes of 2011 (SB 151)] as follows:

  (1) Increase Item 9800-001-0001 by $96,393,000, Item 9800-001-0494 by $15,546,000, and Item 9800-001-0988 by $7,657,000, to provide increased costs for the six collective bargaining agreements in SB 151 and an updated salary survey affecting the California Association of Highway Patrolmen (Bargaining Unit 5) and Judges.

(2) Decrease Control Section 3.90 by $101,350,000 GF, $65,790,000 Special Fund, and $32,404,000 Non-Governmental Cost Fund, to reflect the six negotiated collective bargaining agreements not already outlined through Item 9800 above.

Staff Comment. As noted above, these technical adjustments to the 2011-12 budget are necessary to ensure that it accurately reflects state employee compensation, benefit, and retirement costs, as impacted by the recent actions of the CalPERS' Board and Chapter 25, Statutes of 2011 (SB 151).

Staff Recommendation. Approve the May Finance letter, including the necessary technical (including language as appropriate) adjustments to Item 9800, CS 3.60, and CS 3.90. Note, this recommendation includes adoption of additional technical conforming language in both CS 3.60 and CS 3.90 to authorize DOF to make necessary adjustments for CalPERS Board actions taken after adoption of the 2011-12 budget, including for health care rates and employer contribution rates.

Issues Proposed for Vote Only – Issue Descriptions, continued

EMPLOYMENT DEVELOPMENT DEPARTMENT (7100)

Issue 4 – Unemployment Insurance: Federal Interest Payment Technical Adjustment

Governor's Request. In a May Revision Finance letter, the Governor is requesting an adjustment to the January budget amount of the Unemployment Insurance (UI) interest payment due to the federal government in September 2011, reducing the total estimated payment by $42.79 million (Disability Insurance Fund – DI Fund) to a revised total of $319.5 million (DI Fund).

Prior Budg et Action. At its February 1, 2011 hearing, the Subcommittee approved an increase of $362.3 million GF to make the first interest payment due to the federal government for the quarterly loans the Employment Development Department (EDD) has been obtaining from the federal government since January 2009 to cover the UI fund deficit. This expenditure was offset by a transfer from the DI Fund to the GF, resulting in no net GF cost in 2011-12.

Background. California's UI fund was depleted on January 26, 2009, and at that time the EDD began borrowing funds from the Federal Unemployment Account in order to continue paying UI benefits to qualifying UI claimants. The federal loans have permitted California to make payments to UI claimants without interruption. Generally, loans lasting more than one year require interest payments; the federal American Recovery and Reinvestment Act (ARRA) of 2009 provided temporary relief to states from making interest payments on UI loans through December 31, 2010. With the expiration of the ARRA provisions, the first interest payment to the federal government is due in September 2011 with growing interest obligations in the out years. Federal law requires that the interest payment come from state funds; i.e., the payment cannot be paid by the Unemployment Fund or by a state's UI administrative grant.

The May Revision request adjusts downward by $42.79 million the September 2011 interest payment due to two factors: (1) updated federal guidance currently estimates an interest rate of 4.087 percent; the January budget level was based on an estimate of 4.36 percent; and (2) a reduction in the amount of federal funds the state will have borrowed at the time the interest payment is calculated; the January budget level estimated a total of $10.3 billion, the updated estimate is a total of $9.8 billion.

Staff Com ment. This request is simply a technical adjustment to the budgeted 2011-12 federal interest payment. The net effect is that $41.2 million less will be owed from the DI fund to the GF. The May Revision request makes no changes to the existing budget provisional language that: (1) authorizes the DOF to increase/decrease the actual amount paid/borrowed from the DI fund based on a more precise calculation of the payment due; and (2) specifies that the annual contribution rates for the DI fund shall not increase as the result of any loan made to the GF (in calculating the annual disability insurance tax rate each year, the EDD is required to treat outstanding DI loans as available cash in the DI Fund). This latter provision is critical to preventing any potential increase in employee paid DI taxes as a result of the loan from the DI Fund to the GF.

Finally, staff notes that the out year GF implications of not addressing the larger insolvency of the UI Fund are significant. The estimated September 12, 2012, interest liability is $592.8 million. This figure does not include the roughly $80 million that the GF will be required to pay out to the DI fund over the next four fiscal years as payment for the 2011-12 loan. Neither the Governor's January budget nor May Revision document included a proposal to address the underlying insolvency of the UI fund.

Staff Recommendation: Approve the technical adjustment to the Unemployment Insurance federal interest payment in the 2011-12 budget.

1900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM
8860 DEPARTMENT OF FINANCE

Issue Proposed for Discussion / Vote

Issue 1 – Pension Reform Study

Governor's Budget Request. In a May Revision Finance letter, the Governor requests that item 1900-001-0001 be added in the amount of $1.5 million GF with proposed provisional budget bill language to provide necessary one-time funding for the California Public Employees' Retirement System (CalPERS) to provide pension reform-related consultation, technical advice, and fiscal analysis to the Administration.

Background. The Administration is requesting this item to obtain consultation, technical advice, and fiscal analysis of reforms to address the increasing costs of public pensions that meet both the needs of the employer and the employee. The Administration states that while CalPERS is the best resource to assist the state in this effort, as it has the expertise to provide pension-related consultation, technical advice, and fiscal analysis, the Public Employees Retirement Fund cannot be utilized for this purpose. Therefore, this budget item and GF is requested to assist the Administration with this effort.

The proposed budget provisional language would charge the Director of Finance with coordination of all requests under this section, and a copy of any final document or report is required to be provided to the Director and the Legislature. The CalPERS system would play a pivotal role, in that it would undertake the work as directed by the Director and Finance and would be able to select such firms and/or individuals to assist it in the completion of any request submitted by the Director. The language would exempt these contracts from both the Government and Public Contract Codes. Finally, the language would provide that, once all costs and expenses have been paid, any remaining funds will revert to the GF.

Staff Comment. CalPERS has independent fiduciary and rate-setting functions, and in the end must choose the interests of its public employee members. Under Article XVI, Section 17(b), of the California State Constitution, CalPERS is obligated to put its "*duty to its participants and their beneficiaries…over any other duty*." However, under the Administration's proposed language, CalPERS could play a direct role in shaping a major gubernatorial proposal to alter the public pension system. To maintain its independence, CalPERS needs to be in a position to advocate for or against any such proposal, as well as change rates in whatever manner the Board sees fit upon enactment of a reform proposal.

In considering the merits of this request, i.e., to provide limited one-time resources to the Administration so it can seek technical advice and fiscal analysis on pension reform options, the Subcommittee may wish to consider alternative language that achieves the same goal but without raising any CalPERS-related concerns. The alternative language would be added to the Department of Finance's budget, as opposed to the CalPERS' budget as proposed in the Administration's May Revision request.

LAO Recommendation. We recommend that the Legislature reject this request for funding. Alternatively, if it wishes to provide the Administration with some such funding, perhaps the amount could be lowered. In any event, actuaries, legal experts, and other policy experts independent of CalPERS and other California public pension systems should be utilized in this study.

Staff Recommendation: Reject the May Finance letter; approve alternative language to provide on a one-time basis $1.5 million GF to the Department of Finance so the Administration can seek consultation, technical advice, and fiscal analysis on pension reform.

Vote: Staff recommendation approved 2-1, with Senator Anderson voting no.

CS 3.60 CONTRIBUTION TO PUBLIC EMPLOYEES RETIREMENT BENEFITS

Issue Proposed for Discussion / Vote

Issue 1 – Retirement Contribution Rate Adjustments: California State University

Governor's Budget Request. In a May Revision Finance letter, the Governor requests that the amount allocated for the 2011-12 GF expenses under Control Section 3.60 (CS 3.60) of the budget act be lowered by up to $69.2 million to recapture what the DOF has identified as an over-allocation of funds to the California State University (CSU) system in 2009-10.

Background. Control Section 3.60 is the budget bill's mechanism for holding departmental budgets harmless in the event of increases in employer CalPERS contribution rates and achieving budgetary benefit for the state when CalPERS rates decline. During each fiscal year, the DOF coordinates a process through one of its budget letters that leads to an estimate of how much more or less each department must pay that year due to changes in retirement contribution rates. Departmental budgets then are increased or decreased by DOF to reflect these changes.

The state's university systems, such as CSU, are different from most state departments in that they have significant autonomy in their budgeting processes, and they receive funding in line items of the annual budget act that their university boards allocate to campuses. But even state departments that are more directly under the funding control of the Legislature and the Governor have significant flexibility in managing their personnel funds. This is by necessity since various operating factors for a department cannot be known precisely in advance; such as, how many employees will retire in a given year, how many new hires will join and when, and what, expenses will come in higher or lower than expectations. Accordingly, when the state augments departments' budgets for higher personnel expenses (through Item 9800 of the budget) or for higher pension costs (through CS 3.60), these augmented funds are not segregated in a specific account available just for employee or pension expenses. Rather, these funds are placed in a department's general pot of operating money from each state fund, and in effect, the funds hold the department's operating budget harmless due to that fiscal year's incremental employee and pension cost changes.

For the typical state department and through the budget process, the Legislature has total control over how much the department can spend. If, for example, pension costs rise at a fast rate, this increase is budgeted through CS 3.60 and, in order to keep the budget in balance, the Legislature may have to choose to reduce the base budget of various departments. This process is designed to give departments the flexibility they need to operate while, at the same time, ensuring that the Legislature considers the effects of budget reductions on each department. Decisions to balance the budget are made through departmental base budget items, such as CSU's main item in the budget. CS 3.60, by contrast, should be viewed as a purely technical "bookkeeping" budget item, as it routes to each department the funds necessary to pay mandatory pension contribution costs.

As described above, CS 3.60 funds are administered through an annual budget letter process. Using CSU's responses to its 2008-09 and 2009-10 budget letters concerning CS 3.60 and data received from CalPERS on CSU's actual pension contributions for each of those fiscal years, DOF constructed a calculation that it believes shows that CSU had $69.2 million more in its base budget for retirement contributions in 2009-10 than it actually spent. In DOF's view, the budget letter process resulted in an estimate in early 2009-10 that CSU was going to spend $430 million on CalPERS contributions that fiscal year and that led DOF to allocate CSU an additional $7.4 million of funds in that year. By contrast, CalPERS reports that the system actually contributed only $361 million in 2009-10 which is $69 million less than DOF's budget letter process indicated at the time.

To counter the DOF argument, CSU officials have explained to legislative staff their view that DOF selectively chooses to examine CS 3.60 allocations only for 2008-09 and 2009-10. According to CSU, a more long-term view of the trends of these allocations produces a very different result. Instead of using 2008-09 as the "base year" of this calculation, CSU instead goes all the way back to 1999-00. By looking at the incremental trend of positive and negative allocations to CSU through CS 3.60, CSU claims that its "state-funded" portion of CalPERS contributions amounted to only $350 million by 2009-10, $5.4 million more than it says it then paid from CSU general funds. CSU further points out that the reason its retirement contributions dropped in 2009-10 was its implementation of a furlough program, developed as part of the response to unallocated budget reductions the Legislature made in the university's budget. In other words, CSU argues, DOF wants to cut the university through CS 3.60 after the GF already received the benefit of the same cuts in prior years' budgets through CSU's line items.

LAO Comment. In our view, the seemingly complicated mathematical bout between CSU and DOF should be awarded to neither party. The only way one could solve the argument would be to go to the beginning of CSU's retirement plans, which is more than a half century ago, and track the annual trend of state allocations and deductions for retirement costs. The choice of any other base year, be it 1999-00 (as CSU chooses) or 2008-09 (as DOF chooses), is arbitrary. Because records do not exist for such a long-term calculation, this particular numerical argument seems to us pointless.

CS 3.60 is meant to hold departmental budgets harmless in years when pension contribution rates increase and deliver state budgetary benefit in years when these rates decline. In essence, CS 3.60 involves an annual estimate and just that: an estimate of the annual change in retirement costs, and it implicitly assumes that in prior years, the amount allocated or deducted from departmental budgets through the control section was accurate. There is a practical reason for this assumption: specifically, that employee and retirement funds are not segregated in a specific account, so that they are spent each year along with the rest of a department's operating budget. To retroactively sweep departmental funds for a prior years' elevated estimate under CS 3.60 makes little sense because, in general, there are no funds left to be swept. If there was a prior-year overestimate under CS 3.60, the overestimated allocation from the state budget was spent during that prior year to operate departmental programs. Any such over allocated money, in short, is gone.

We believe that DOF deserves credit for examining prior-year CS 3.60 allocations critically. Nevertheless, if the Administration wants to address the perceived over allocation of prior-year funds to CSU through the control section, the appropriate place to do so would be by proposing a $69 million additional reduction in CSU's GF appropriation for 2011-12. This is because sweeping CSU's 2009-10 funds would have a real programmatic impact on the university in 2011-12. Decisions as weighty as those concerning a $69 million cut to a university system should never occur in the context of this control section. CS 3.60 is a purely technical budget item.

LAO Reco mmendation. Because the administration, in our view, cannot justify its mathematical argument and because of the significance of this reduction to CSU, we recommend that the Legislature reject the proposed $69.2 million reduction in CS 3.60 funds for 2011-12. Should the administration wish to reduce CSU's budget by $69.2 million, it may propose such a reduction for CSU's GF budget item, including its ideas for how the university should respond to the reduction in terms of programs, employee costs, and university operations.

All parties seem to agree that DOF's current CS 3.60 allocation process for CSU needs improvement in order to prevent such misunderstandings from happening in the future. Accordingly, we recommend adoption of the following provisional budget bill language in CS 3.60 (for one year only) related to this issue: "*It is the intent of the Legislature that the Department of Finance develop and implement a revised process, in consultation with the California State University, that allows the Director of Finance to more accurately adjust the university's appropriation amounts for employer pension contributions beginning in the 2011-12 fiscal year, as allowed in subdivision (a). The Director of Finance shall submit a brief description of the revised process to the Chairperson of the Joint Legislative Budget Committee and the Chancellor of the California State University on or before January 10, 2012*."

Staff Recommendation: Reject the Administration's May Revision request and instead adopt the LAO recommendation to add language to CS 3.60 to express legislative intent that an improved Control Section 3.60 process be developed for CSU in the future.

Vote: Staff recommendation approved 3-0.

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Department and Budget Overview. The Employment Development Department (EDD) administers services to employers, employees, and job seekers. The EDD pays benefits to eligible workers who become unemployed or disabled, collects payroll taxes, administers the Paid Family Leave Program, and assists job seekers by providing employment and training programs under the federal Workforce Investment Act of 1998. In addition, the EDD collects and provides comprehensive labor market information concerning California's workforce.

	2009-10 (actual)	2010-11 (estimated)	2011-12 (proposed)
Expenditures	$30,883,630,000	$23,471,859,000	$25,963,988,000
General Fund	$24,983,000	$33,107,000	$403,826,000
Personnel Years	11,192.7	11,022.5	10,208.9

Issues Proposed for Discussion / Vote

Issue 1 – Unemployment Insurance Modernization Projects: Single Client Database and Alternate Base Period

Governor's Budget Request. In two May Revision Finance letters, the Governor requests continued support for the final year of development of the Single Client Database (SCDB) and Alternate Base Period (ABP) Unemployment Insurance (UI) modernization projects. In addition, proposed trailer bill language is requested to extend the implementation date for ABP from September 3, 2011, to April 2, 2012. The chart below details the requested resources for these two projects:

FL #	Title/Description	Positions	Fund Detail
FL 1	Single Client Database (SCD)	22 existing positions	$10.7 million total [$7.1 *million Unemployment Fund and redirection of $3.6 million Disability Insurance Fund]*
FL 2	Alternate Base Period (ABP)	26 existing positions	$9.1 million total *[$8.5 million Unemployment Fund and redirection of $0.6 million Unemployment Administration Fund]*

2010-11 Budget. The 2010-11 budget provided $25.8 million ($11.1 million Unemployment Fund and redirection of $14.7 million Unemployment Administration Fund), 123 new positions, and 33 existing positions for project activities related to the SCDB and ABP.

Background. The American Recovery and Reinvestment Act (ARRA) provided states additional UI administration dollars for use toward information technology modernization. The EDD took advantage of these ARRA dollars to begin a variety of modernization projects, the majority of which were included in the department's 2008 Capital Plan. These projects are intended to streamline and improve UI service levels by minimizing manual processing of payments and claims and providing customers with more service options. These UI modernization projects include the SCDB and ABP projects, which are described as follows:

Single Client Database (SCDB). Started in May 2009 with estimated total projects costs of $60.024 million, the SCDB project will replace EDD's out-dated database with a modern, relational one that will be easier to maintain, change, and optimize to meet the service needs of business and to respond to legislative mandates, including allowing new business processes, such as the Alternate Base Period, to be implemented efficiently. Project implementation is expected in November 2011; this request is for the final year of development of the SCDB project.

Alternate Base Period (ABP). Started in May 2009 with estimated total project costs of $19.427 million, the ABP project will implement programming changes to provide an alternate base period for individuals who do not monetarily qualify for a UI claim using the standard/current base period year by allowing workers to qualify for a UI claim by using an alternate base period that is based on the most recent four completed calendar quarters at the time of filing a claim. The Administration estimates this change will allow 26,000 unemployed individuals per year to qualify for approximately $69 million in UI benefits up to three months earlier than would be possible under the existing base period. Chapter 23, Statutes of 2009 (ABX3 29), requires ABP implementation by April 2011. As part of this request, the Administration is requesting budget trailer bill language to extend this date by seven months to April 2, 2012. This request is for the final year of development of the ABP project. Implementation of the ABP is expected to bring an additional $840 million in federal funds to California (see related item discussed as Issue 2 below).

In the past year, during the course of the development of these projects, the EDD developed a clearer and more detailed understanding of the technical and project management complexities of the SCDB project. The EDD's plan to address these complexities and the associated increase in project costs (roughly $26.4 million) resulted in a new Special Project Report (SPR) being submitted to the California Technology Agency. The SPR was approved in March 2011. The project completion date has been extended from the prior estimate of July 2011 to November 2011. This request is based on the revised SPR.

The ABP project is completely dependent on the SCDB project for the collection and storage of data needed to process an ABP claim. As noted above, the SCDB implementation has been rescheduled to November 2011; hence the ABP implementation has been rescheduled from September 2011 to April 2012. Similar to SCDB, the ABP project also experienced issues of scope complexity and associated increases in project costs (roughly $12 million) resulting in a new SPR being submitted to the California Technology Agency. The SPR was approved in March 2011. This request is based on the revised SPR.

Staff Comment. When requests related to these projects were before this Subcommittee in 2010, the expected project completion dates were July 2011 (SCDB) and September 2011 (ABP). As noted above, due to the SCDB being inadequately scoped, as the EDD got deeper into the project's development it realized a need to revisit the project's design and scope. The SCDB project (and ABP given the interdependence) was also challenged by a series of federally mandated UI extensions in 2010 which required the redirection of staff (analysts, programmers, testers, database administrators, and support staff) to perform the critical programming, database administration, and testing necessary to implement the extensions. As a result, EDD was unable to provide sufficient staff to fully support some of the conversion efforts, thereby impacting the SCDB schedule.

With the new project completion schedule, May 2011 is a crucial month for the SCDB project. For example, May 27, 2011, is the schedule deadline for design acceptance. May is also a crucial month for internal testing of the SCDB. The EDD reports that the testing is going very well and that the SCDB project is on track for design acceptance on May 27. As described above, it is important for the SCDB project to remain on schedule, given the dependence of the ABP on this project. Should the ABP not be implemented by the federal deadline of September 2012, the $840 million in federal funds would be in jeopardy. As a sign of the Administration's confidence on the SCDB, it sent a letter on May 17, 2011, to the federal government to certify that it would implement ABP by the deadline – an action that can only happen if the SCDB project remains on track and is completed on schedule in November of this year.

Staff Recommendation: Approve the May Finance Letters for the SCDB and ABP projects, as well as the proposed trailer bill language to extend the project completion date of the ABP project until April 2, 2012.

Vote: Staff recommendation approved 2-1, with Senator Anderson voting no.

Issue 2 – Alternate Base Period Program Support

Governor's Budget Re quest. In a May Revision Finance letter, the Governor requests a redirection of $5.3 million (Unemployment Administration Fund) for 37 existing positions for the Alternate Base Period (ABP) program in 2011-12, including the programmatic costs related to implementing the APB in addition to one quarter (April 2012-June 2012) of ongoing programming costs for processing workload associated with ABP claims.

For 2012-13 and ongoing, the Governor requests continuous funding of $16.0 million (Unemployment Fund) and 165 new positions to support the ongoing administrative costs for processing the ABP workload.

This request also includes proposed trailer bill language to amend the 2010 budget act to appropriate $48 million of the federal ARRA incentive funds to cover the $16.0 million in annual costs of administering the ABP program for three fiscal years, from 2012-13 through 2014-15.

Background. As detailed in Issue 1 above, the ABP project will be completed in April 2012. This request, therefore, represents the ABP program administration costs in 2011-12, as well as 2012-13 and ongoing. These administration costs are driven by the fact that the APB program requires a manual wage investigation of a given ABP claim to determine eligibility. As opposed to the current base period where only wages earned in the first four quarters of the last five complete calendar quarters are considered, under the ABP eligibility is based on an alternate base period that is based on the last four completed calendar quarters at the time of filing a claim. It is expected that the ABP will establish eligibility for some workers such as seasonal or low-wage workers, or workers whose employment and layoffs were more recent. However, absent funding these new program administration costs, the EDD would be required to absorb the costs since this additional workload is not currently funded by the federal UI grant. Under this scenario, the Administration indicates that EDD Tax Branch staff would most likely be redirected to the ABP program, which could result in a revenue loss of $7.7 million GF.

As noted in Issue 1 above, the implementation of ABP will also qualify EDD to receive $840 million in federal ARRA stimulus dollars. To qualify for the additional federal economic stimulus dollars, the EDD must submit an application to the federal Department of Labor (DOL) no later than August 22, 2011. Within 30 days of receipt of the application, California would be notified whether the state qualifies for the additional stimulus dollars. The EDD reports this application was submitted on May 17, 2011. Should DOL approve this certification, California would become eligible to receive $840 million in federal incentive funds.

This request proposes to utilize $48 million of these incentive funds in support of the ABP project. To reserve a portion of these funds for state administration, however, California must be able to receive the UI incentive payment and set up the subaccount during a period in which California can sustain UI benefit payments without utilizing federal loan funds. Since 2009, California has consistently paid more in UI benefits than it has collected in revenues. To continue payment of benefits despite this shortfall, the state has obtained quarterly loans from the federal government which now total around $11 billion. Beginning in September 2011, the state will start paying interest on this loan to the federal government. The anticipated "non-loan" period begins in the early days of May 2011, when the highest annual UI revenues are received. These funds may last thought mid-July, at which point borrowing must restart. Therefore, the Administration requests that the $48 million be appropriated no later than June 30, 2011. Otherwise all of these incentive funds would be applied to the state's outstanding loan balance.

LAO Alternative. The May Revision includes a 2010-11 appropriation request which would set aside a total of $48 million of federal incentive funds to cover annual costs of administering the ABP program from 2012-13 through 2014-15. Absent this set aside, these ABP costs would likely have been borne by the GF (at least for the near term). The remaining $791 million in incentive funds would be applied to the state's federal loan, resulting in ongoing annual debt service savings of around $30 million beginning in 2012-13.

By setting aside an additional $120 million for EDD administrative costs in 2011-12 through 2014-15, the Legislature has an opportunity to realize significant GF savings. Specifically, this would result in $30 million in savings in 2011-12 and ongoing annual savings (slightly less than 2011-12 savings due to increased debt service costs) of approximately $23 million through 2014-15. We note that in the years beyond 2014-15, it would also result in slightly higher debt service costs of approximately $6 million per year until the state repays its outstanding federal loan.

The amounts presented above represent the maximum savings that can be achieved over the next four fiscal years. The Legislature could elect to set aside a smaller amount resulting in less GF savings. Also, the Legislature could opt to set aside some funding for other EDD initiatives. In deciding whether to set aside additional funds for EDD administration, the Legislature should carefully weigh the benefits of near term GF savings against future increased debt service costs and a small decrease in the reduction to the UI loan balance. Given the short time frame in which these funds would need to be set aside, the Legislature may wish to consider taking action in separate legislation.

Staff Comment. The LAO alternative builds on the Administration's May Finance letter to secure additional GF savings of $30 million in 2011-12 and ongoing savings of $23 million through 2014-15. This would result in slightly higher debt service costs of approximately $8.5 million per year until the state repays its outstanding federal loan. The estimated September 2012 interest payment is upwards of $590 million. Were the Subcommittee to approve the LAO alternative, in addition to the Administration's proposal, an estimated $8.5 million would be added to that outstanding debt but $23 million GF savings would also be achieved in that same year.

Staff Recommendation: Approve the May Finance letter as modified by the LAO alternative to set aside a total of $168 million (federal ARRA funds) for EDD administrative costs beginning in 2011-12 and through 2014-15.

Vote: The Administration's May Finance letter was approved on a 2-1 vote, with Senator Anderson voting no.

Issue 3 – Workforce Investment Act (WIA) 2011-12 Funding

Governor's Request. Given current financial uncertainties about the amount of federal WIA funding available in 2011-12, in a May Revision Finance letter, the Governor requests that any adjustments needed in 2011-12 be made as part of the October Revise of the WIA 15 Percent State Discretionary Funds.

March 201 1-12 Budget Action. At its February 1, 2011, hearing the Subcommittee approved and accepted the 2011-12 WIA Program allocations but denied without prejudice approval and authorization of the Governor's proposed expenditures and distribution of 15 Percent State Discretionary funds (Discretionary Funds). The Subcommittee's intent was to consider the proposed expenditure and distribution of the Discretionary Funds during the Spring 2011 budget process.

Background. The goal of WIA is to strengthen coordination among various employment, education, and training programs. The WIA prescribes a formula for allocating adult, youth, and dislocated worker funds. As part of the annual administration of the WIA funds, the annual budget document prescribes a process whereby the Administration provides an October and April revise to the Joint Legislative Budget Committee. This ensures that the WIA expenditure plan is updated at regular intervals each year, to accommodate unanticipated additional or decreased federal funds or to reallocate funding within the WIA categories consistent with the overall expenditure plan.

Under federal law at the time of the construct of the Governor's January budget, generally 85 percent of the state's total WIA funds would be allocated to local Workforce Investment Boards (WIBs) and the remaining 15 percent of WIA funds ($69.1 million in 2010-11) would be available for state discretionary purposes such as required administration and oversight activities, as well as for discretionary statewide initiatives and competitive grants for employment and training programs.

However, the Administration reports that significant changes to the WIA program were included in the recently enacted federal budget resolution. At this time, the Administration reports that one of two scenarios is possible, as illustrated in the below chart:

2011-12 WIA FUNDING SCENARIOS VS. 2010-11 FUNDING LEVEL
(Dollars in Millions)

Funding	2010-11	2011-12 Scenario 1	2011-12 Scenario 2
Discretionary Funds	$69.14	$44.41	$20.11
Adult	111.93	97.72	108.24
Dislocated Worker	115.45	105.44	119.21
Rapid Response	48.10	42.58	42.58
Youth	116.34	112.05	112.05
TOTAL	**$460.97**	**$402.19**	**$402.19**

Scenario 1 assumes Discretionary Funds are five percent of the state's Round 1 allocation and 15 percent of the Round 2 allocation. Scenario 2 assumes Discretionary Funds are five percent of both Round I and Round 2 funding. As the chart illustrates, there is a year-to-year overall decrease of $58.8 million, as compared to the total amount available in 2010-11.

Further, while the two 2011-12 scenarios contain the same total amount of funding ($402.19 million), the allocation within the various WIA categories varies, with substantially less Discretionary Funds available as compared to the 2010-11 level. For instance, in both scenarios the amount of available Discretionary Funds is roughly $25 million (Scenario 1) and $49.02 million (Scenario 2) less than the available funds in 2010-11.

Further, if Scenario 2 is determined to be the correct interpretation of the federal action, the state would likely only have sufficient funding for mandated administration and oversight activities, with no funding available for any statewide initiatives or competitive grants. The Administration indicates that it is currently awaiting final clarification from the federal Department of Labor before permanent funding adjustments are made.

Staff Comment. Historically, WIA state discretionary expenditures and adjustments are considered post-May Revision. Further, these expenditures depend on gubernatorial and legislative priorities. Therefore, the LAO has consistently recommended that the Legislature review and potentially modify the Administration's Discretionary Funds plan to meet legislative priorities.

In 2011-12, the state faces a conundrum of sorts with its administration of the Discretionary Funds. Due to the lack of clarity as to which scenario applies in 2011-12, it is very difficult for the Administration to propose, and for the Legislature to adopt, an expenditure plan as the amount of available Discretionary Funds is unknown. Further complicating matters, the state could have a larger than normal carryover from 2010-11, as the first expenditure priority has been to fully utilize American Recovery and Reinvestment Act (ARRA) funding within the WIA programs as these dollars must be fully spent by June 30, 2011. The Administration currently estimates this carryover at roughly $10-$15 million. Therefore, where allowable, EDD is using these funds before expenditure of 2010-11 base grant for administrative costs resulting in an increase in carryover funding. The Administration indicates that the final amount of carryover will not be known until August 2011 at the earliest.

Consistent with the Subcommittee's approach in February of this year, and in considering this request, the Subcommittee may wish to continue to only authorize expenditures on mandated WIA activities (program administration and oversight) and postpone any other allocation or expenditure decision until the actual amount of federal funding is determined. That should occur on or about September 1, 2011. At that time, the Administration would be required to submit a detailed expenditure plan to the JLBC, and the expenditure of funds would be authorized not sooner than 30 days after the submission date.

Item 7100-001-0869
Strike existing Provision 4.
Insert new Provision 5 as follows:
5. Notwithstanding Provisions 1 through 3 of this item in fiscal year 2011-12 only, funds appropriated in Schedules (2) to (4), inclusive, are not authorized for expenditure until the Employment Development Department and the Department of Finance submit a detailed plan for expenditure based on the available federal funding. It is the intent of the Legislature that this plan be submitted by September 1, 2011. The expenditure of funds may be authorized not sooner than 30 days after this detailed expenditure plan is provided to the chairpersons of the committees in each house of the Legislature that consider the State Budget, and the Chairperson of the Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine.

Staff Reco mmendation. Approve budget provisional language to authorize 2011-12 expenditures on mandated WIA activities only, and postpone further expenditure of WIA Discretionary Funds until the Administration submits a detailed expenditure plan of available federal funds to the JLBC on or about September 1, 2011. Note, this recommendation also includes a technical conforming action to remove from this budget item Provision 4, which is the language tied to the Subcommittee's February 1, 2011, action.

Vote: Staff recommendation approved 2-1, with Senator Anderson voting no.

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 crate 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.

The Control Sections associated with this subject are in the purview of Budget Subcommittee No. 4 on State Administration. Discussed below are the five “Reducing State Government” proposals that fall within the jurisdiction of Subcommittee No. 5, including four within the Labor and Workforce Development Agency and its constituent departments and one impacting the Department of Personnel Administration.

Issue 1 – Secretar y for Lab or and W orkforce Developm ent Agen cy (0559) Reduce the Labor and Workforce Development Agency

Governor's Budget Request. As part of the May Revision, the Governor requests a decrease of $677,000 (reimbursements) and 3.8 personnel years to reflect a net reduction of four positions within the Labor and Workforce Development Agency (Agency) and the relocation of the office from leased space to existing state-owned space within the EDD. This reduction includes one position currently assigned to support the Economic Strategy Panel (see Issue 2 below). The relocation from leased space to state-owned space will also result in rental savings of $210,000 (other funds) within the Department of Industrial Relations. This request does not include proposed budget trailer bill language.

Background. The Agency was created in 2002 as an executive branch agency with a Secretary that is a member of the Governor's Cabinet. The Agency oversees seven major departments, boards, and panels that serve California businesses and workers. The budget for all Agency operations totals about $11.2 billion, and includes approximately 11,600 staff working throughout California. The goals of the Agency are twofold: (1) improve access to employment and training programs; and (2) ensure that California businesses and workers have a level playing field in which to compete and prosper.

Staff Comment. With the change in Administration in January of this year, a new Secretary was appointed to the Agency who set out to restructure the Agency to better focus its operation on its core mission and otherwise streamline its operations. This May Revision proposal is a direct result of that effort, including the reduction in staffing as well as relocation of its operation from more costly leased space into state-owned space. In addition, $157,000 of the total $677,000 in savings is from the elimination of the Economic Strategy Panel, which is discussed further as Issue 2 below.

Staff Recommendation: Approve the reductions to the Labor and Workforce Development Agency.

Vote: Staff recommendation approved 3-0.

Issue 2 – Labor and Workforce Development Agency (0559) Eliminate the Economic Strategy Panel

Governor's Budget Request. As part of the May Revision, the Governor requests to eliminate the Economic Strategy Panel for savings of $79,000 (other funds) and 0.7 personnel years. This request includes proposed budget trailer bill language.

Background. Established in 1993 within the now defunct California Technology, Trade, and Commerce Agency, the California Economic Strategy Panel (Panel) continuously examines changes in the state's economic base and industry sectors to develop a statewide vision and strategic initiatives to guide public policy decisions for economic growth and competitiveness. The fifteen-member Panel is comprised of eight appointees by the Governor, two appointees each by the President pro Tempore and the Speaker and one each by the Senate and Assembly Minority Floor Leaders. The Secretary of the California Labor & Workforce Development Agency serves as the Chair.

When this Panel was established in 1993, it was not provided with any funding. In 2003, when the Trade and Commerce Agency was dismantled, the Panel was moved to the Labor Agency's budget. It has, therefore, since been funded by reimbursements from the EDD and Department of Industrial Relations (both part of the Labor Agency).

California has ten separate boards, commissions, programs, divisions, councils, and panels tasked with economic and workforce development. Four of these entities are located within the Labor Agency, with one being the Economic Strategy Panel. The other three are California Workforce Investment Board, Governor's Office of Economic Development, and the Employment Training Panel. A fifth, the Governor's Commission on Employment of People with Disabilities is proposed for transfer to the Department of Rehabilitation (discussed as Issue 3 below).

Staff Comment. Given the number of separate boards, commission, programs, divisions, councils, and panels tasked with economic and workforce development in the state a fair question can be asked is this large number of separate entities warranted? Having this number of separate entities also raises questions about coordination (or lack thereof) of these myriad efforts and ensuing potential missed opportunities. Finally, the Agency indicates that the duties and responsibilities can be absorbed within its current structure.

Staff Recommendation: Approve the elimination of the Economic Strategy Panel and related trailer bill language.

Vote: Staff recommendation approved 3-0.

Issue 3 – Employment Development Department (7100) Transfer Support of the Governor's Commission on Employment of People with Disabilities to the Department of Rehabilitation

Governor's Budget Request. As part of the May Revision, the Governor requests to transfer support of the Governor's Commission on Employment of People with Disabilities from the Employment Development Department (EDD) to the Department of Rehabilitation (DOR) for savings of $403,000 (other funds) and 3.3 personnel years and assumes a reduction of seven of the 11 positions that currently support this Commission. Under this proposal, the EDD would continue to provide funding to support the work of the Commission, which would increase reimbursements provided to the DOR by approximately $234,000 in 2011-12. This request includes proposed budget trailer bill language.

Background. Established by the enactment of California's Workforce Inclusion Act (Chapter 1088, Statutes of 2002), the California Governor's Commission on Employment of People with Disabilities consults with and advises the Labor Agency and Health and Human Services Agency on all issues related to full inclusion in the workforce of persons with disabilities, including the development of a comprehensive strategy to accomplish various goals aimed at bringing more people with disabilities into employment. The Governor's Commission consists of appointed and mandated public and private members and receives staff support from the EDD. It is mandated to meet quarterly.

In proposing this transfer, and through the proposed budget trailer bill language, the Administration is proposing to modify the make-up of the Commission, as well as the appointment authorities, as illustrated in the chart at the top of the next page:

GOVERNOR'S COMMISSION ON EMPLOYMENT OF PEOPLE WITH DISABILITIES

Current Membership	Modified Membership Under May Revision Proposal
Four individuals with disabilities, two appointed by the Governor and one each appointed by the Senate Rules Committee and the Speaker of the Assembly.	Four individuals with disabilities appointed by the Secretary of the Health and Human Services Agency (HHSA Secretary).
Directors of the Employment Development Department, State Department of Health Services, State Department of Mental Health, State Department of Developmental Services, State Department of Social Services, and Department of Rehabilitation, and the Chair of the State Independent Living Council.	Same.
Representatives from the State Department of Health Services' California Health Incentive Improvement Project.	One representative from this same entity.
A representative from the California Workforce Investment Board (CWIB).	Same, except that the representative will be identified by the CWIB.
Representatives from any other department or program that may have a role in increasing the capacity of state programs to support the employment-related needs of individuals with disabilities.	Same, except now at the discretion of the HHSA Secretary.
A representative from a local one-stop or local workforce investment board, to be appointed by the Governor.	Same, except now appointed by the CWIB.
A business representative with experience in employing persons with disabilities, to be appointed by the Governor.	Increases business representatives to a total of three, now appointed by the HHSA Secretary.

Staff Comment. In transferring the work of this Commission from the EDD to DOR, the Administration is recognizing that the promotion of employment of people with disabilities is a core function of the DOR and can be more efficiently operated within that department.

With regard to the proposed changes in the membership and appointment authorities, the Administration indicates it was trying to reduce state administrative costs due to the length and detail of the gubernatorial appointments process. Staff finds no issue with the Administration proposing changes to its authorities, but in considering this request, the Subcommittee may wish to retain the Legislature's appointment authority to this Commission.

Staff Recommendation: Approve the transfer of the Governor's Commission on Employment of People with Disabilities to the Department of Rehabilitation; adopt the proposed trailer bill language as modified to retain the Senate Rules Committee and Speaker of the Assembly appointment authority.

Vote: Staff recommendation approved 3-0.

Issue 4 – Department of Industrial Relations (7350) Eliminate the Occupational Safety and Health (OSH) Standards Board

Governor's Budget Request. As part of the May Revision, the Governor requests to eliminate the separate OSH Standards Board and transfer responsibility to the Division of Occupational Safety and Health within the Department of Industrial Relations for savings of $324,000 (other funds) and 1.9 personnel years. This request includes proposed budget trailer bill language.

Background. The Occupational Safety and Health Standards Board, a seven-member body appointed by the Governor, is the standards-setting agency within the Cal/OSHA program. The Standards Board's objective is to adopt reasonable and enforceable standards at least as effective as federal standards. The Standards Board also has the responsibility to grant or deny applications for variances from adopted standards and respond to petitions for new or revised standards. The part-time, independent board holds monthly meetings throughout California.

The Administration indicates that this proposal is intended to model the state's approach to developing OSH standards after the federal approach for standards development, including stakeholder advisory panels. While the proposal technically eliminates the OSH Standards Board, the proposed trailer bill language retains the function in an Advisory Committee. That modification, which allows for a more streamlined operation and no longer requires payment of stipends to board members, achieves the savings figure identified above.

Staff Comment. This proposal eliminates the OSH Standards Board but retains the function in the form of an Advisory Committee which effectively limits any programmatic reduction in the development of OSH standards. Because sections of the proposed trailer bill language impact Proposition 97 of 1988, State Occupational Safety and Health Plan, the trailer bill must be adopted per the requirements of that initiative which require a two-thirds vote of each house of the Legislature.

Staff Recommendation: Approve the elimination of the Occupational Safety and Health Standards Board and related trailer bill language.

Vote: Staff recommendation approved 3-0.

Issue 5 – Department of Personnel Ad ministration (8380) Elimination of the Human Resources Modernization Project

Governor's Budget Request. As part of the May Revision, the Governor requests a decrease of $5.5 million ($2.3 million GF) and 11.3 personnel years reflective of the elimination of the Human Resources Modernization (HR Mod) Project. This request does not include proposed budget trailer bill language.

Background. The HR Mod Project was officially initiated in October 2007 as a joint project overseen by both the Department of Personnel Administration (DPA) and the State Personnel Board (SPB) to update and streamline the State's existing HR programs including recruitment, selection, classification, compensation, workforce planning, performance management, and staff development. Project activities are focused to achieve the following strategic goals: (1) Create an Attractive Recruitment and Expeditious Hiring Process; (2) Simplify the Classification System; (3) Improve and Instill High Performance in the Workplace; (4) Ensure all Departments/Agencies have Workforce and Succession Plans that Support their Strategic Plans; (5) Compensate Based on Factors including Individual Self-development, Business Needs, and Competitive Market Practices; and (6) Promote Integrated Human Resource Solutions.

Since its creation in the 2007–08 budget, the Legislature has appropriated approximately $20 million for the HR Mod Project. The 2010-11 Budget provided $5.7 million for 13 authorized positions and 12 positions on loan from other departments working on the project.

In proposing the elimination of the HR Mod Project, the Administration indicates that the key functions of the project will be absorbed within the proposed California Department of Human Resources. That proposal, to consolidate the DPA and SPB, has been formally submitted to the Legislature as a Governor's Reorganization Plan. Any savings from that larger consolidation would impact the 2012-13 budget.

Staff Comment. The HR Mod project has accomplished many of its goals, and started some positive changes that will continue within the personnel departments of various state agencies and departments. At this juncture, and in light of the state's fiscal situation, it is not clear that this project warrants being continued as a separate project, particularly in light of the proposed consolidation of the DPA and the SPB.

Staff Reco mmendation: Approve the elimination of the Human Resources Modernization Project.

Vote: Staff recommendation approved 3-0.