



Senate Budget and Fiscal Review

Subcommittee No. 4 2004 Agendas

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California State Senate
SENATE BUDGET & FISCAL REVIEW
SUBCOMMITTEE No. 1

Agenda

March 8, 2004
Upon Adjournment of Session – Room 113

EDUCATION
JACK SCOTT, CHAIR
BOB MARGETT
JOHN VASCONCELLOS

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SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, March 10, 2004
1:30 p.m.
Room 3191

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Proposed Consent Calendar

0160	Legislative Counsel Bureau
8380	Department of Personnel Administration
1111	Department of Consumer Affairs-Bureaus, Programs and Divisions
	Arbitration Certification
	Bureau of Automotive Repair
	Bureau for Electronic & Appliance Repair
	State Board of Barbering and Cosmetology
	Hearing Aid Dispensers Bureau
	Bureau of Home Furnishings and Thermal Insulation
	Bureau for Private Postsecondary and Vocational Education
	Security and Investigative Services Bureau
	Telephone Medical Advice Services Program
1110	Department of Consumer Affairs-Regulatory Boards
	Veterinary Medical Board
	Board of Chiropractic Examiners
	Board of Pilot Commissioners of San Francisco, San Pablo, and Suisun
	Commission on State Government Organization and Economy
	Commission on the Status of Women
	California Board of Accountancy
	Acupuncture Board
	Board of Architectural Examiners
	Board of Behavioral Sciences

Court Reporters Board of California
Board of Dentistry
Board for Geologists and Geophysicists
Board of Guide Dogs for the Blind
Medical Board of California
Board of Occupational Therapy
Board of Optometry
Osteopathic Medical Board
Board of Pharmacy
Physical Therapy Board
Physicians Assistant Committee
Board of Podiatric Medicine
Board of Registered Nursing
Respiratory Care Board
Speech-Language Pathology and Audiology Board
Structural Pest Control Board
Board of Vocational Nurse and Psychiatric Technician Examiners

Control Sections

1.00 Citation
1.50 Intent and Format
3.00 Defines Purposes of Appropriations
8.00 Antiterrorism Federal Reimbursements
13.00 Legislative Counsel Bureau
14.00 Special Fund Loans Between Boards
28.50 Agency Reimbursement Payments
29.00 Personnel-Year Estimates
30.00 Continuous Appropriations
31.00 Administrative Procedures for Salaries and Wages
32.00 Prohibits Excess Expenditures
33.00 Item Veto Severability
34.00 Constitutional Severability
36.00 Usual and Current Expenses
37.00 Urgency Clause

Proposed Consent Calendar

Staff Recommendation: No issues have been raised with any items on the proposed consent calendar. Staff recommends the subcommittee approve all items on the consent calendar.

Vote: APPROVED AS BUDGETED (3-0)

0510 Secretary for State and Consumer Services

The State and Consumer Services Agency brings together a diverse array of State departments which include: the California Science Center, the California African American Museum, the Department of Consumer Affairs, the Department of Fair Employment and Housing, the Fair Employment and Housing Commission, the Franchise Tax Board, the Department of General Services, the State Personnel Board, the Public Employees' Retirement System, the State Teachers' Retirement System, and the Building Standards Commission. In addition, within the Agency is the Office of the Insurance Advisor which provides expertise to the Governor on insurance-related issues including legislative bill analysis, constituent services and the development of policy initiatives.

Issue

LAO Option– Reduce General Fund Support to the Secretary's Office

As part of an overall proposal to reduce General Fund support for various agency secretaries, the LAO recommends the subcommittee reduce the State and Consumer Services Agency Secretary by \$700,000. This proposal would reduce the Secretary's budget by 53 percent.

Staff Comments: The LAO should provide further detail regarding the effects of this proposal. The LAO should specify which positions and/or programs will be affected by the proposed reduction.

Staff Recommendation: Staff recommends the subcommittee withhold action on the LAO's proposal at this time. The subcommittee may wish to consider revisiting this item at a later date, or adding this proposal to a potential savings list.

Vote: NONE. Keep open and implement staff recommendation.

0650 Office of Planning and Research

The Office of Planning and Research (OPR) assists the Administration in planning, research, and liaison with local government. OPR oversees programs for small business advocacy, rural policy, environmental justice, and helps implement decisions made within the Administration. In addition, the office has responsibilities pertaining to California Environmental Quality Act assistance, environmental and federal project review procedures, and oversees the Governor's Office on Service and Volunteerism, which administers the California AmeriCorps program.

LAO Option –Eliminate the Office of Planning and Research, a savings of \$4.3 million in General Fund.

As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO provides an option that the subcommittee eliminate the OPR.

Staff Comments: The LAO should prepare additional detail regarding the effects of this proposal, specifying what activities and programs would be eliminated and those that would be transferred to other departments.

Staff Recommendation: Staff recommends the subcommittee not adopt the LAO option at this time and keep the OPR budget open. The LAO should provide further detail on the effects and cost implications of this option.

Vote: NONE. Keep open and implement staff recommendation.

1110 State Athletic Commission

The Athletic Commission approves, manages, and directs all professional and amateur boxing and full-contact martial arts events. The commission protects consumers by ensuring bouts are fair and competitive while protecting the health and safety of participants.

Staff Recommendation: Staff recommends the subcommittee approve the commission's budget as proposed.

Vote: NONE. Keep open

1110 Contractors State License Board

The Contractors' State License Board protects consumers by regulating the construction industry through policies that promote the health, safety and general welfare of the public in matters relating to construction.

The Board accomplishes this by:

- Ensuring that construction is performed in a safe, competent and professional manner;
- Licensing contractors and enforcing licensing laws;
- Providing resolution to disputes that arise from construction activities; and
- Educating consumers so that they make informed choices.

Staff Recommendation: Staff recommends the subcommittee approve the commission's budget as proposed.

Vote: APPROVED AS BUDGETED (3-0)

1110 Cemetery and Funeral Bureau

The objectives of the Cemetery and Funeral Bureau are to ensure: 1) that only qualified applicants receive licenses to operate cemeteries, crematories or funeral establishments, or act as funeral directors, embalmers, apprentice embalmers, cremated remains disposers, cemetery managers, crematory managers, cemetery brokers or salespeople; 2) that licensees comply with applicable rules and regulations; 3) that all trust funds are appropriately managed; 4) permanence of mausoleums and columbariums; and 5) proper handling of human remains in the interest of public health.

Staff Recommendation: Staff recommends the subcommittee approve the commission's budget as proposed.

Vote: APPROVED AS BUDGETED (3-0)

8260 California Arts Council

The California Arts Council was established by Chapter 1192, Statutes of 1975. Major statutory mandates to the Council are:

1. To encourage artistic awareness, participation, and expression among the citizens of California.
2. To help independent local groups develop their own arts programs.
3. To promote the employment of artists and those skilled in crafts in both the public and private sectors.
4. To provide for the exhibition of art works in public buildings throughout California.
5. To enlist the aid of all state agencies in the task of ensuring the fullest expression of our artistic potential.

The Council consists of eleven members, nine appointed by the Governor and one each by the President pro Tempore of the Senate and the Speaker of the Assembly. The Council establishes general policy and approves program allocations.

Issue

LAO Recommendation: Delete all General Fund Support to the Arts Council

The Governor proposes \$3.1 million (\$1.1 million, General Fund) for the Arts Council's budget. The LAO recommends the subcommittee delete all of the council's General Fund support based on the following:

1. The council no longer offers local assistance grants.
2. The council should seek private donations.
3. A projected workload reduction beginning in the budget-year.
4. State funds are not needed for federal match requirements.

Staff Recommendation: Staff recommends the subcommittee withhold action on the LAO's proposal at this time. The subcommittee may wish to consider revisiting this item at a later date, or adding this proposal to a potential savings list.

Vote: NONE. Keep open

8855 Bureau of State Audits

The Bureau of State Audits (BSA) provides audits of the programs and fiscal operations of state government. Through financial, performance, and investigative audits, as well as other special studies, the State Auditor provides the Legislature, Governor, Milton Marks Commission on California State Government ("Little Hoover Commission"), and the citizens of California with objective information about the state's financial condition and the performance of state agencies and programs. The BSA was created by the enactment of Chapter 12, Statutes of 1993 (SB 37).

Issue

Reduce reserve in State Audit Fund.

The State Audit Fund is used to fund the examining and reporting of financial statements, audits, and the administration of the Reporting of Improper Governmental Activities Act. The reserve in the State Audit Fund has grown steadily since its establishment in 1993, up to \$1.725 million today. The current reserve is 14 percent of total annual funding for the BSA.

Staff Comments: General statewide practice for special funds is to maintain a total reserve of approximately five percent or one month's worth of total annual funding. For 2004-05, a five percent reserve in the State Audit Fund would be \$620,000. The BSA asserts that a \$1.725 million reserve in the State Audit Fund is necessary to provide ready funds for unforeseen audits and assignments.

The BSA has never tapped their reserve close to or in excess of the proposed five percent level (\$620,000). If that were to happen, legislative processes exist to provide funding for unanticipated expenses. Furthermore, the unused funding can be transferred to provide General Fund relief.

Staff Recommendation: Staff recommends the subcommittee reduce the State Audit Fund to \$620,000 to establish a five percent reserve in the fund. The balance of \$1,105,000 would be transferred to the General Fund.

Vote: NONE. Keep open

Control Section 7.50 Federal Reimbursements

Control Section 7.50 is included to the 2004-05 Budget Bill to provide a mechanism to use unanticipated federal funds to reduce state expenditures. A total of \$350 million in “unclassified federal recoveries” is identified in the Governor’s Budget for this purpose. Control Section 7.50 authorizes the Director of Finance to allocate federal funds to “high priority needs” in the budget year. A 30-day review period for the Legislature is included.

Issue

LAO Recommendation - Control Section 7.50 should be scrutinized due to the level of discretionary authority granted to the Administration in the use of the federal funds.

Staff Comments: The LAO, in their “Perspectives and Issues,” raised a concern that this process will give the Administration broad new authority to use federal funds for a purpose determined at their discretion, rather than the Legislature’s. This could result in the funding or augmentation of programs that the Legislature did not specifically intend.

The Administration’s need for this additional authority is not justified. Legislative processes already exist (e.g. special legislation) to receive federal funds for the purposes of reducing General Fund or special fund expenditures.

Staff Recommendation: Eliminate Control Section 7.50 in the 2004-05 budget bill.

Vote: Delete Control Section 7.50, 3-0.

Note: This decision is for the Control Section only and does not impact the \$350 million federal revenue assumption in the Governor’s Budget.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, March 24, 2004
1:30 p.m.
Room 2040

<u>Item</u>	<u>Department</u>	<u>Page</u>
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0890	Secretary of State... ..	3
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8620	Fair Political Practices Commission.....	9
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Proposed Consent Calendar

<u>Item</u>	<u>Department</u>
0750	Office of the Lieutenant Governor
0850	California State Lottery Commission
1110	Board for Professional Engineers and Land Surveyors
1110	California State Board of Psychology
1111	Office of Privacy Protection
8320	Public Employment Relations Board
8385	California Citizens' Compensation Commission
8640	Political Reform Act of 1974

Control Section:

4.11 Establishing New Positions

Proposed Consent Calendar

Staff Recommendation: No issues have been raised with any items on the proposed consent calendar. Staff recommends the Subcommittee approve all items on the consent calendar.

Vote:

0845 Department of Insurance

The Office of the Insurance Commissioner enforces the insurance laws found in the California Insurance Code through regulation of the insurance industry. The Department fulfills that regulatory responsibility by regulating the over \$105 billion in direct premiums written in the state. The Department conducts examinations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially viable and able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquires, administers the conservation and liquidation of insolvent and delinquent insurance companies, reviews and approves insurance rates, and enforces laws to combat insurance fraud.

Issue

Budget Change Proposal: Earthquake Grants and Loans Program. The Administration proposes to eliminate the Earthquake Grants and Loans Program in the current year and transfer the \$2.9 million balance in the California Residential Earthquake Recovery Fund to the General Fund. This program was created for low to moderate-income residential property owners to minimize future earthquake damage to their homes. As of February 29, 2004, the program had expended approximately \$7.33 million since inception to retrofit 2,126 homes in 35 counties. The Earthquake Grants and Loans Program was established in 1995 and was originally set to expire in July 1, 2000. The Program was subsequently extended and augmented through July 1, 2007, in Chapter 448, Statutes of 2003 (Corbett).

Staff Comments: The Legislature was not originally informed of this program elimination through a BCP, the normal process for any such elimination. A BCP was provided only after it was requested by staff.

Staff Recommendation: Based on General Fund need and the small number of statewide beneficiaries, adopt the Administration's Earthquake Grants and Loans Program elimination proposal and the Department of Insurance's 2004-05 budget.

Vote:

0890 Secretary of State

The Secretary of State's (SOS) office has statutory responsibility for managing the filing of financial statements and corporate-related documents for the public record. As the chief election officer, the SOS administers and enforces election law and campaign disclosure requirements. In addition, the SOS office appoints notaries public, registers auctioneers, and manages the State's archives.

	2002-03	2003-04	Change from 2002-03		2004-05	Change from 03-04	
Total Budget	\$69,279	\$132,146*	\$62,867	90.7%	\$68,792	-\$63,354	-48.0%
Positions	433.6	478.5	44.9	10.4%	478.5	0	0%

(Dollars in 000s)

* Includes \$57,300 in HAVA funds.

Help America Vote Act. The federal Help America Vote Act of 2002 (HAVA) is expected to provide approximately \$250 million for changes to election equipment and processes in California. The Secretary of State is responsible for administering the federal HAVA requirements. The SOS has already received approximately \$81.2 million in current year HAVA funding through the Control Section 28 budget revision process.

Issue #1

LAO Recommendation– *The Secretary of State should provide a proposed spending plan for the approximately \$250 million in anticipated HAVA funds.*

Staff Comments: Delays in forming the Election Assistance Commission (the HAVA oversight body) and in promulgating guidelines for use have hindered states' ability to plan for how the federal funds are to be spent.

Notwithstanding these delays, the gravity of the policy decisions involved with their use suggests that budgeting these funds should be part of the normal budget development process. The alternative, a Control Section 28 letter in the current year, would not provide the oversight needed for a program of this magnitude.

Staff Recommendation: Hold this issue open and request the SOS provide an April Finance Letter detailing the spending plan for HAVA funds in the budget year. If the federal appropriation amounts change subsequent to that proposal, the dollar amounts would be updated during that process. All funds not specifically approved in that Finance Letter should be reviewed through the subsequent budget development process.

Vote:

Issue #2

Budget Change Proposal: *Establish 15 positions and \$1.7 million in expenditure authority for HAVA implementation.*

Staff Comments: Fifteen positions and funding were established in the current year through the Control Section 28 process (augmenting budgets for unanticipated nonstate funds). The availability and rate of expenditure for the HAVA funds is not certain beyond 2005-06.

Staff Recommendation: Approve the fifteen positions and associated expenditure authority for two years limited term. The known workload does not merit making these positions permanent.

Vote:

Issue #3

Budget Change Proposal: *Increased Notary Applicant Testing*

The Department requests funding to expand notary testing and establish 12 permanent positions at an ongoing cost of \$2,096,000. This option would allow the SOS to expand the current 205,000 certified notaries by annually testing approximately 120,000 more. The 12 requested positions are sought on a permanent basis.

Staff Comments: The Secretary of State has sought and received approval of Control Section 27.00 deficiency letters in 2002-03 and 2003-04 in order to expand testing and improve processing of notary certifications. The number of notary candidate tests administered has expanded greatly in the last three years, from 67,000 tested in 2001-02 to an expected 120,000 in 2003-04. This BCP would expand testing even further, more than doubling the number of notaries in the state within two years and improving the SOS' ability to rapidly process applications. According to the SOS's office, the rise in notary applications and notary services requests has been driven by the incidence of home refinancing.

Staff Recommendation: Approve the request for two years only. The dramatic expansion in notary testing and application processing provided by this proposal, combined with the uncertainty of the workload provided by the housing refinancing market, suggest that this BCP should be reconsidered after two years.

Vote:

1760 Department of General Services

The Department of General Services (DGS) is responsible for providing a wide array of support services to State departments and performing management and oversight activities related to these services. DGS provides these through three programs, (1) building regulation services, (2) real estate services, and (3) statewide support services.

Expenses for these services are primarily reimbursed through fees assessed to State departments.

	2002-03	2003-04	Change from 02-03		2004-05	Change from 03-04	
Total Budget	\$805,961	\$854,863	\$48,902	6.1%	\$875,908	\$21,045	2.5%
Positions	3831.5	4149.7	318.2	8.3%	4130.8	18.9	-1.0%

(Dollars in 000s)

Issue #1

Budget Change Proposal: Asset Enhancement Consultant Services.

The Department has submitted a BCP requesting two permanent Senior Real Estate Officer positions for disposing of properties owned by the Youth and Adult Correctional Authority.

LAO Recommendation: Establish the two Asset Enhancement positions as two-year limited term. It is uncertain at this time if additional YACA facilities will be proposed for closure and therefore the positions should be approved only for the known workload. Without additional information from the Administration on YACA facilities to be closed, the known YACA facilities workload can only be tied to the next two years.

Staff Comments: The department has indicated that the positions are intended not only for the closing of the YACA facilities, but also for properties owned by other State departments. DGS has also expressed concern that recruitment for the uncommon Senior Real Estate Officer classification would be difficult if the positions were limited to two years only.

Staff Recommendation: Approve the BCP on a three-year limited term basis. These positions will assist in the generation of significant new revenues in terms of both property sales and taxes from new property owners. A three-year time frame will permit the workload measures to be revisited without hindering recruitment for two the positions.

Vote:

Issue #2

DGS Statewide Service Fees. DGS charges fees to State departments to cover operating expense costs for its internal programs. The Budget proposes to maintain fees at the 2002-03 level. The Department had previously committed in the 2003-04 May Revise (and the Legislature approved) decreasing DGS expenditure authority by \$17 million and 23 positions. This savings was to result in a three to five percent fee reduction to departments.

LAO Recommendation. *The Legislature should direct DGS to lower their service fees by three percent.* Furthermore, the Legislature should additionally adopt budget bill language in order to ensure the reductions are implemented.

Staff Comments: In response to the LAO's analysis, the DGS has responded that due to an unforeseen transfer of \$13 million to the General Fund and unsupportable employee retirement costs, they were not able to make the planned reductions. DGS has also acknowledged flaws in their assumptions for the rate decrease.

The Department of Finance recognizes that rates should be reviewed again and may suggest a means to reform service fee rates for State departments in the Finance Letter process.

Staff Recommendation: Hold this issue open. The Department of Finance should be asked to provide revised estimates through the spring budget development process in order to better set service fee rates for State departments.

Vote:

Issue #3

Contracts and Lease Savings. Control Section 5.50 was added to the 2003-04 budget to allow DGS and State departments to renegotiate contracts and leases in order to generate savings. Of the \$100 million savings projected to be generated in the current year, only \$32 million has been identified. Furthermore, an unspecified portion of that amount is in question due to possible double counting.

LAO Recommendation: *The Administration should provide revised contracts and lease savings amounts for 2003-04 and 2004-05.*

Staff Comments: Finance has reported that it is analyzing the shortfall and will provide revised savings amounts in the May Revision. That information will include corrections for double counting by State departments and the DGS.

It should be noted that Finance did not meet the reporting requirement in Control Section 5.50 related to capturing contracts and lease savings. Subsection (f) stated:

At the time the 2004-05 Governor's Budget is submitted to the Legislature, the Department of Finance shall report to the Joint Legislative Budget Committee on the progress being made to implement these savings, and these savings shall be identified and included in the 2004-05 Governor's Budget.

Staff Recommendations:

1. Hold this issue open until after the May Revise when updated contract and lease savings numbers are available.
2. Advise Finance to report to the Joint Legislative Budget Committee pursuant to Control Section 5.50. The updated information should be submitted in a JLBC letter format. Additionally, the Department of Finance should explain why the requirement of Subsection (f) of Control Section 5.50 was not fulfilled.

Vote:

Issue #4

State Emergency Telephone Number Account. The reserves in the budget for this account are as follows: past year actual, \$62 million; current year estimated, \$49 million; and budget year, \$44 million. The budget year amount includes a one-time expenditure of \$23 million for emergency telephone enhanced wireless services.

Staff Comments:

The State Emergency Telephone Number Account has been utilized on two previous occasions to provide support to the General Fund during times of fiscal crisis. In 1993-1994, a transfer of \$15 million was made to the General Fund. In 2001-02, pursuant to Control Section 25.10 of 2001-02, the SCO transferred \$63 million from the State Emergency Telephone Account to the General Fund.

The possibility exists that the State Emergency Telephone Number Account could face decreased revenues in future years due to advances in wireless technology (e.g. Voice Over IP) that lower user costs. However, these potential costs should not preclude a transfer or loan from that account because the account consistently generates more revenue than what is budgeted. The recorded reserves from 1999-00 to 2003-04 have averaged \$67 million with actual balances averaging \$24 million more than what was budgeted.

Staff Recommendation: Transfer \$15 million from this account to the General Fund and loan an additional \$14 million to the General Fund. The loan would be scheduled for repayment by October 1, 2006. Based on the budgeted amounts, this transfer and loan leaves a prudent reserve of \$15 million, or approximately 10 percent of expenditures in the budget year, for unforeseen expenses or reduced revenues.

To provide additional security against unforeseen fund needs, the trailer bill for the General Fund loan should specify that the loan be repaid with interest and that the repayment be made so that programs supported by the fund are not adversely affected by the loan through a reduction in services or increased fees.

Vote:

Issue #5

Public School Planning, Design, and Construction Review Revolving Fund

This fund has had recent actual, estimated, and budgeted reserves as follows:

YEAR	FUND BALANCE (\$s in 000s)
2000-01 (actual)	\$26,437
2001-02 (actual)	\$32,454
2002-03 (actual)*	\$3,308
2003-04 (estimated)	\$5,833
2004-05 (budgeted)	\$43,692

* A \$35 million loan to General Fund was made this year.

Staff Comments: The repayment of this loan is scheduled for October 1, 2004. No significant programmatic impacts have been identified with delaying repayment for one year.

Staff Recommendation: Hold the issue of delaying repayment of the \$35 million loan by one year open until after the May Revise is released. At that time the need for additional General Fund relief will be better known. The loan provisions that applied to Item 1760-011-0328 of the 2002-03 Budget Act would again apply. Specifically, the loan must be repaid with interest and repayment made so those programs supported by the fund are not adversely affected by the loan through reduction in services or increased fees.

Vote:

Issue #6

Disability Access Account

This account has had recent actual, estimated, and budgeted reserves as follows:

YEAR	FUND BALANCE (\$s in 000s)
2000-01 (actual)	\$9,135
2001-02 (actual)	\$9,700
2002-03 (actual)*	-\$748
2003-04 (estimated)	\$437
2004-05 (budgeted)	\$11,700

* A \$10 million loan to General Fund was made this year.

Staff Comments: The repayment of this loan is scheduled for October 1, 2004. This account has a vocal support from the disabled community. No significant programmatic impacts have been identified with delaying repayment for one year.

Staff Recommendation: Hold the issue of delaying repayment of the \$10 million loan by one year open until after the May Revise is released. At that time the need for additional General Fund relief will be better known. The loan provisions that applied to Item 1760-011-0006 of the 2002-03 Budget Act would again apply. Specifically, the loan must be repaid with interest and repayment made so those programs supported by the fund are not adversely affected by the loan through reduction in services or increased fees.

Vote:

8620 Fair Political Practices Commission

The Fair Political Practices Commission (FPPC) is responsible for impartial administration, implementation, and enforcement of the Political Reform Act of 1974 and the California Political Reform Act of 1996. The objective of the 1974 Act and the responsibility of the FPPC is to (1) ensure that election campaign expenditure data is fully and accurately disclosed so that the voters are informed and to inhibit improper financial practices, (2) regulate the activities of lobbyists, (3) prevent conflicts of interest through disclosures of assets and income of public officials, (4) provide information for ballot initiatives, (5) eliminate laws and practices that unfairly favor incumbents to provide for fair elections, (6) provide adequate mechanisms to public officials and to private citizens to ensure vigorous enforcement of these acts. The 1996 Act added provisions to institute campaign contribution limits and limits.

Issue

Budget Change Proposal: Reduction to Non-Statutory Funding.

The Governor's Budget includes a \$809,000 reduction to the FPPC's non-statutory funding. This proposal would result in position reductions to legal council (1.5 positions) and political reform consultants (1-2 positions), elimination of the public outreach program, reduced local law enforcement activities, and other administrative reductions.

Staff Comment: The reductions to the FPPC's budget, although significant, do not merit denial. The FPPC's ability to meet its constitutional obligations is not jeopardized by this cut. Reductions are focused in areas where devolution to locals can occur.

Staff Recommendation: Approve the reduction proposed in the Governor's Budget.

Vote:**8910 Office of Administrative Law**

The Office of Administrative Law (OAL) is responsible for reviewing administrative regulations proposed by over 200 State regulatory agencies for compliance with standards set forth in California's Administrative procedure Act. The OAL transmits these regulations to the Secretary of State and oversees the publishing of regulations in the California Code of Regulations and Regulatory Notice Register. The OAL also assists State regulatory agencies through formal and informal training programs to facilitate understanding and compliance with the Administrative Procedure Act.

LAO Option –Eliminate the Office of Administrative Law, a savings of \$1.8 million in General Fund. As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO provides an option that the subcommittee eliminate the OAL. This proposal would require changes in the State Administrative Procedures Act.

Staff Comments: The LAO should prepare additional detail regarding the effects of this proposal, specifying what activities and programs would be eliminated and those that would be transferred to other departments.

Staff Recommendation: Staff recommends the subcommittee not adopt the LAO option at this time and keep the OAL budget open. The LAO should provide further detail on the effects and cost implications of this option.

Vote:

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
 Dick Ackerman
 Denise Moreno Ducheny



Wednesday, March 24, 2004
 1:30 p.m.
 Room 2040

DECISIONS

ORG	Department	Issue	Action	Remarks
0750	Office LT Governor	(none)	Approved as budgeted, 2-0	consent
0850	State Lottery Commission	(none)	Approved as budgeted, 2-0	consent
1110	Board for Professional Engineers and Land Surveyors	(none)	Approved as budgeted, 2-0	consent
1110	Board of Psychology	(none)	Approved as budgeted, 2-0	consent
1111	Office of Privacy Protection	(none)	Approved as budgeted, 2-0	consent
8320	PERB	(none)	Approved as budgeted, 2-0	consent
8385	Citizen's Compensation Commission	(none)	Approved as budgeted, 2-0	consent
8640	PRA of 1974	(none)	Approved as budgeted, 2-0	consent
	CS 4.11	(none)	Approved as budgeted, 2-0	consent
0845	Insurance	Elimination of Earthquake Grants and Loans Program	Amend proposal, 2-0	Leave the statutory authority for the program but take the funding.
0890	Secretary of State	Issue #1: HAVA Spending Plan	Hold open in accordance with staff recommendation	
		Issue #2: Establish 15 positions and Expenditure Authority for HAVA Implementation	Approve staff recommendation, 2-0	Approve the positions and funding for two years limited term.
		Issue #3: BCP for Notary Applicant Testing	Approve staff recommendation, 2-0	Approve the positions and funding for two years limited term.

1760	DGS	Issue #1: Asset Enhancement Consultant Services	Approve staff recommendation, 2-0.	Approve the positions and funding for three years limited term.
		Issue #2: DGS Statewide Service Fees	Hold open in accordance with staff recommendation	DOF reports that a Finance Letter is forthcoming
		Issue #3: Contracts and Lease Savings	Hold open and direct DOF to comply with CS 5.50 of the 2003 B.A.	The JLBC letter should indicate why the response was not provided with the Governor's Budget.
		Issue #4: State Emergency Telephone Number Account	Hold open	
		Issue #5: Public School Planning, et al Fund.	Hold open in accordance with staff recommendation	
		Issue #6: Disability Access Account	Hold open in accordance with staff recommendation	
8620	FPPC	BCP: Reduction to Non-Statutory Funding	Hold open	
8910	OAL	Eliminate OAL	Hold open in accordance with staff recommendation	The LAO should provide further detail on the effects and cost implications of this option.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, April 14, 2004
1:30 p.m.
Room 2040

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Proposed Consent Calendar

2640 Special Transportation Programs

The Special Transportation Programs (STP) budget reflects mass transit program funding that is appropriated to the State Controller for allocation to regional transportation planning agencies. The State Controller and the Department of Transportation perform administration of the STP. The STP is one of the state's primary sources of financial support for public transportation. The program will provide about \$104.6 million in the current year to over 100 transit operators statewide, largely to support public transportation operating costs.

The Governor's Budget proposes \$101.4 million for the STP, a decrease of 3.0 percent from the current fiscal year.

The STP is funded from the Public Transportation Account (PTA). Revenues from the sales tax of diesel fuel as well as a portion of gasoline sales tax revenues are deposited in the PTA. Under current law, 50 percent of PTA revenues are allocated to the STP to provide financial assistance for public transportation, including transit planning, operations, and capital acquisition. The remaining 50 percent of PTA funds are used to support intercity rail services, the Mass Transportation program in the Department of Transportation, and transportation planning.

2700 Office of Traffic Safety

The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to state and local entities to promote traffic safety. The office administers the California Traffic Safety Program and will distribute approximately \$79.2 million of federal grant funds in 2004-05 to local and State agencies. The grants provided by OTS focus on the nine priority areas of traffic safety: (1) alcohol and drugs, (2) occupant protection, (3) pedestrian and bicycle safety, (4) traffic records, (5) emergency medical services, (6) roadway safety, (7) police traffic services, (8) motorcycle safety, and (9) speed control.

The Governor's Budget proposes \$84.77 million for the OTS, a decrease of \$3,000 from the current fiscal year.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property.

The Governor's Budget proposes \$1.2 billion in total expenditures for the CHP. The majority of funding for support of the CHP is from the Motor Vehicle Account (MVA), which is proposed at \$1.1 billion (84 percent of the total support budget).

1. **CHP Headquarters Relocation Study (CO BCP #6).** The Administration proposes an increase of \$250,000 to reimburse the Department of General Services for a study to determine the feasibility of co-locating CHP's Headquarters personnel in one location.
2. **Interagency Service Rate Increase (FL #1).** The Administration requests a permanent increase of \$1,916,000 to fund increased costs for the following interagency services:
 - a) The Attorney General, the Department of Justice, and the Department of Personnel Administration for legal and personnel services.
 - b) Department of General Services for telecommunications services.
 - c) Teale Data Center for information technology services.
 - d) The Department of Industrial Relations for various assessments.
3. **Los Angeles Regional Traffic Management Center (LARTMC) Operations and Support (FL # 4).** Augment the CHP's funding by \$375,000 to provide resources for initial operations costs for the stand-alone LARTMC opening in May 2005. The Department of Transportation (Caltrans) will also occupy this facility and a conforming issue is in the Caltrans section. Ongoing costs to the CHP will increase by an additional \$385,000 in 2005-06 to reflect full-year and ongoing costs of the facility (\$760,000 annually).

Staff Recommendation on Consent Items: No issues have been raised with these budgets. Staff recommends the subcommittee approve as budgeted with the requested April Finance Letters.

Vote:

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees the following departments:

Department of Alcoholic Beverage Control	Department of Financial Institutions
Department of Corporations	Department of Real Estate
Department of Housing and Community Development	Department of Managed Care
Office of the Patient Advocate	Department of Transportation
California Highway Patrol	Department of Motor Vehicles
Office of Traffic Safety	Office of Real Estate Appraisers
California Housing Finance Agency	Stephen P. Teale Data Center

The Governor proposes total expenditures of \$17.7 million (\$4.8 million, General Fund) for the Office of the Secretary. This represents an increase of \$5.8 million from the current year, which is due primarily to the full-year costs of the following programs inherited from the now-eliminated Technology, Trade, and Commerce Agency:

Infrastructure Bank
Tourism Commission
Small Business Loan Guarantee Program
Manufacturing Technology Program
Film Commission

Issues

- Office of Military Base Retention & Reuse – Special Advisor (FL #1):** The Administration requests permanent position authority and funding for the Special Advisor position under the Office of Military Base Retention and Reuse. The position is currently authorized to the Housing and Community Development Department (HCD). The Administration proposes to transfer the appropriation from HCD to the BT&H Agency effective July 1, 2004. Trailer bill language is required as part of this proposal.

Staff Recommendation: Approve the request.

Vote:

-
2. **Film Commission Fees:** The Governor's Budget requests \$832,000 General Fund to support the Film Commission in 2004-05.

LAO Recommendation: Delete General Fund and add fees to support the Film Commission. The Film Commission should use existing statutory authority to charge fees for its film permitting activities to eliminate its General Fund cost of \$832,000.

Staff Recommendation: Keep open - direct staff to work with the Administration to determine if a fee could be structured to apply only to large, for-profit film makers, so that small filmmakers could continue obtaining permits without fees. This would minimize any impact to California film production and impose a fee for service on this industry similar to permit fees charged to other industries.

Vote:

3. **\$1.1 Million Film California First Program Fund Balance.** The Administration does not propose any funding for the Film California First Program in 2004-05, however a \$1.1 million balance remains from past General Fund transfers.

LAO Recommendation: Transfer to the General Fund the unspent balance (\$1.1 million) from the inactive Film California First Program, which was discontinued in the current year. The \$1.1 million balance is General Fund money provided in past budgets. The program subsidized filming-related fees that movie and television production crews paid to the federal and local governments for on-site filming in California.

Staff Recommendation: Hold open.

Vote:

4. **Small Business Loan Guarantee Program.** The Small Business Loan Guarantee Program has a \$30 million reserve fund from previous General Fund appropriations from which it backs loans. The Governor's Budget proposes \$4 million General Fund to administer the program in 2004-05.

LAO Option: Eliminate this program to save \$4 million in annual operating costs and transfer back to the General Fund \$10 million as guaranteed loans are paid off.

Staff Recommendation: Reject this option (no vote required).

5. **Clean up Trailer Bill Related to the Elimination of the Trade and Commerce Agency.** The Administration submitted a budget trailer bill to update statute to reflect the elimination of the Trade and Commerce Agency.

Staff Recommendation: Hold open.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale and disposal of vehicles. Over 50 percent of the proposed budget is for the Vessel/Vehicle Identification and Compliance Program, which establishes identification and ownership of vehicles of California residents and assures compliance with various laws and programs. DMV also issues personal identification cards, administers driver safety and control programs, and provides consumer protection services.

The budget proposes total expenditures of \$705.3 million (\$0, General Fund), a decrease of \$14.1 million from the current-year budget. An April Finance Letter requests an increase of \$16.9 million for a net increase of \$2.8 million from the current-year budget.

Issues

1. Asbestos Abatement and Office Renovation at the DMV Sacramento Headquarters East Building:

- **5th Floor Asbestos Abatement and Renovation (CO BCP #1).** The Administration requests funding of \$7,511,000 for the construction phase of the 5th floor asbestos abatement and renovation project at the DMV Sacramento Headquarters East Building. This is the seventh of eight major projects as proposed in the department's Long-Range Asbestos Abatement Plan for the headquarters building. This cost has been revised upward by \$47,000 from the preliminary estimate due to increased labor costs, workers compensation insurance costs, and code requirements.
- **6th Floor Asbestos Abatement and Renovation and Building Reskin Project (CO BCP #2).** The Administration requests funding of \$1,352,000 for the preliminary plans for the 6th floor asbestos abatement and renovation, building elevator upgrades, miscellaneous building improvements, building seismic renovation, and reskin of the building exterior. Note: \$513,000 was appropriated in 2003-04 for the 6th floor study, but Finance indicates the funding has been reverted through executive orders due to a deficient fund condition in the current year.

Staff Recommendation: Approve request.

Vote:

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- 2. Workers' Compensation/Benefit Costs Related to Recently-Filled 400 DMV Positions (FL #2).** The Administration requests \$16.1 million for unfunded costs related to workers' compensation, health benefits, and industrial disability leave. These costs were funded in the Governor's Budget with savings derived from the Control Section 4.10 reductions, however, subsequent to the Governor's Budget, the DMV was granted a hiring freeze exemption to fill approximately 400 positions in order to reduce wait times at field offices. The new hiring will erode most of the retained 4.10 savings that would have otherwise been available to fund these costs.

LAO Recommendation: The LAO recommends that the Legislature examine the level of DMV service and consider restoring abolished positions if wait times are deemed unacceptable. The LAO indicates the Motor Vehicle Account (MVA) fund balance is sufficient to support additional position restoration.

Staff Comment: The Administration indicates the recent action to fill 400 vacant positions will reduce wait times from about one hour to 30 minutes.

Staff Recommendation: Approve the Administration's request.

Vote:

- 3. Improving Efficiency and Effectiveness in the Issuance of New and Renewal of Drivers' Licenses.**

LAO Recommendation: The LAO suggests the following process improvements and new fees to improve efficiency at the DMV.

- Recommend higher fees for retaking a driving test after previously failing the test.
- Recommend new fees for no-shows to driving tests.
- Recommend pilot project on out-sourcing drive tests as a way to improve customer service and reduce costs.

Staff Comment: The LAO should present their recommendations to the subcommittee and the Administration should respond.

Staff Recommendation: Reject the LAO option (no vote required).

2780 Stephen P. Teale Data Center

The Stephen P. Teale Data Center (TDC) is responsible for providing a variety of information technology services to numerous state agencies that reimburse the data center for its operational costs.

The Governor's Budget proposes \$96 million in total expenditures, which is a decrease of \$2.4 million, or 2 percent, below the estimated current-year expenditures.

Issues

1. **Consolidation of the TDC and the Health and Human Services Agency Data Center (HHSDE).** Chapter 225, Statutes of 2003 (AB 1752), required the Department of Finance by December 1, 2003, to submit a plan describing the consolidation of the two data centers in 2004-05. Finance indicates the consolidation plan is currently under review by the California Performance Review (CPR).

LAO Recommendation: Withhold approval of the TDC budget pending receipt and review of the Administration's consolidation proposal.

Staff Recommendation: Hold open the Teale budget.

Vote:

2. **The California Home Page.** The annual cost of the California Home Page is about \$4 million (half is provided by the General Fund).

LAO Option: Outsource the home page and make it self-sufficient through the imposition of new user fees to save the General Fund \$2 million annually.

Staff Comment: Numerous departments reimburse Teale for costs related to the State homepage. According to Finance, some of these departments never received augmentations for this cost, but instead redirected funding. The LAO option would be workable, but it is unclear what new fees would be instituted to implement this proposal.

Staff Recommendation: Reject the LAO option (no vote required).

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs.

The Governor proposes \$76.7 million in total expenditures.

Proposed Consent Item

Technical Correct to the Pro Rata Budget (FL #2): Technical correction to the CTC's proposed budget to correct budget for pro rata.

Staff Recommendation: No issues have been raised with this technical correction, recommend approval.

Vote:

Discussion Issue

Restore 3.0 positions as one-year limited term (FL #1). The Administration proposed in the Governor's Budget to eliminate 3.0 positions originally established to perform workload associated with the Traffic Congestion Relief Program (TCRP) – which would reduce positions to 10.0. A Finance Letter indicates that subsequent to the release of the Governor's Budget, the CTC reported that these positions have absorbed other workload and that the TCRP workload has been significantly less than anticipated. The Administration is revising its proposal to retain these three positions as one-year limited term and zero-base the CTC's staffing for the 2005-06 budget. The CTC lost 4.8 positions due to June 30, 2003, vacancies. The table below shows the CTC's authorized positions (actual and Administration-proposed for 2004-05) over ten years.

95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05
15.5	14.0	14.5	13.0	14.8	15.1	15.9	16.1	13.0	13.0

LAO Recommendation (on Governor's Budget proposal): Restore two of the five positions eliminated in current-year vacancy reductions, and withhold action on eliminating three positions established for TCRP workload pending a sub-committee determination on the overall TCRP-Proposition 42 proposal.

Staff Recommendation: Approve the Administration's request to restore 3.0 positions as one-year limited term.

Vote:

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The HSRA is required to prepare a plan for the financing, construction, and operation of a high-speed network for the state that would be capable of achieving speeds of at least 200 miles per hour. The HSRA has completed its business plan, initial finance plan, and currently is completing an initial program environmental impact report (EIR) and related technical studies.

Issues

1. **Revised Cost Estimate for Construction of High-Speed Rail.** The recently-released draft environmental impact report included new cost estimates for the construction of a high-speed rail system.

Staff Comment: The HSRA should brief the sub-committee on the new cost estimates. (informational only - no vote)

2. **Legal Defense of EIR:** The Administration is proposing an increase of \$300,000 to fund anticipated legal costs related to the final environmental impact report. The Administration is also proposing provisional language specifying that the \$300,000 can only be used for legal defense of the EIR.

Staff Recommendation: Approve the request.

Vote:

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises approximately nine percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, airport safety, and land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of \$7.4 billion, a decrease of \$1.1 billion (13.3 percent) from the current-year budget.

Proposed Consent Items

Staff Recommendation: Staff recommends the subcommittee approve the following Budget Change Proposals (BCPs) and Finance Letters (FLs).

- 1. Transportation Permits Management System (TPMS) (BCP #4):** The Administration requests a reappropriation of \$5.253 million for the TPMS information technology project. The TPMS will automate the issuance of permits for extralegal weights or vehicle dimensions and should reduce permit errors. A 1999 highway fatality involved an erroneous permit and this project was implemented to increase public safety by reducing oversize-truck permit errors.
- 2. Elimination of Underground Storage Tanks Program (BCP #10).** Eliminate 1.9 personnel years and \$4,687,000 due to the completion of the program's activities. Caltrans has removed nearly all of the approximately 900 known Department-owned underground storage tanks.
- 3. Los Angeles Regional Traffic Management Center (LARTMC) Operations and Support (FL # 4).** Augment Caltrans' funding by \$1,223,000 (including \$375,000 in reimbursement authority) to provide resources for moving, start up, and initial operations costs for the stand-alone LARTMC opening in May 2005. Add 0.9 personnel years, effective October 1, 2004, to establish a building manager, because this facility is stand-alone, while the old facility was part of the district headquarters office building. The California Highway Patrol (CHP) will also occupy this facility and a conforming issue is in the CHP section.
- 4. Project Resourcing and Schedule Management (PRSM) Reappropriation (FL #8).** Reappropriate \$7.1 million for development and implementation of PRSM, which is a information technology system for the scheduling and resource

management of transportation projects. This project is intended to help Caltrans meet the objectives of Senate Bill 45 (Chapter 622, Statutes of 1997).

5. **Los Angeles District Headquarters Building Operations and Maintenance (FL #9).** Increase Caltrans funding by \$3,598,000 in 2004-05 and \$323,000 in 2005-06 and ongoing for costs associated with operations and maintenance of the new Los Angeles office building. Delete 1.9 personnel years effective January 1, 2005, that performed activities in the old facility that will be performed by the Department of General Services in the new facility.
6. **Los Angeles District Headquarters Building Moving Costs (FL #10).** Increase Caltrans funding by \$821,000, one time, for moving costs for the new Los Angeles office building.
7. **Oakland District Headquarters Building Seismic Retrofit.** Increase one-time funding by \$1,338,000 to provide funding for preliminary plans to seismically retrofit the Caltrans District 4 office building in Oakland. This retrofit would upgrade the building from a seismic risk level V to a risk level III, which is consistent with the state seismic program performance standards. Future construction and working drawings cost will need funding in 2005-06 and are estimated to be \$33.4 million.
8. **Provisional Language to Allow Caltrans to Purchase Modular Buildings (CO FL #2).** The Administration requests provisional language to provide Caltrans the authority to exercise purchase option agreements on seven modular office units. The lease agreement allows Caltrans to purchase these buildings for \$1 each at the end of the lease period. The Administration indicates the office space is still required and it would cost more to relocate to other facilities.
9. **Caltrans Facilities Study Funding (CO BCP #1).** The Administration requests \$100,000 to fund a portion of the pre-planning, budget packages, and facility studies for office facility capital outlay projects reflected in the Department's 2004-05 Five Year Capital Outlay Plan.

Vote:

Caltrans Issues for Discussion

- 1. Continuation of Stormwater Positions (BCP #3):** The Administration requests \$8.214 million to provide permanent funding and authority for 81 positions (77 personnel years) of the 154 positions established in 2002-03 as two-year limited term. The position request is less than the 154 positions established in 2002-03 to reflect the number of positions that were abolished due to vacancies on June 30, 2003. The Administration indicates that actual workload has exceeded the resources provided in 2002-03, however, other maintenance staff have been redirected to perform the “stormwater” workload required to fulfill the Caltrans’ Storm Water Management Plan approved by the State Water Resources Control board and various Regional Water Quality Control Boards.

LAO Recommendation: Make permanent all the 154 positions (147.8 personnel years) authorized as two-year limited term in 2002-03 and add intent language to the Item 2660-007-0042 citing the intend of the Legislature that these positions be exempt from the statewide hiring freeze. This would be an increase of 70.8 personnel years and \$2,853,000 above the Administration’s proposal.

Staff Recommendation: Approve the Administration’s request.

Vote:

- 2. Major Maintenance Contracts (FL #7).** The Administration requests an increase of \$45.8 million for major maintenance contracts to perform work on the state’s highways. The Finance Letter indicates that funding for this purpose in recent years has been redirected to cover higher utility and equipment costs and also reduced as part of departmentwide cuts. This one-year limited-term request would restore the funding available for major maintenance contracts to \$90.4 million – the amount available in 2001-02. Funding is requested as one-time so the Administration can re-evaluate the permanent funding need for this activity.

LAO Recommendation: In the analysis of the Governor’s Budget, the LAO recommended the enactment of legislation requiring Caltrans to develop a long-range plan for the maintenance of the state’s highways and requiring Caltrans to develop performance measures to track the results of the state’s maintenance investment.

Staff Recommendation: Approve the Administration’s request.

Vote:

- 3. Repeal of Two-Way Traffic Signal Mandate (and trailer bill):** The Administration proposes repeal this mandate that requires that any traffic signal controller that is

newly installed or upgraded shall be of a standard traffic signal communication protocol capable of two-way communication. This mandate is suspended in 2003-04. When the mandate was active in the late 1990s, the annual cost was approximately \$100,000. A proposed trailer bill amends statute to encourage locals to continue this activity, but repeals the local mandate.

Staff Comment: Legislation to repeal mandates has to go through the policy committees. The budget sub-committees can suspend the mandates in 2004-05, by appropriating \$0 for the mandate. To suspend this mandate in 2004-05 a \$0 appropriation would have to be added to the budget bill.

Staff Recommendation: Suspend the mandate for 2004-05.

Vote:

4. Current Year and Budget Year Environment Enhancement and Mitigation

(EEM) Program: The EEM Program provides grants to local agencies to support non-mandatory transportation mitigation projects (such as bicycle and hiking trails) and has been historically funded by annual transfers of \$10 million from the State Highway Account (SHA). The 2003 Budget Act included a \$5 million EEM Fund appropriation and no SHA transfer to the EEM fund. The Administration's Mid-Year proposal indicates that a \$5 million State Highway Account to EEM transfer was inadvertently omitted from the Budget Act. A fund balance of over \$10 million currently exists in the EEM fund to make new grants. The Administration's Mid-Year proposal included the deletion of the 2003-04 EEM appropriation and the Governor's Budget for 2004-05 proposes a 2004-05 EEM appropriation of \$10 million – with grants supported by the EEM fund balance (no new State Highway Account transfer is proposed).

Staff Recommendation:

- Deny the Administration's request to delete the current-year \$5 million EEM appropriation. This would allow \$5 million in new 2003-04 grants to go forward using carry-over EEM funds.
- Reduce the proposed 2004-05 \$10 million EEM appropriation to \$5 million to reflect the above recommendation to retain the \$5 million appropriation in 2003-04. This would utilize existing EEM funding to allow \$5 million in new EEM grants in the budget year. No SHA funding would be provided.

Vote:

- 5. Transfer \$745,000 from the Aeronautics Account to the General Fund:** The Administration requests a \$745,000 transfer from the Aeronautics Account to the General Fund. This amount is half the \$1,490,000 transfer approved in the current

year. This funding would otherwise be available to provide grants to local general aviation airports.

Staff Recommendation: Approve the transfer.

Vote:

6. Mid-Year Proposals to Aid the General Fund: The Administration and the LAO should update the sub-committee on any new developments and any erosions related to the following Administration mid-year proposals:

- a) Accelerate the receipt of \$800 million in federal reimbursements by utilizing cash management of locally-subvented federal Obligation Authority (OA). With this additional \$800 million in federal reimbursement to the State Highway Account, which was not anticipated in the 2004 STIP Fund Estimate, the Administration proposes the following:
 - Reimburse the General Fund for debt service on current transportation general-obligation bonds (\$406 million).
 - Loan \$200 million to the General Fund for up to 3 years (Proposition 2 loan).
 - Retain \$194 million to support highway project allocations.
- b) Transfer income from the sale of property, rental income, and miscellaneous revenues (“non-Article XIX revenue”) to the General Fund (\$108 million over two years).
- c) Retain gasoline sales tax revenue in the General Fund (\$17 million). The sales tax on gasoline and diesel sales is allocated for transportation purposes. A portion of the sales tax on gasoline (and diesel sales) is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other sales, the PTA receives the “spillover” sales tax revenues.
- d) Transfer \$189 million from the Traffic Congestion Relief Fund to the General Fund, and repeal the statutory authority for the projects in the Traffic Congestion Relief Program (TCRP). The Administration indicates that the TCR project sponsors will have to secure funding through the State Transportation Improvement Program (STIP), or local funding mechanisms.

Included in the discussion should be Finance Letter #1, which requests 16.1 personnel years (two-year limited term) to implement cash management for locally-subvented federal funds, the new provisional language proposed for the transfer of non-Article XIX funds, and the proposed suspension of Proposition 42 in 2004-05.

Staff Recommendation: Hold open pending May Revision.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Hearing Outcomes

Wednesday, April 14, 2004
1:30 p.m.
Room 2040

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2640 Special Transportation Programs

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The Governor's Budget proposes \$101.4 million for the STP, a decrease of 3.0 percent from the current fiscal year.

The STP is funded from the Public Transportation Account (PTA). Revenues from the sales tax of diesel fuel as well as a portion of gasoline sales tax revenues are deposited in the PTA. Under current law, 50 percent of PTA revenues are allocated to the STP to provide financial assistance for public transportation, including transit planning, operations, and capital acquisition. The remaining 50 percent of PTA funds are used to support intercity rail services, the Mass Transportation program in the Department of Transportation, and transportation planning.

Action: Approved as budgeted on consent, 3-0 vote. The vote closes all budget issues for the STP; however, Senator Dunn noted that the STP could be re-opened in the future if new concerns are raised.

2700 Office of Traffic Safety

The Office of Traffic Safety (OTS) is responsible for allocating federal grant funds to state and local entities to promote traffic safety. The office administers the California Traffic Safety Program and will distribute approximately \$79.2 million of federal grant funds in 2004-05 to local and State agencies. The grants provided by OTS focus on the nine priority areas of traffic safety: (1) alcohol and drugs, (2) occupant protection, (3) pedestrian and bicycle safety, (4) traffic records, (5) emergency medical services, (6) roadway safety, (7) police traffic services, (8) motorcycle safety, and (9) speed control.

The Governor's Budget proposes \$84.77 million for the OTS, a decrease of \$3,000 from the current fiscal year.

Action: Approved as budgeted on consent, 3-0 vote. The vote closes all budget issues for the OTS.

2720 California Highway Patrol

The mission of the California Highway Patrol (CHP) is to ensure the safe and efficient flow of traffic on the state's highway system. The CHP also has responsibilities relating to vehicle theft prevention, commercial vehicle inspections, the safe transportation of hazardous materials, and protection and security for state employees and property. The Governor's Budget proposes \$1.2 billion in total expenditures for the CHP. The majority of funding for support of the CHP is from the Motor Vehicle Account (MVA), which is proposed at \$1.1 billion (84 percent of the total support budget).

1. **CHP Headquarters Relocation Study (CO BCP #6).** The Administration proposes an increase of \$250,000 to reimburse the Department of General Services for a study to determine the feasibility of co-locating CHP's Headquarters personnel in one location.
2. **Interagency Service Rate Increase (FL #1).** The Administration requests a permanent increase of \$1,916,000 to fund increased costs for the following interagency services:
 - a) The Attorney General, the Department of Justice, and the Department of Personnel Administration for legal and personnel services.
 - b) Department of General Services for telecommunications services.
 - c) Teale Data Center for information technology services.
 - d) The Department of Industrial Relations for various assessments.
3. **Los Angeles Regional Traffic Management Center (LARTMC) Operations and Support (FL # 4).** Augment the CHP's funding by \$375,000 to provide resources for initial operations costs for the stand-alone LARTMC opening in May 2005. The Department of Transportation (Caltrans) will also occupy this facility and a conforming issue is in the Caltrans section. Ongoing costs to the CHP will increase by an additional \$385,000 in 2005-06 to reflect full-year and ongoing costs of the facility (\$760,000 annually).

Staff Recommendation on Consent Items: No issues have been raised with these budgets. Staff recommends the subcommittee approve as budgeted with the requested April Finance Letters.

Action: The CHP was moved off consent, however, the above three items were approved on consent, 3-0 vote. A new issue was raised concerning Administration changes to salary savings for uniformed officers and whether there was a resulting need to hold open an additional 270 CHP vacancies. The sub-committee kept open the CHP budget so staff could collect additional information from the Administration on this issue.

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees the following departments:

Department of Alcoholic Beverage Control	Department of Financial Institutions
Department of Corporations	Department of Real Estate
Department of Housing and Community Development	Department of Managed Care
Office of the Patient Advocate	Department of Transportation
California Highway Patrol	Department of Motor Vehicles
Office of Traffic Safety	Office of Real Estate Appraisers
California Housing Finance Agency	Stephen P. Teale Data Center

The Governor proposes total expenditures of \$17.7 million (\$4.8 million, General Fund) for the Office of the Secretary. This represents an increase of \$5.8 million from the current year, which is due primarily to the full-year costs of the following programs inherited from the now-eliminated Technology, Trade, and Commerce Agency:

Infrastructure Bank
Tourism Commission
Small Business Loan Guarantee Program
Manufacturing Technology Program
Film Commission

Issues

- Office of Military Base Retention & Reuse – Special Advisor (FL #1):** The Administration requests permanent position authority and funding for the Special Advisor position under the Office of Military Base Retention and Reuse. The position is currently authorized to the Housing and Community Development Department (HCD). The Administration proposes to transfer the appropriation from HCD to the BT&H Agency effective July 1, 2004. Trailer bill language is required as part of this proposal.

Staff Recommendation: Approve the request.

Action: Approved the Administration's proposal, 3-0 vote.

-
2. **Film Commission Fees:** The Governor's Budget requests \$832,000 General Fund to support the Film Commission in 2004-05.

LAO Recommendation: Delete General Fund and add fees to support the Film Commission. The Film Commission should use existing statutory authority to charge fees for its film permitting activities to eliminate its General Fund cost of \$832,000.

Staff Recommendation: Keep open - direct staff to work with the Administration to determine if a fee could be structured to apply only to large, for-profit film makers, so that small filmmakers could continue obtaining permits without fees. This would minimize any impact to California film production and impose a fee for service on this industry similar to permit fees charged to other industries.

Action: Held open. It is requested that the Administration provide additional information to staff on the feasibility of this proposal the timeframe of implementation should this approach be adopted.

3. **\$1.1 Million Film California First Program Fund Balance.** The Administration does not propose any funding for the Film California First Program in 2004-05, however a \$1.1 million balance remains from past General Fund transfers.

LAO Recommendation: Transfer to the General Fund the unspent balance (\$1.1 million) from the inactive Film California First Program, which was discontinued in the current year. The \$1.1 million balance is General Fund money provided in past budgets. The program subsidized filming-related fees that movie and television production crews paid to the federal and local governments for on-site filming in California.

Staff Recommendation: Hold open.

Action: Held open. The Administration indicates they may submit a May Revision request concerning these funds.

4. **Small Business Loan Guarantee Program.** The Small Business Loan Guarantee Program has a \$30 million reserve fund from previous General Fund appropriations from which it backs loans. The Governor's Budget proposes \$4 million General Fund to administer the program in 2004-05.

LAO Option: Eliminate this program to save \$4 million in annual operating costs and transfer back to the General Fund \$10 million as guaranteed loans are paid off.

Staff Recommendation: Reject this option (no vote required).

Action: The sub-committee rejected the LAO option.

- 5. Clean up Trailer Bill Related to the Elimination of the Trade and Commerce Agency.** The Administration submitted a budget trailer bill to update statute to reflect the elimination of the Trade and Commerce Agency.

Staff Recommendation: Hold open.

Action: Held open. The Administration indicated they may propose revisions to this trailer bill.

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale and disposal of vehicles. Over 50 percent of the proposed budget is for the Vessel/Vehicle Identification and Compliance Program, which establishes identification and ownership of vehicles of California residents and assures compliance with various laws and programs. DMV also issues personal identification cards, administers driver safety and control programs, and provides consumer protection services.

The budget proposes total expenditures of \$705.3 million (\$0, General Fund), a decrease of \$14.1 million from the current-year budget. An April Finance Letter requests an increase of \$16.9 million for a net increase of \$2.8 million from the current-year budget.

Issues

1. **Asbestos Abatement and Office Renovation at the DMV Sacramento Headquarters East Building:**

- **5th Floor Asbestos Abatement and Renovation (CO BCP #1).** The Administration requests funding of \$7,511,000 for the construction phase of the 5th floor asbestos abatement and renovation project at the DMV Sacramento Headquarters East Building. This is the seventh of eight major projects as proposed in the department's Long-Range Asbestos Abatement Plan for the headquarters building. This cost has been revised upward by \$47,000 from the preliminary estimate due to increased labor costs, workers compensation insurance costs, and code requirements.
- **6th Floor Asbestos Abatement and Renovation and Building Reskin Project (CO BCP #2).** The Administration requests funding of \$1,352,000 for the preliminary plans for the 6th floor asbestos abatement and renovation, building elevator upgrades, miscellaneous building improvements, building seismic renovation, and reskin of the building exterior. Note: \$513,000 was appropriated in 2003-04 for the 6th floor study, but Finance indicates the funding has been reverted through executive orders due to a deficient fund condition in the current year.

Staff Recommendation: Approve request.

Action: Approved the Administration's request, 3-0 vote.

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- 2. Workers' Compensation/Benefit Costs Related to Recently-Filled 400 DMV Positions (FL #2).** The Administration requests \$16.1 million for unfunded costs related to workers' compensation, health benefits, and industrial disability leave. These costs were funded in the Governor's Budget with savings derived from the Control Section 4.10 reductions, however, subsequent to the Governor's Budget, the DMV was granted a hiring freeze exemption to fill approximately 400 positions in order to reduce wait times at field offices. The new hiring will erode most of the retained 4.10 savings that would have otherwise been available to fund these costs.

LAO Recommendation: The LAO recommends that the Legislature examine the level of DMV service and consider restoring abolished positions if wait times are deemed unacceptable. The LAO indicates the Motor Vehicle Account (MVA) fund balance is sufficient to support additional position restoration.

Staff Comment: The Administration indicates the recent action to fill 400 vacant positions will reduce wait times from about one hour to 30 minutes.

Staff Recommendation: Approve the Administration's request.

Action: Approved the Administration's request, 3-0 vote.

- 3. Improving Efficiency and Effectiveness in the Issuance of New and Renewal of Drivers' Licenses.**

LAO Recommendation: The LAO suggests the following process improvements and new fees to improve efficiency at the DMV.

- Recommend higher fees for retaking a driving test after previously failing the test.
- Recommend new fees for no-shows to driving tests.
- Recommend pilot project on out-sourcing drive tests as a way to improve customer service and reduce costs.

Staff Comment: The LAO should present their recommendations to the subcommittee and the Administration should respond.

Staff Recommendation: Reject the LAO option (no vote required).

Action: The Chair requested that the Administration and LAO continue to work together to increase efficiency at DMV offices and return in the future if legislative action is required to implement efficiency improvements.

2780 Stephen P. Teale Data Center

The Stephen P. Teale Data Center (TDC) is responsible for providing a variety of information technology services to numerous state agencies that reimburse the data center for its operational costs.

The Governor's Budget proposes \$96 million in total expenditures, which is a decrease of \$2.4 million, or 2 percent, below the estimated current-year expenditures.

Issues

1. **Consolidation of the TDC and the Health and Human Services Agency Data Center (HHSDE).** Chapter 225, Statutes of 2003 (AB 1752), required the Department of Finance by December 1, 2003, to submit a plan describing the consolidation of the two data centers in 2004-05. Finance indicates the consolidation plan is currently under review by the California Performance Review (CPR).

LAO Recommendation: Withhold approval of the TDC budget pending receipt and review of the Administration's consolidation proposal.

Staff Recommendation: Hold open the Teale budget.

Action: Held open awaiting the Administration's consolidation proposal.

2. **The California Home Page.** The annual cost of the California Home Page is about \$4 million (half is provided by the General Fund).

LAO Option: Outsource the home page and make it self-sufficient through the imposition of new user fees to save the General Fund \$2 million annually.

Staff Comment: Numerous departments reimburse Teale for costs related to the State homepage. According to Finance, some of these departments never received augmentations for this cost, but instead redirected funding. The LAO option would be workable, but it is unclear what new fees would be instituted to implement this proposal.

Staff Recommendation: Reject the LAO option (no vote required).

Action: Reject the LAO option.

2600 California Transportation Commission

The California Transportation Commission (CTC) is responsible for the programming and allocating of funds for the construction of highway, passenger rail and transit improvements throughout California. The CTC also advises and assists the Secretary of Business, Transportation and Housing Agency and the Legislature in formulating and evaluating state policies and plans for California's transportation programs.

The Governor proposes \$76.7 million in total expenditures.

Proposed Consent Item

Technical Correct to the Pro Rata Budget (FL #2): Technical correction to the CTC's proposed budget to correct budget for pro rata.

Staff Recommendation: No issues have been raised with this technical correction, recommend approval.

Action: Approved the Administration's proposal, 3-0 vote.

Discussion Issue

Restore 3.0 positions as one-year limited term (FL #1). The Administration proposed in the Governor's Budget to eliminate 3.0 positions originally established to perform workload associated with the Traffic Congestion Relief Program (TCRP) – which would reduce positions to 10.0. A Finance Letter indicates that subsequent to the release of the Governor's Budget, the CTC reported that these positions have absorbed other workload and that the TCRP workload has been significantly less than anticipated. The Administration is revising its proposal to retain these three positions as one-year limited term and zero-base the CTC's staffing for the 2005-06 budget. The CTC lost 4.8 positions due to June 30, 2003, vacancies. The table below shows the CTC's authorized positions (actual and Administration-proposed for 2004-05) over ten years.

95-96	96-97	97-98	98-99	99-00	00-01	01-02	02-03	03-04	04-05
15.5	14.0	14.5	13.0	14.8	15.1	15.9	16.1	13.0	13.0

LAO Recommendation (on Governor's Budget proposal): Restore two of the five positions eliminated in current-year vacancy reductions, and withhold action on eliminating three positions established for TCRP workload pending a sub-committee determination on the overall TCRP-Proposition 42 proposal.

Staff Recommendation: Approve the Administration's request to restore 3.0 positions as one-year limited term.

Action: Held open. Staff will work to develop an internal consensus on the appropriate staffing level.

2665 High-Speed Rail Authority

The California High-Speed Rail Authority (HSRA) was created by Chapter 796, Statutes of 1996, to direct development and implementation of inter-city high-speed rail service that is fully coordinated with other public transportation services. The HSRA is required to prepare a plan for the financing, construction, and operation of a high-speed network for the state that would be capable of achieving speeds of at least 200 miles per hour. The HSRA has completed its business plan, initial finance plan, and currently is completing an initial program environmental impact report (EIR) and related technical studies.

Issues

1. **Revised Cost Estimate for Construction of High-Speed Rail.** The recently-released draft environmental impact report included new cost estimates for the construction of a high-speed rail system.

Staff Comment: The HSRA should brief the sub-committee on the new cost estimates. (informational only - no vote)

2. **Legal Defense of EIR:** The Administration is proposing an increase of \$300,000 to fund anticipated legal costs related to the final environmental impact report. The Administration is also proposing provisional language specifying that the \$300,000 can only be used for legal defense of the EIR.

Staff Recommendation: Approve the request.

Action: Approve the Administration's proposal, 3-0 vote. This vote closes all budget issues for the HSRA.

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises approximately nine percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, airport safety, and land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of \$7.4 billion, a decrease of \$1.1 billion (13.3 percent) from the current-year budget.

Proposed Consent Items

Staff Recommendation: Staff recommends the subcommittee approve the following Budget Change Proposals (BCPs) and Finance Letters (FLs).

- 1. Transportation Permits Management System (TPMS) (BCP #4):** The Administration requests a reappropriation of \$5.253 million for the TPMS information technology project. The TPMS will automate the issuance of permits for extralegal weights or vehicle dimensions and should reduce permit errors. A 1999 highway fatality involved an erroneous permit and this project was implemented to increase public safety by reducing oversize-truck permit errors.
- 2. Elimination of Underground Storage Tanks Program (BCP #10).** Eliminate 1.9 personnel years and \$4,687,000 due to the completion of the program's activities. Caltrans has removed nearly all of the approximately 900 known Department-owned underground storage tanks.
- 3. Los Angeles Regional Traffic Management Center (LARTMC) Operations and Support (FL # 4).** Augment Caltrans' funding by \$1,223,000 (including \$375,000 in reimbursement authority) to provide resources for moving, start up, and initial operations costs for the stand-alone LARTMC opening in May 2005. Add 0.9 personnel years, effective October 1, 2004, to establish a building manager, because this facility is stand-alone, while the old facility was part of the district headquarters office building. The California Highway Patrol (CHP) will also occupy this facility and a conforming issue is in the CHP section.
- 4. Project Resourcing and Schedule Management (PRSM) Reappropriation (FL #8).** Reappropriate \$7.1 million for development and implementation of PRSM, which is a information technology system for the scheduling and resource

management of transportation projects. This project is intended to help Caltrans meet the objectives of Senate Bill 45 (Chapter 622, Statutes of 1997).

Action: PRSM was taken off consent and the sub-committee approved the proposal but added the budget bill language recommended by the LAO, 3-0 vote. The approved language is as follows:

At the time the 2005-06 Governor's Budget is submitted to the Legislature, the Department of Transportation shall report to the chairperson of the Joint Legislative Budget Committee on the progress of developing and implementing the Project Resourcing and Schedule Management System. The report shall include, but is not limited to, (1) the revised project schedule, (2) the activities completed to date, and (3) the proposed activities funded by the 2005-06 Governor's Budget.

- 5. Los Angeles District Headquarters Building Operations and Maintenance (FL #9).** Increase Caltrans funding by \$3,598,000 in 2004-05 and \$323,000 in 2005-06 and ongoing for costs associated with operations and maintenance of the new Los Angeles office building. Delete 1.9 personnel years effective January 1, 2005, that performed activities in the old facility that will be performed by the Department of General Services in the new facility.
- 6. Los Angeles District Headquarters Building Moving Costs (FL #10).** Increase Caltrans funding by \$821,000, one time, for moving costs for the new Los Angeles office building.
- 7. Oakland District Headquarters Building Seismic Retrofit.** Increase one-time funding by \$1,338,000 to provide funding for preliminary plans to seismically retrofit the Caltrans District 4 office building in Oakland. This retrofit would upgrade the building from a seismic risk level V to a risk level III, which is consistent with the state seismic program performance standards. Future construction and working drawings cost will need funding in 2005-06 and are estimated to be \$33.4 million.
- 8. Provisional Language to Allow Caltrans to Purchase Modular Buildings (CO FL #2).** The Administration requests provisional language to provide Caltrans the authority to exercise purchase option agreements on seven modular office units. The lease agreement allows Caltrans to purchase these buildings for \$1 each at the end of the lease period. The Administration indicates the office space is still required and it would cost more to relocate to other facilities.
- 9. Caltrans Facilities Study Funding (CO BCP #1).** The Administration requests \$100,000 to fund a portion of the pre-planning, budget packages, and facility studies for office facility capital outlay projects reflected in the Department's 2004-05 Five Year Capital Outlay Plan.

Action: Number 4 above was taken off consent and approved with budget bill language suggested by the LAO (see #4 above). The remaining items on consent were approved, 3-0 vote.

Caltrans Issues for Discussion

- 1. Continuation of Stormwater Positions (BCP #3):** The Administration requests \$8.214 million to provide permanent funding and authority for 81 positions (77 personnel years) of the 154 positions established in 2002-03 as two-year limited term. The position request is less than the 154 positions established in 2002-03 to reflect the number of positions that were abolished due to vacancies on June 30, 2003. The Administration indicates that actual workload has exceeded the resources provided in 2002-03, however, other maintenance staff have been redirected to perform the “stormwater” workload required to fulfill the Caltrans’ Storm Water Management Plan approved by the State Water Resources Control board and various Regional Water Quality Control Boards.

LAO Recommendation: Make permanent all the 154 positions (147.8 personnel years) authorized as two-year limited term in 2002-03 and add intent language to the Item 2660-007-0042 citing the intend of the Legislature that these positions be exempt from the statewide hiring freeze. This would be an increase of 70.8 personnel years and \$2,853,000 above the Administration’s proposal.

Staff Recommendation: Approve the Administration’s request.

Action: Held open. The Administration indicated there may be a May Revision proposal in this area.

- 2. Major Maintenance Contracts (FL #7).** The Administration requests an increase of \$45.8 million for major maintenance contracts to perform work on the state’s highways. The Finance Letter indicates that funding for this purpose in recent years has been redirected to cover higher utility and equipment costs and also reduced as part of departmentwide cuts. This one-year limited-term request would restore the funding available for major maintenance contracts to \$90.4 million – the amount available in 2001-02. Funding is requested as one-time so the Administration can re-evaluate the permanent funding need for this activity.

LAO Recommendation: In the analysis of the Governor’s Budget, the LAO recommended the enactment of legislation requiring Caltrans to develop a long-range plan for the maintenance of the state’s highways and requiring Caltrans to develop performance measures to track the results of the state’s maintenance investment.

Staff Recommendation: Approve the Administration's request.

Action: Approved the Administration's proposal, 3-0 vote. The Chairman formally requested that the Administration share with the sub-committee and the LAO its long-range maintenance plan when it is completed (presumably no later than January 10, 2005).

- 3. Repeal of Two-Way Traffic Signal Mandate (and trailer bill):** The Administration proposes repeal this mandate that requires that any traffic signal controller that is newly installed or upgraded shall be of a standard traffic signal communication protocol capable of two-way communication. This mandate is suspended in 2003-04. When the mandate was active in the late 1990s, the annual cost was approximately \$100,000. A proposed trailer bill amends statute to encourage locals to continue this activity, but repeals the local mandate.

Staff Comment: Legislation to repeal mandates has to go through the policy committees. The budget sub-committees can suspend the mandates in 2004-05, by appropriating \$0 for the mandate. To suspend this mandate in 2004-05 a \$0 appropriation would have to be added to the budget bill.

Staff Recommendation: Suspend the mandate for 2004-05.

Action: Approved the staff recommendation. Finance should amend item 2660-295-0042 to suspend this mandate in 2004-05.

- 4. Current Year and Budget Year Environment Enhancement and Mitigation (EEM) Program:** The EEM Program provides grants to local agencies to support non-mandatory transportation mitigation projects (such as bicycle and hiking trails) and has been historically funded by annual transfers of \$10 million from the State Highway Account (SHA). The 2003 Budget Act included a \$5 million EEM Fund appropriation and no SHA transfer to the EEM fund. The Administration's Mid-Year proposal indicates that a \$5 million State Highway Account to EEM transfer was inadvertently omitted from the Budget Act. A fund balance of over \$10 million currently exists in the EEM fund to make new grants. The Administration's Mid-Year proposal included the deletion of the 2003-04 EEM appropriation and the Governor's Budget for 2004-05 proposes a 2004-05 EEM appropriation of \$10 million – with grants supported by the EEM fund balance (no new State Highway Account transfer is proposed).

Staff Recommendation:

- Deny the Administration's request to delete the current-year \$5 million EEM appropriation. This would allow \$5 million in new 2003-04 grants to go forward using carry-over EEM funds.

-
- Reduce the proposed 2004-05 \$10 million EEM appropriation to \$5 million to reflect the above recommendation to retain the \$5 million appropriation in 2003-04. This would utilize existing EEM funding to allow \$5 million in new EEM grants in the budget year. No SHA funding would be provided.

Action: Approved the staff recommendation, 3-0 vote.

- 5. Transfer \$745,000 from the Aeronautics Account to the General Fund:** The Administration requests a \$745,000 transfer from the Aeronautics Account to the General Fund. This amount is half the \$1,490,000 transfer approved in the current year. This funding would otherwise be available to provide grants to local general aviation airports.

Staff Recommendation: Approve the transfer.

Action: Approved the Administration's proposal, 3-0 vote.

- 6. Mid-Year Proposals to Aid the General Fund:** The Administration and the LAO should update the sub-committee on any new developments and any erosions related to the following Administration mid-year proposals:

- a) Accelerate the receipt of \$800 million in federal reimbursements by utilizing cash management of locally-subsidized federal Obligation Authority (OA). With this additional \$800 million in federal reimbursement to the State Highway Account, which was not anticipated in the 2004 STIP Fund Estimate, the Administration proposes the following:
 - Reimburse the General Fund for debt service on current transportation general-obligation bonds (\$406 million).
 - Loan \$200 million to the General Fund for up to 3 years (Proposition 2 loan).
 - Retain \$194 million to support highway project allocations.
- b) Transfer income from the sale of property, rental income, and miscellaneous revenues ("non-Article XIX revenue") to the General Fund (\$108 million over two years).
- c) Retain gasoline sales tax revenue in the General Fund (\$17 million). The sales tax on gasoline and diesel sales is allocated for transportation purposes. A portion of the sales tax on gasoline (and diesel sales) is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other sales, the PTA receives the "spillover" sales tax revenues.
- d) Transfer \$189 million from the Traffic Congestion Relief Fund to the General Fund, and repeal the statutory authority for the projects in the Traffic Congestion Relief Program (TCRP). The Administration indicates that the TCR project sponsors will have to secure funding through the State Transportation Improvement Program (STIP), or local funding mechanisms.

Included in the discussion should be Finance Letter #1, which requests 16.1 personnel years (two-year limited term) to implement cash management for locally-subvented federal funds, the new provisional language proposed for the transfer of non-Article XIX funds, and the proposed suspension of Proposition 42 in 2004-05.

Staff Recommendation: Hold open pending May Revision.

Action: Due to scheduling conflicts, the hearing had to be adjourned at the completion of issue 5. No testimony on issue 6 was heard. This issue will be heard at a later hearing.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, April 21, 2004
Upon adjournment of the
Committee on Banking, Commerce, and International Trade
Room 3191

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Proposed Consent Calendar

0954	Scholarshare Investment Board
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Control Sections

3.50	Benefit Charges Against Salaries and Wages
4.20	Contribution to Public Employees' Contingency Reserve Fund
25.50	SCO Apportionment Payment System Assessments

Proposed Consent Calendar

Staff Recommendation: No issues have been raised with these budgets. Staff recommends the subcommittee approve all items on the consent calendar.

Vote:

0840 State Controller

The State Controller’s Office (SCO) is responsible for (1) the receipt and disbursement of public funds; (2) reporting on the financial condition of the state and local governments; (3) administering certain tax laws and collecting amounts due the state; and (4) enforcing unclaimed property laws. The Controller is also a member of the Board of Equalization, the Franchise Tax Board, the Commission on State Mandates, the State Lands Commission, the Pooled Money Investment Board, and assorted bond finance committees.

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$101,833	\$110,599	\$8,766	8.6%	\$104,876	\$5,723	-5.5%
Personnel Years*	1053.9	1110.8	56.9	5.4%	1079.1	31.7	-2.9%

(Dollars in 000s)

*Positions adjusted for salary savings and other adjustments

Issues Proposed for Consent

ISSUE #1: The following BCPs and Finance Letters have been provided by the SCO.

Budget Change Proposals and Finance Letters		
TITLE	Positions	Cost (\$s in 000s)
California Automated Travel Expense Payment System. Funding to continue the rollout and maintenance for the CalATERS travel system, a system that is supposed to reduce fraud and ensure accuracy of the state’s travel payments.	0 (2 redirected for one year)	\$985 Reimbursements (one year)

Apportionment Payment System Replacement. Replacement of the existing stand-alone Apportionment Payment System. Funding cannot be postponed without serious degradation to apportionment payments to locals.	0	\$579 Various special funds (one year)
California Child Support Automation System Project. For implementation of the SCO's responsibilities relative to the implementation of the CCSAS.	1	\$90 Reimbursements (one year)
State Disability Insurance (SDI) Program – System Changes. Chapter 878, Stats. Of 2002 (AB 2149) expanded the state disability insurance program to represented civil service and Cal State employees. The SCO must withhold, remit, and report SDI deductions for this new group of employees.	2 (one year)	\$614 GF (one year) \$58 GF (2005-06)
Takeover of Technology, Trade, and Commerce Programs. The TT&C Agency was abolished effective December 31, 2003. The positions will facilitate collection and accounting for TT&C debt by closing out TT&C loan programs.	2 (one year)	\$176 GF (one year)

Staff Recommendation. Approve the SCO'S BCPs and Finance Letters above.

VOTE:

ISSUES FOR DISCUSSION

ISSUE #2: Unclaimed Property Program: Proposed Fees. For over forty years banks and other institutions have been required to remit unclaimed property to the state. The most common types of unclaimed property are bank accounts, safe deposit box contents, stocks, and the proceeds of insurance policies. Property is deemed unclaimed when an account has remained dormant for three years and efforts by the institution holding the account to locate the owner have been unsuccessful. The unclaimed property is transmitted to the State Controller, who maintains records of all such property and attempts to identify the owners.

The state currently holds \$3.4 billion in unclaimed property belonging to over five million individuals and organizations. On average, the state can be expected to receive approximately \$460 million in unclaimed property funds and return about \$190 million to approximately 170,000 individuals and organizations.

Recent statutory amendments have made three important changes to the Unclaimed Property Program. These are (1) an increase to the types of property that must be remitted to the state, (2) the immediate sale of all securities upon receipt by the SCO (previously the Controller had held on to them for up to two years), and (3) the elimination of interest payments for all claims.

Finance Letter Proposal. The Administration proposes additional funding for the Unclaimed Property Program due to the identification of workload that would prevent the SCO from meeting their statutory deadline of processing claims within 180 days. Three hundred and twenty nine thousand dollars in special funds and 5.9 permanent positions are sought to augment existing staff.

To fund the *direct* staffing and operating expenses to administer the program, a fee of six percent would be deducted from the payment of unclaimed property claims, effective January 1, 2005. This new fee revenue would provide offsetting savings to the General Fund of \$4.8 million in 2004-05 and \$9.9 million ongoing. (The 2004-05 benefit would be approximately half as much as future years because of an anticipated six-month delay in fee implementation.) The SCO's budget appropriation would be reduced to reflect the fee revenue.

The fees generated by this proposal would be deposited in the newly created Unclaimed Property Fees Account. This account would be the repository of all unclaimed property revenues and would transfer those revenues to the General Fund, less the cost for Unclaimed Property Program costs. In order to ensure that sufficient reserve funds are available to cover program costs in the event of a revenue shortfall, the Finance Letter proposes an initial transfer of \$1 million from the Abandoned Property Account to the Unclaimed Property Fees Account.

The following language was transmitted to Legislative Counsel on April 19. The language establishes the six percent fee after January 1, 2005. Additionally, it would create the Unclaimed Property Fees Account within the Unclaimed Property Fund and provide a program reserve of \$1 million to be made available through a one-time transfer from the Abandoned Property Account.

SEC. 1. Section 1540 of the Code of Civil Procedures is amended to read:

1540. (a) Any person, excluding another state, who claims an interest in property paid or delivered to the Controller under this chapter may file a claim to the property or to the net proceeds from its sale. The claim shall be on a form prescribed by the Controller and shall be verified by the claimant.

(b) The Controller shall consider each claim within 180 days after it is filed and may hold a hearing and receive evidence. The Controller shall give written notice to the claimant if he or she denies the claim in whole or in part. The notice may be given by mailing it to the address, if any, stated in the claim as the address to which notices are to be sent. If no address is stated in the claim, the notice may be mailed to the address, if any, of the claimant as stated in the claim. No notice of denial need be given if the claim fails to state either an address to which notices are to be sent or an address of the claimant.

(c) No interest shall be payable on any claim paid under this chapter.

(d) *Beginning January 1, 2005, there shall be a fee of six percent deducted from the payment of all claims paid on or after January 1, 2005, under this section, which shall be deposited in the Unclaimed Property Fund in an account titled "Unclaimed Property Fees Account," which is hereby created.*

(de) For the purposes of this section, "owner" means the person who had legal right to the property prior to its escheat, his or her heirs, or his or her legal representative.

(ef) Following a public hearing, the Controller shall adopt guidelines and forms that shall provide specific instructions to assist owners in filing claims pursuant to this article.

1540.5 (a) All money received pursuant to Section 1540(d) shall be deposited in the Unclaimed Property Fees Account within the Unclaimed Property Fund to cover the costs of administering the Unclaimed Property Program, including but not limited to processing claims for unclaimed property accounts, processing and selling securities received as unclaimed property, notifying owners of unclaimed property through notices and ads, and providing access to unclaimed property account information through telephone and website services, and shall be available for expenditure by the Controller only upon appropriation by the Legislature. All interest earned by the Unclaimed Property Fees Account shall be deposited in the Unclaimed Property Fees Account.

(b) The Controller shall transfer one million dollars (\$1,000,000) from the Abandoned Property Account to the Unclaimed Property Fees Account by December 31, 2004.

(c) The unappropriated balance in excess of one million dollars (\$1,000,000) in the Unclaimed Property Fees Account at the end of a fiscal year may be transferred to the General Fund upon order of the Director of Finance.

SEC. 2. *This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect.*

LAO Recommendation. The LAO also recommends assessing a fee on the claimed property. However, unlike the Administration's proposal, the LAO proposes that the fee cover not just direct costs, but also the program's audits and information technology needs that are a necessary part of the Unclaimed Property Program. The LAO estimates that the fee would be set to collect about \$6.7 million in revenues in 2004-05 and \$13.4 million in future years (with equivalent General Fund benefits). The average fee per transaction necessary to generate funding for the program is 7.5 percent.

The LAO proposal also adds the dimension that different services should be assessed at different rates. That is, based on the level of service provided by the SCO, the processing fee for a cash claim should be set at a lower rate than the fee for a securities claim. The average cost on a property claim would still be 7.5 percent.

SCO Alternative. The State Controller's Office has provided an alternative proposal which would fund both existing and the proposed new 5.9 positions out of the newly created Unclaimed Property Fund. In effect, no fee would be assessed from the property claimant but there would be a reduction in the funds that would otherwise be transferred to the General Fund.

To implement the SCO proposal, it is necessary to remove the budget bill language that restricts the SCO to recover costs from the Abandoned Property Account that is within the continuously appropriated Unclaimed Property Fund. The language proposed for deletion:

1. The appropriation made in this item shall be in lieu of the appropriation in Section 1564 of the Code of Civil Procedure for all costs, expenses, or obligations connected with the administration of the Unclaimed Property Law, with the exception of payment of owners' or holders' claims pursuant to Section 1540, 1542, 1560, or 1561 of the Code of Civil Procedure, or of payment of the costs of compensating contractors for locating and recovering unclaimed property due the state.

In deleting the provisional language, the SCO would establish a continuous appropriation through the new unclaimed property account.

Staff Comments. In evaluating the three proposals, the subcommittee may wish to consider whether it is appropriate to charge a fee to property claimants and whether a service provided by the state should be borne by all taxpayers, rather than those directly receiving the benefit. Under the SCO proposal, unclaimed property funds spent on program expenses are those that would otherwise become revenues to the state's General Fund. Under the LAO and Administration proposals, all (LAO) or most (Administration) of the costs are borne by the recipients of the state's service.

Between the LAO and Administration proposals, the 7.5 percent average rate identified by the LAO more fully captures the true expense of the Unclaimed Property Program. Consequently, the LAO proposal provides **additional General Fund savings of \$1.6 million in the current year and \$3.4 million ongoing** because it reduces the SCO's current General Fund appropriation by those amounts.

Finally, the SCO alternative raises concerns about providing a continuous appropriation to a program budget. Such an appropriation removes the program from budget oversight and is not generally supported by either the Administration or the Legislature.

Staff Recommendation.

1. **Approve the Administration's Issue #107** for the funding and staffing related to the expanded Unclaimed Property Program workload.
2. **Adopt the LAO alternative** and direct the LAO to provide revised trailer bill language to implement the 7.5 percent average fee. Additionally, the trailer bill language should provide rate structuring to assess claimants based the type of property claimed.
3. **Reduce the SCO's General Fund appropriation by \$6.7 million** in the budget year to account for the funding provided by the Unclaimed Property Fees Account.

VOTE:

ISSUE #3: Medi-Cal Non-Institutional Providers Audits Program

Medi-Cal provides health care services to approximately 6.5 million public assistance recipients and other needy individuals in California. In 2003-04, California is expected

to incur an estimated \$25 billion in Medi-Cal program expenditures through 84,000 providers. Costs are shared between the state and federal government. In order to ensure that the state's funds are properly used, a Medi-Cal audit program exists and is administered by the Department of Health Services (DHS).

The SCO, under an interagency agreement with DHS, performs audit services of non-institutional providers for potential overpayments. Non-institutional providers include physicians, medical laboratories, durable medical equipment suppliers, pharmacies, and medical transportation companies. The SCO estimates that they provide annual savings for the state of \$31 million General Fund by performing these services.

DHS, as the federally designated "single state agency" responsible for Medi-Cal Program, oversees these audits. This responsibility currently includes directing the SCO on which audits to conduct, reviewing findings and working papers, issuing the final audit report and recovery demand, and handling administrative appeals.

Governor's Budget Proposal: Transfer the authority for audits and 20 positions to DHS. The Administration proposes to generate approximately \$600,000 in ongoing savings (\$300,000 General Fund) and a reduction of six positions by consolidating this activity into DHS.

The Administration contends that utilizing the SCO via an Interagency Agreement is no longer efficient. DHS has a multidisciplinary staff of medical professionals and financial auditors, as well as the authority to identify abusive providers, impose administrative sanctions, and issue audits. Consolidating these activities into DHS will result in a more efficient process.

On April 12, 2004, with a recommendation of support from the LAO and the Senate Budget Subcommittee #3 staff, that subcommittee took an action to support the transfer of the positions and program to DHS.

Staff Comments: No loss of experience. No loss of experience is expected from the transfer of the auditing personnel, pursuant to Government Code Section 19050.9. That Section states, "Whenever a function or the administration of a law is transferred from one state agency to another state agency, all persons serving in the state civil service and engaged in the performance of the function or the administration of the law shall be transferred to that agency."

Efficiency and Savings. DHS is expected to assume all responsibilities from SCO and provide them with greater efficiency. For example, the SCO has only one medical professional on staff and they currently must call on DHS staff to assist with medical consultations and guidance. According to DHS, by consolidating the 20 positions and streamlining processes they can accomplish approximately twice as many audits as the SCO and thereby generate significant new savings for the state.

Enhanced Medi-Cal Pre-Checkwrite Review Process. The SCO contends that DHS does not have an effective pre-checkwrite review process (reviewing payments for fraud). While DHS does not concur with that statement, it should also be noted that DHS is taking steps to strengthen their review of the payments. On April 12, 2004, the Senate Subcommittee #3 supported a proposal to extend by one week the check writes for all Medi-Cal Program providers whose claims are processed through the fiscal intermediary. This break is intended allow the DHS Audits and Investigations Division to perform more thorough pre-checkwrite reviews of claims that are processed and identified as suspect. Finally, nothing in this transfer proposal would inhibit the SCO from performing secondary pre-checkwrite review if the Controller believes it would be fiscally responsible to do so.

Staff Recommendation. Take no action. This transfer proposal was supported by Senate Subcommittee #3 on April 12, 2004.

VOTE:

ISSUE #4: Performance Audits

Beginning in the 1998-99 budget year, the State Controller has been prohibited from using appropriated General Fund monies to conduct performance audits. This restriction was placed on the SCO due to concerns by the Legislature that the authority was not being appropriately utilized.

Item 0840-001-0001 delineates the restrictions on performance auditing without a specific appropriation.

The funds appropriated to the Controller in this act may not be expended for any performance review or performance audit except pursuant to specific statutory authority. It is the intent of the Legislature that audits conducted by the Controller, or under the direction of the Controller, shall be fiscal audits that focus on claims and disbursements, as provided for in Section 12410 of the Government Code. Any report, audit, analysis, or evaluation issued by the Controller for the 2003-04 fiscal year shall cite the specific statutory or constitutional provision authorizing the preparation and release of the report, audit, analysis, or evaluation.

The SCO has outlined a broad proposal to close the budget gap through activities such as using performance audits to cut waste and make more efficient use of tax dollars more efficiently. The following budget bill language for Item 0840-001-0001 would enable that office to conduct performance audits without a specific General Fund appropriation.

The funds appropriated to the Controller in this act may not be expended for any performance review or performance audit until after the Controller has provided the Joint Legislative Budget Committee with a 14-day notification of his/her intent to perform such audit as well as the scope of the audit to be performed. Within 30 days of completion of any such performance audit, the

Controller shall provide to the Joint Legislative Budget Committee a copy of a report detailing the Controller's findings and recommendations.

Staff Comments. The SCO has provided information that two positions would be redirected to conduct performance audits. Both positions would come from the quality control review unit.

Given the increased interest among several agencies and departments in generating savings through audits, it is important to recognize that there is no statewide perspective on auditing for dollars. The Subcommittee may wish to consider this proposal against existing auditing authorities, (e.g. those existing in departments, the Bureau of State Audits, and the Office of State Audits and Evaluations) and those coming on line or otherwise available through contract (the California Performance Review and private auditing agencies).

Staff Recommendation. Take no action at this time pending additional information. The subcommittee may wish to invite the SCO to work with the Legislature to identify existing auditing authorities where overlap would occur. Based on past experience, the Legislature may wish to receive a list of agencies to be audited and the nature of the audit. The SCO should provide an auditing protocol to distinguish how its auditing product will provide value that is different from existing agencies and authorities.

VOTE:

0950 State Treasurer

The State Treasurer provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for (1) the custody of all monies and securities belonging to or held in trust by the state, (2) investment of temporarily idle state monies, (3) administration of the sale of state bonds and their redemption and interest payments, and (4) payment of warrants drawn by the State Controller and other state agencies.

	2002-03	2003-04	Change from 2002-03		2004-05	Change from 2003-04	
Total Budget	\$21,805	\$21,608	\$197	1.0%	\$21608	\$0	0.0%
Personnel Years*	225.2	222.8	2.4	-1.1%	222.8	0	0.0%

(Dollars in 000s)

*Positions Adjusted for salary savings and other adjustments

ISSUE #1: Mandate Suspension—County Treasury Oversight Committees

This mandate provides reimbursements to locals for the costs of providing certain information to the State Treasurer, including the preparation and submittal of annual investment policies. This mandate was established in the wake of the Orange County

financial collapse in the early 1990s and is intended to assist local agencies in preventing a recurrence of that event. This mandate was suspended in 2003-04.

LAO Recommendation: Suspend the County Treasury Oversight Committees mandate (Chapter 784, Statutes of 1995 and Chapter 156, Statutes of 1996).

Staff Recommendation: **Suspend** the County Treasury Oversight Committees mandate.

VOTE:

ISSUE #2: Mandate Suspension—Investment Reports—Cities and Counties

This mandate provides reimbursement to local agencies who prepare and provide information related to their annual investment policies and quarterly investment reports. Similar to the County Treasury Oversight Committees, this mandate was established in the wake of the Orange County Financial collapse. This mandate was suspended in 2003-04.

LAO Recommendation: Suspend the Investment Reports—Cities and Counties mandate (Chapter 783, Statutes of 1995).

Staff Recommendation: **Suspend** the Investment Reports—Cities and Counties mandate.

VOTE:

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

The California Debt and Investment Advisory Commission (CDIAC) was created in 1981 to assist state departments and local governments in effectively issuing, monitoring, and managing public debt. CDIAC's responsibilities include an investment component in its municipal education program and the development of information and related public funds investment.

California Debt and Investment Advisory Commission Fund (Fund 0171)

Staff Comment. This California Debt and Investment Advisory Commission Fund has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultations with the State Treasurer's Office it was determined that \$750,000 could prudently loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment. These conditions are (1) to

provide additional security against unforeseen fund needs, the budget bill for the loan should specify that it be repaid with interest and (2) the repayment must be made so that programs supported by the fund are not adversely affected by the loan through a reduction in services or increased fees.

Staff Recommendation. Hold open the item and the issue of loaning \$750,000 from the California Debt and Investment Advisory Commission Fund to the General Fund until after the May Revise is released. At that time the need for additional General Fund relief will be better known. Repayment would be made under the time frame and conditions specified above. Notwithstanding interest costs for the loan's repayment, this loan will provide significant General Fund relief over the next two years.

VOTE:

0959 California Debt Limit Allocation Committee

The California Debt Limit Allocation Committee was created through a proclamation signed by the Governor on July 19, 1984, in response to the Federal Tax Reform Act of 1984. The Committee oversees the State's allocation system for the issuance of "private activity" bonds under the provisions of Chapter 943, Statutes of 1987. The Committee is comprised of the State Treasurer, the Governor or his designee, the Director of Finance and the Controller. The committee is funded on a fee-supported basis.

California Debt Limit Allocation Committee Fund (Fund 0169)

Staff Comment. This California Debt Limit Allocation Committee Fund has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$3.5 million could prudently be loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment. These conditions are (1) to provide additional security against unforeseen fund needs, the budget bill for the loan should specify that it be repaid with interest and (2) the repayment must be made so that programs supported by the fund are not adversely affected by the loan through a reduction in services or increased fees.

Staff Recommendation. Hold open the item and the issue of loaning \$3.5 million from the California Debt Limit Allocation Committee Fund to the General Fund until after the May Revise is released. At that time the need for additional General Fund relief will be better known. Repayment would be made under the time frame and conditions specified above. Notwithstanding interest costs for the loan's repayment, this loan will provide significant General Fund relief over the next two years.

VOTE:**0968 California Tax Credit Allocation Committee**

The California Tax Credit Allocation Committee (CTCAC) was established to provide federal low-income housing tax credits to foster development of affordable rental housing. For 2003, the program provides tax credits of \$1.75 per capita. The CTCAC's activities are funded from fees paid by applicants for tax credits and tax deductions.

Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account (Fund 0448)

Staff Comment. This Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$35 million could prudently be loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment. These conditions are (1) to provide additional security against unforeseen fund needs, the budget bill for the loan should specify that it be repaid with interest and (2) the repayment must be made so that programs supported by the fund are not adversely affected by the loan through a reduction in services or increased fees.

Staff Recommendation. Hold open the item and the issue of loaning \$35 million from the Occupancy Compliance Monitoring Account, Tax Credit allocation Fee Account to the General Fund until after the May Revise is released. At that time the need for additional General Fund relief will be better known. Repayment would be made under the time frame and conditions specified above. Notwithstanding interest costs for the loan's repayment, this loan will provide significant General Fund relief over the next two years.

VOTE:**Tax Credit Allocation Fee Account (Fund 0457)**

Staff Comment. This Tax Credit Allocation Fee Account has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$31 million could prudently be loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment. These conditions are (1) to provide additional security against unforeseen fund needs, the budget bill for the loan should specify that it be repaid with interest and (2) the repayment must be made so that programs supported by the fund are not adversely affected by the loan through a reduction in services or increased fees.

Staff Recommendation. Hold the item and the issue of loaning \$31 million from the Tax Credit Allocation Fee Account to the General Fund open until after the May Revise is released. At that time the need for additional General Fund relief will be better known. Repayment would be made under the time frame and conditions specified above. Notwithstanding interest costs for the loan's repayment, this loan will provide significant General Fund relief over the next two years.

VOTE:

0991 California Fiscal Recovery Financing Authority and Economic Recovery Bonds

This item was added to the Governor's Budget as a contingency in the event that the Economic Recovery Bond was not passed by the voters on March 2, 2004. Due to the enactment of Propositions 57 and 58, the Economic Recovery Bonds will take the place of the California Fiscal Recovery Bonds and this budget item is no longer necessary.

Staff Recommendation. Delete Item 0991

VOTE:

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests in the Department the exclusive right and power to license and regulate the manufacture, sale, purchase, possession and transportation of alcoholic beverages within the state and, subject to certain laws of the United States, to regulate the importation and exportation of alcoholic beverages into and from the state.

The ABC budget is \$42.3 million in the current year and proposed at \$42.8 million in the budget year – and increase of 500,000. No General Fund support.

Issues Proposed for Consent

- 1. Licensing and Compliance System Phase II – Information Technology Project (BCP #3):** The Administration requests \$1,095,000 to fund the first year of Phase II of the Licensing and Compliance System. This project would replace the existing 1993 information technology application – the California Alcoholic Beverage Information Network (CABIN). The Administration indicates the existing system

faces both hardware and support limitations and the new system would allow for new functionality to response to legislative mandates or stakeholder requests.

Staff Comment: According to the Administration, industry supported past fee increases, in part, with the expectation that fee revenue would be used to improve the department's information technology systems to support improved service to industry. Phase I of the system is expected to be completed by June 30, 2004.

- 2. Augmentation of \$58,000 to Support Increased Department of Justice (DOJ) Service Rates (FL #2):** The Administration requests \$58,000 to cover the 18 percent increase in DOJ attorney billing rates and a 72 percent increase in paralegal billing rates. The request does not include additional hours of DOJ services.

Staff Comment: The Department indicates this cost increase could not be absorbed without affecting service to industry.

Staff Recommendation: Approve these Administration proposals. No issues have been raised.

Vote:

Issues for Discussion

- 1. Broaden the Authority of the ABC to Accept "Petitions for an Offer in Compromise" and Accept Fines in Lieu of Suspensions (Trailer Bill).** The Administration requests approval of a trailer bill that would broaden the ability of the ABC to accept "petitions for an offer in compromise" that would allow establishments to pay a fine in lieu of a suspension. The fine would be 50 percent of the estimated gross sales of alcoholic beverages for each day of a proposed suspension, with a cap of \$20,000. The Governor's Budget scores an additional \$1.3 million in General Fund revenue associated with this proposal because fine money goes to the General Fund. The ABC would still have the authority to suspend licenses when that punishment seems more appropriate.

Staff Comment: The ABC indicates that with or without this proposal California has some of the toughest penalties for sales of alcohol to minors in the United States. The Administration indicates this proposal may also reduce appeals and increase excise tax and sales tax revenue, although that revenue is not scored.

Staff Recommendation: Approve the Administration's proposal.

Vote:

2. Establish and Fund 10 New Positions to Perform Licensing Functions (FL #1):

The Administration requests \$496,000 to fund 10 positions so applications can be processed and investigations performed in a timely manner. The Administration indicates a potential excise tax revenue gain of \$1 million due to increased sales.

Staff Comment: The Administration indicates that with these positions, the backlog in processing applications would be eliminated.

Staff Recommendation: Approve the Administration's proposal.

Vote:

2150 Department of Financial Institutions

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

The DFI budget is proposed to increase from \$21.5 million in the current year to \$23.6 million in the budget year. No General Fund support.

Issues

- 1. Operational Recovery and System Security (BCP #1):** The Administration requests \$185,000 and 1.0 position to support improvement to its information technology operational recovery strategy (through implementation of a backup network to the San Francisco hub) and system monitoring and security capabilities. The Administration indicates this project could prevent a communications failure lasting up to 15 days if San Francisco were to experience a major outage. Additionally this request would increase security to protect private financial information that is transmitted across DFI computers.

Staff Comment: The DFI indicates that this request is necessary to meet the State Administrative Manual requirements on security and risk management, and the Finance Technology Investment Review Unit concurs.

Staff Recommendation: Approve the Administration's proposal.

Vote:

2. New Workload for the California Financial Information Privacy Act (BCP #2):

The Administration requests \$1,881,000 in funding and 17.0 positions to address the increased workload related to the provisions within Chapter 241, Statutes of 2003 (SB 1), which restricts financial institutions from sharing non-public information. The Administration requests:

- a) 12.0 Senior Financial Institution Examiners to conduct regular field examinations, investigate complaints
- b) 2.0 Staff Counsel IV's to approve the forms of disclosure and litigate
- c) 1.0 Senior Legal Secretary
- d) 1.0 Staff Services Analyst
- e) 1.0 Associate Information Systems Analyst.

LAO Recommendation: The LAO withholds recommendation on this proposal citing too many unresolved issues regarding the interaction between Chapter 241 and federal law.

Staff Comment: An increase of 17 positions represents a 9 percent increase in total staffing. The Senate policy analysis for SB 1 estimated "moderate enforcement costs, probably less than \$1 million annually," with the cost of enforcement spread across four departments: Department of Justice, Financial Institutions, Insurance and Corporations. The sub-committee may want to consider augmenting positions to record complaints and minimal staffing for complaint investigation and litigation, but otherwise reject new staffing. Next year there should be a clearer indication of federal restrictions and state workload.

Staff Recommendation: Keep this issue open and request that the Administration provide sub-committee staff additional information on staffing alternatives.

Vote:

2180 Department of Corporations

The Department of Corporations (DOC) protects the public and provides businesses with a financial services marketplace that is cost-effective and efficient through administration and enforcement of state laws regulating securities, franchise investment, lenders, and fiduciaries. Activities include licensing, examination, investor, and consumer education, and responding to public inquiries and complaints. Each program enforces its laws through administrative and civil actions.

The DOC budget is proposed to increase from \$26.9 million in the current year to \$29 million in the budget year. No General Fund support.

Issues

1. **New Workload for the California Financial Information Privacy Act (BCP #2):** (Note, this issue overlaps with the prior DFI discussion on the California Financial Information Privacy Act.) The Administration requests \$1,945,000 in funding and 22.0 positions (including one limited-term position) to address the increased workload related to the provisions within Chapter 241, Statutes of 2003 (SB 1), which restricts financial institutions from sharing non-public information. The Administration requests staffing increases in the following areas:
 - a) Regulatory Examination Workload: 9.0 positions
 - b) Customer Service Calls: 1.0 position
 - c) Duty Counsel: 1.0 position
 - d) Complaint Review and Investigation: 2.0 positions
 - e) Enforcement and Litigation: 8.0 positions
 - f) Regulations, Releases, Opinions, Forms Review and Training: 1 limited-term position.

LAO Recommendation: The LAO withholds recommendation on this proposal citing too many unresolved issues regarding the interaction between Chapter 241 and federal law.

Staff Comment: An increase of 21 positions represents a 9 percent increase in total staffing. The Senate policy analysis for SB 1 estimated “moderate enforcement costs, probably less than \$1 million annually,” with the cost of enforcement spread across four departments: Department of Justice, Financial Institutions, Insurance and Corporations. The sub-committee may want to consider augmenting positions to record complaints and minimal staffing for complaint investigation and litigation, but otherwise reject new staffing. Next year there should be a clearer indication of federal restrictions and state workload.

Staff Recommendation: Keep this issue open and request that the Administration provide subcommittee staff additional information on staffing alternatives.

Vote:

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand and preserve safe and affordable housing opportunities and promote strong communities for all Californians. The department administers housing finance, economic development and rehabilitation programs; proposes housing policy; analyzes and implements building codes; and enforces construction standards for manufactured homes.

The HCD budget is proposed to decrease from \$772.5 million in the current year to \$619.1 million in the budget year. The General Fund support in the current year is \$15.7 million and is proposed at \$14.2 million in the budget year.

Issues Proposed for Consent

- 1. Development of the Community Affairs Program Enterprise System (Information Technology Project, FL #2).** The Administration requests \$200,000 to provide funding for the development cost of the Community Affairs Program Enterprise System (CAPES) – of which \$72,000 would represent Budget Act appropriations and the balance would be funded from continuous appropriation authority. The CAPES would integrate project and financial data for both state and federal housing programs, improve reporting and efficiency, allow for online applications, and reduce the chance of system failure. It is estimated the total cost to implement the system will be \$2.2 million through 2005-06 and that the implementation of the system will result in savings and cost avoidance of \$527,935 (5.7 personnel years) in 2006-07, the first full year after implementation.

Staff Comment: HCD indicates this system will allow for on-line submittals of applications and will provide other efficiencies and improvements.

- 2. Transfer the Office of Military Base Retention and Reuse (OMBRR) from HCD to the Office of the Secretary of the Business, Transportation, and Housing (BTH) Agency.**

Staff Comment: This is a conforming issue to the proposal that was approved for the Business, Transportation, and Housing Agency at the April 14, 2004, hearing.

Staff Recommendation on Consent Issues: Approve the Administration's proposals. No issues have been raised.

Vote:

Issues for Discussion:

- 1. Increase Staffing by 4.0 Positions to Administer the Housing and Emergency Shelter Trust Fund Act of 2002 (FL #1).** The administration requests an increase of 4.0 positions to address the increased workload associated with administering the activities supported from the proceeds of the housing bond authorized by the \$2.1 billion Housing and Emergency Shelter Trust Fund Act of 2002 (Housing Bond). Additionally, it is requested that 10 existing positions be transitioned from non-bond special fund supported to bond fund supported. The 14 positions would be funded from existing continuous appropriation authority.

Staff Comment: HCD indicates that this augmentation in positions was previously planned as part of their multi-year bond workload plan. Additionally, while this request requests an augmentation of 4 positions as planned, it does not request the restoration of 4 bond positions lost to Control Section 4.10. HCD estimates administrative costs will be only 4 percent of bond proceeds, which is far less than the 15 percent for previous housing bonds.

Staff Recommendation: Approve the Administration's proposal.

Vote:

2. **Enterprise Zone (EZ) Program Augmentation (includes trailer bill language that allows EZs to charge and collect fees to cover administrative costs, FL #3).** The Administration requests increased reimbursement authority of \$668,000 and 6.0 positions (5.7 personnel years) to implement the provisions of Chapter 593, Statutes of 2003, which transferred the responsibility for the EZ Program from the Technology Trade and Commerce Agency to HCD. It is proposed that EZs will reimburse the state for the cost of processing program extension requests and other related activities. Associated trailer bill language would allow the local governments administering the EZs to assess and collect a fee, as determined by HCD, for issuance of tax-credit certificates.

Staff Comment: HCD indicates that enterprise zones provide businesses about \$183 million in annual tax credits, and therefore fees totaling about \$1 million should not significantly decrease the incentives of the program. In the past, EZ positions were supported with General Fund. HCD indicates they cannot perform the statutorily-mandated administration of EZs (such as audits, reporting, and consideration of EZ modifications) without this staffing.

Staff Recommendation: Approve the Administration's proposal.

Vote:

3. **Office of Migrant Services Program Augmentation (Includes Trailer Bill Language, FL #4).** The Administration requests that Health and Safety code Section 53533(4)(A) be amended to authorize the HCD to expend \$1,400,000 from the funds provided from the Housing and Emergency Shelter Trust Fund Act of 2002 (Prop. 46 \$2.1 billion bond) for the Joe Serna, Jr. Farmworker Housing Grant Fund. This funding would support the repair, rehabilitation, and replacement of equipment at various state-owned migrant centers. Trailer bill language is required because current statute caps at \$4.1 million the amount of housing bond funding that can be used for the Office of Migrant Services.

Staff Comment: HCD indicates that these bonds funds would otherwise be used for new farmworker housing; however, applications to date have been below expectations – with only 2 applications requesting a total of \$3 million having been received (\$25 million is available for this purpose).

Related Informational Issue: HCD indicates they plan to use existing statutory authority to increase farmworker-housing rental rates, effective July 1, 2004. The existing and new rates are as follows:

Daily Rental Rates by Size of Unit			
	2 Bedroom	3 Bedroom	4 Bedroom
Current	\$7.50	\$8.00	\$8.50
New	\$9.50	\$10.00	\$10.50

Last year, the Legislature approved a trailer bill (AB 1756) that prohibited HCD from increasing any rent charged at a migrant farm labor center during the 2003-04 fiscal year.

Staff Recommendation: Approve the Administration’s proposal to use \$1.4 million in bond funds to make repairs at state-owned migrant centers.

Vote:

- 4. Mandate for Regional Housing Plan.** The budget proposes to defer the mandate on regional housing needs assessments. Last year the prior Administration also proposed a deferral and this sub-committee restored mandate funding of \$750,000 for councils of governments (COGs) and adopted budget bill language to specify the funding was for COGs (the funding and language was deleted by the Legislature in the final budget bill). As part of its general plan, every city and county is required to prepare a “housing element” which assesses the conditions of its housing stock and outlines a five-year plan for housing development. The housing element must be approved by HCD - the LAO indicates less than 60 percent of local governments currently meet this obligation.

LAO Recommendation: Eliminate the mandate for regional planning. The LAO indicates the planning mandate costs about four times more than the Legislature expected and may not increase the construction of affordable housing. Repeal of the mandate would save the General Fund about \$4 million in annual liabilities. The LAO recommends that if the Legislature wishes to impose certain mandated requirements, the best approach would be to “start from scratch,” develop a new process through the normal legislative process.

Staff Comment: Policy committee staff has indicated that several COGs are unlikely to fulfill the mandate without funding.

Staff Recommendation: Augment mandate funding by \$750,000 (total funding of \$750,000 for the COGs plus \$1,000 for cities and counties) with the following budget bill language stating \$750,000 is available only for mandate reimbursements to the COGs:

Schedule:

- | | |
|---|---------|
| (1) 98.01.114.380-Regional Housing Needs Assessment for costs of councils of governments (Ch. 1143, Stats. 1980)..... | 750,000 |
| (2) 98.01.114.381-Regional Housing Needs Assessments for costs of cities and counties (Ch. 1143, Stats. 1980)..... | 1,000 |

Vote:

5. School Facilities Fund Balance. The School Facility Fee Affordable Housing Assistance Program reimburses the purchasers of new homes for some or all of the school facility fees paid on their homes. The funds are in the HCD budget, but the program is administered by the California Housing Finance Agency.

- Chapter 114, Statutes of 2001, sunset the program at the end of calendar year 2001 and returned the remaining program dollars to the General Fund. However, Chapter 114, authorized any subsequent payments from homebuyers (for instance, if they sold their home before the required five years of residence) to remain with the program. According to the *LAO Analysis of the 2004-05 Budget Bill*, \$5.6 million has been returned to the program in this manner.
- In 2002, Proposition 46 provided \$50 million to the program, which the LAO indicates will meet the program's needs throughout the decade.

LAO Recommendation: Transfer to the General Fund the \$5.6 million in non-bond funding and continue the program using only Prop 46 funds.

Staff Comment: HCD has updated the fund balance and it now stands at \$7.322 million.

Staff Recommendation: Approve the LAO recommendation and transfer the non-bond fund balance to the General Fund (updated to \$7.322 million).

Vote:

6. Transfer to General Fund from the Child Care Facilities Financing Program. The Child Care Facilities Financing Program provides both direct loans and loan guarantees for childcare facility purchases, expansions, and renovations. General Fund appropriations have provided the program with its previous funding. According to the LAO, the program has suffered from a complicated administrative structure and low demand and the Legislature returned to the General Fund much of the program's original funding.

LAO Recommendation: Shut down the program and transfer the \$1 million program reserve to the General Fund. The LAO indicates the program has 19 existing loans (with a value of \$7.7 million) and 2 guarantees (with a value of \$730,000). Future revenues from loan repayments would also go to the General Fund under this recommendation.

Staff Comment: HCD indicates the fund balance has fallen since the LAO analysis and \$183,000 is need to continue existing loan guarantees, which leaves a remainder of \$694,000 in the fund.

Staff Recommendation:

- Approve a transfer of \$694,000 to the General Fund, and approve trailer bill language that specifies all future interest on loans and any repayment to the fund be returned to the General Fund.
- To support the 2004-05 cost of administering existing loans and loan guarantees, appropriate \$10,000 General Fund.
- Reject the LAO recommendation to eliminate the program – funding to resume program activities may be available in a future budget.

Vote:

7. **Reduce Homeless Shelter Assistance.** The Emergency Housing Assistance Program (EHAP) provides funds for homeless shelter programs through minimum county allocations of \$10,000. Funding in 2003-04 is \$5.3 million and the Administration proposes \$4 million for 2004-05.

LAO Option: Reduce 2004-05 funding to \$2 million, which was the historical funding level for the program.

Staff Comment: The Administration indicates the funding reduction for the budget year is a policy, not a caseload, decision. Homeless programs are primarily funded at the local level.

Staff Recommendation: Keep issue open pending May Revision.

Vote:

8. **Forgive \$36.8 Million in General Fund Loans and Use Bond Funds to Fund the Multifamily Housing Program.** In 2002-03 and 2003-04, \$59 million in multifamily housing funds was loaned to the General Fund. In past years, the state awarded several hundreds of millions of dollars from the General Fund for multifamily housing projects. These dollars are not disbursed until the construction of a project is

completed, and that is why a large fund balance was available for loan to the General Fund.

LAO Option: Forgive \$36.8 million of the loan to the General Fund (the estimated outstanding loan on July 1, 2004) and pay the multifamily housing costs with Proposition 46 bond funds. These general obligation bond funds would otherwise support multifamily housing projects specified by Prop. 46. This action would not affect scheduled bond allocations until at least 2007-08.

Staff Comment: This proposal would require a change in statute, which Prop. 46 allows “for the purpose of improving the efficiency and effectiveness of the program, or for the purpose of furthering the goals of the program.” The LAO indicates a case could be made for a change in statute under the above provision of Prop 46.

Staff Recommendation: Keep issue open pending May Revision.

Vote:

2320 Department of Real Estate

The Department of Real Estate (DRE) (1) protects the public in offerings of subdivided property; (2) ensures that licensed individuals conducting real estate transactions are qualified; (3) prevents fraud, deceit and misrepresentation in the real estate marketplace by assisting the public through the investigation of complaints; and (4) educates the public and professional communities regarding the laws and regulations governing the handling of real estate transactions.

The department’s budget is proposed to decrease from \$31.6 million in the current year to \$31.2 million in the budget year. No General Fund support.

Issue

1. Workload Augmentation (FL #1). The Administration requests \$775,000 (special fund) and 13.0 positions (12.4 personnel years) to address department-wide workload issues. The Administration indicates that DRE staffing is at a 20-year low, while the number of licensees has increased over the past decade. This request would provide resources to reduce the existing backlogs and lessen the time required to issue a license.

Staff Comment: This request would increase positions by 13, while 17 positions were eliminated as part of the 4.10 reduction drill. DRE is supported by industry fees and receives no General Fund.

Staff Recommendation: Approve the Administration’s proposal.

Vote:

8885 Commission on State Mandates

The Commission on State Mandates (CSM) acts as a quasi-judicial body to assume authority for the initial determination of state mandated costs. CSM consists of the Director of Finance, the Controller, the Treasurer, the Director of the Office of Planning and Research, a public member with experience in public finance, and two additional members from the categories of city council member, county supervisor, or school district board member. The appropriations included in this budget are for administrative costs only; the reimbursement of mandates is distributed through the budgets of various state departments depending on subject matter. The total cost of reimbursing mandates is \$7.6 million in 2002-03, \$75,000 in 2003-04 (estimated), and \$74,000 in 2004-05 (budgeted). Of the 130 mandates effective today, the Governor’s Budget proposes that 82 be deferred, 29 repealed, and 19 be suspended.

DEPARTMENT BUDGET

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$1,462	\$1,258	-\$204	-16.2%	\$1,189	-\$69	-5.8%
Personnel Years*	12.4	10.2	-2.2	-21.6%	9.7	-0.5	-5.2%

(Dollars in 000s)

*Positions adjusted for salary savings and other adjustments

ISSUE PROPOSED FOR CONSENT

The following Finance Letter has been provided by the Administration.

FINANCE LETTER	Positions	Cost (\$s in 000s)
Abolish the State Mandates Claim Fund and Transfer Funds Remaining in the State Mandates Claim Fund to General Fund. The fund has not been utilized in recent years and is no longer practicable because nearly all state-mandated programs exceed \$1 million.	0	-\$461

Trailer Bill. The following changes to statute must be made in order to abolish the State Mandates Claim Fund.

AMENDMENT 1.

REPEAL GOVERNMENT CODE SECTION 17517:

17517. "Fund" means the State Mandates Claims Fund.

AMENDMENT 2.

REPEAL GOVERNMENT CODE SECTION 17579:

~~17579. (a) Any bill introduced or amended on and after January 1, 1985, for which the Legislative Counsel has determined the bill will mandate a new program or higher level of service pursuant to Section 6 of Article XIII B of the California Constitution, shall contain a section specifying that reimbursement shall be made from the fund pursuant to Section 17610 when the amount of the claim has been determined pursuant to Article 1 (commencing with Section 17550) of this chapter or that there is no mandate or that the mandate is being disclaimed and the reason therefor.~~

~~—(b) Any bill introduced or amended on and after January 1, 1985, may, but is not required to, contain an appropriation to provide reimbursement of costs mandated by the state.—~~

AMENDMENT 3.

REPEAL GOVERNMENT CODE SECTION 17610.

~~17610. (a) The costs arising from a statute containing a statement that the statute mandates a new program or higher level of service and specifying that reimbursement shall be made from the fund shall, upon certification of the estimated statewide cost by the commission to the Controller, be paid from the fund, provided that the estimated statewide cost of the claim does not exceed one million dollars (\$1,000,000). The Controller shall receive, review, and pay reimbursement claims from the fund as the claims are received. Claims for initial reimbursement shall be filed with the Controller within 120 days from the date that the Controller issued claiming instructions on mandates funded by the fund. When paying a timely filed claim for initial reimbursement, the Controller shall withhold 20 percent of the amount of the claim until the claim is audited to verify the actual amount of the mandated cost. Any claim for initial reimbursement filed after the filing deadline shall be reduced by 10 percent of the amount which would have been allowed had the claim been timely filed, provided that the amount of this reduction shall not exceed one thousand dollars (\$1,000). The Controller may withhold payment of any initial reimbursement claim filed after the filing deadline until the next deadline for funding claims unless sufficient funds are available to pay the claim after all timely filed claims have been paid.~~

~~—(b) For purposes of this section, "estimated statewide cost" means the total amount of funds estimated to be necessary to reimburse all eligible local agencies and school districts for costs incurred as a result of the mandate during the first 12-month period following the operative date of the mandate.~~

~~—(c) For purposes of this section, "costs arising from a statute" means the total amount of funds necessary to reimburse eligible local agencies and school districts for costs incurred as a result of complying with a mandate for the fiscal years specified in the parameters and guidelines in accordance with Section 17557.~~

AMENDMENT 4.

AMEND GOVERNMENT CODE SECTION 17612 TO READ:

17612. (a) Immediately upon receipt of the report submitted by the commission pursuant to Section 17600, a local government claims bill shall be introduced in the Legislature. The local government claims bill, at the time of its introduction, shall provide for an appropriation sufficient to pay the estimated costs of these mandates ~~except where the costs have been or will be paid pursuant to Section 17610.~~

(b) The Legislature may amend, modify, or supplement the parameters and guidelines for mandates contained in the local government claims bill. If the Legislature amends, modifies, or supplements the parameters and guidelines, it shall make a declaration in the local government claims bill specifying the basis for the amendment, modification, or supplement.

(c) If the Legislature deletes from a local government claims bill funding for a mandate, the local agency or school district may file in the Superior Court of the County of Sacramento an action in declaratory relief to declare the mandate unenforceable and enjoin its enforcement.

AMENDMENT 5.

REPEAL GOVERNMENT CODE SECTION 17614:

~~17614. There is hereby created the State Mandates Claims Fund. Notwithstanding Section 13340, money in the fund is continuously appropriated without regard to fiscal years for the sole purpose of paying claims pursuant to Section 17610.~~

Staff Recommendation. Approve the Finance Letter to transfer the balance of the State Mandates Claims fund to the General Fund and repeal the above statutes.

VOTE:

INFORMATION ITEM ONLY

LAO ISSUE: Mandates; Mounting Liabilities and Need to Reform

The LAO estimates that the state's mandates obligations through the current year will reach \$2.1 billion, about one-half of which is for education mandates. In the budget year the mandates payment backlog will rise by another \$600 million to exceed \$2.7 billion. How the state addresses this worrisome trend is a profound fiscal and policy problem.

In their evaluation of the mandates issue, the LAO identified six problematic mandates issues (*The 2004-05 Budget: Perspectives and Issues*, page 206).

1. Lack of timely reimbursement payments to locals undermines the credibility of the mandate requirements.
2. There is little confidence in the mandate determination process.
3. The claiming system invites problems.
4. The Legislature needs better information.
5. Delays decrease Legislative oversight.
6. Mandate determinations get stuck in the past.

In order to address these problems, the LAO proposes seven key elements to mandate reform (*The 2004-05 Budget: Perspectives and Issues*, page 211).

1. The Legislature should have access to mandate costs and other information *during* the legislative process. State agencies also should have assistance during the development of regulations.
2. The body charged with making mandate determinations should be reconstituted so that all parties view it as objective.
3. State agencies should actively participate in the mandate determination process, ensuring that state views and interests are documented and presented.
4. Local governments should have some recourse to reduce their fiscal liabilities if the state does not fund a mandate.
5. The mandate determination process should be timely, with the Legislature learning of new mandates and their costs before or shortly after the mandate is established.
6. The mandate claiming process should be simple, credible, timely, and easy to audit. Whenever possible, claims should reflect unit cost methodologies rather than open-ended claiming.
7. Mandate determination and claiming procedures should be updated as needed to reflect modern conditions, laws, and court rulings.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
 Dick Ackerman
 Denise Moreno Ducheny



Wednesday, April 21, 2004
 1:30 p.m.
 Room 3191

DECISIONS

ORG	Department	Issue	Action	Remarks
0954	Scholarshare Investment Board	(none)	Approved as budgeted, 3-0	consent
0965	Ca. Industrial Devel. Fin. Adv. Cmte.	(none)	Approved as budgeted, 3-0	consent
0971	Ca. Alt. Energy & Adv. Trans. Financing Auth.	(none)	Approved as budgeted, 3-0	consent
0985	Ca. School Finance Auth.	(none)	Approved as budgeted, 3-0	consent
1900	PERS	(none)	Approved as budgeted, 3-0	consent
1920	STRS	(none)	Approved as budgeted, 3-0	consent
2120	ABC Appeals Board	(none)	Approved as budgeted, 3-0	consent
2310	OREA	(none)	Approved as budgeted, 3-0	consent
3. 50, CS		(none)	Approved as budgeted, 3-0	consent
4.20, CS		(none)	Approved as budgeted, 3-0	consent
25.50, CS		(none)	Approved as budgeted, 3-0	consent
0840	SCO	Issue #1: BCPs&FLs: CalATERS, APS Replacment, CCSAS Position, SDI Changes, and TT&C Programs	Approve staff recommendation, 3-0	
		Issue #2: Unclaimed Property Program Fees	Hold open	Chair asked that LAO and DOF respond to SCO's issues of concern.
		Issue #3: Medi-Cal Non-Institutional Providers Audits Program	Hold open and revisit issue.	
		Issue #4: Performance Audits	Hold open and revisit	

			issue.	
	STO	Issue #1 Mandate Suspension - County Treasury Oversight Committee	Hold open	Submit trailer bill to reform mandate payments (if available) to the subcommittee
		Issue #2: Mandate Suspension - Investment Reports	Hold open	Submit trailer bill to reform mandate payments (if available) to the subcommittee
0956	CDIAC	Transfer \$750,000 from Fund 0171	Hold open in accordance with staff recommendation	
0959	CDLAC	Transfer \$3.5m from fund 0169	Hold open in accordance with staff recommendation	
0968	CTCAC	Transfer \$35m from fund 0448	Hold open in accordance with staff recommendation	
		Transfer \$31m from fund 0457	Hold open in accordance with staff recommendation	
0991	California Fiscal Recovery Financing Authority and Economic Recovery Bonds	Delete item	Approve staff recommendation, 3-0	
2100	ABC	Consent Issue #1: IT system	Approved Administration's request, 3-0	
2100	ABC	Consent Issue #2: Funding increase for DOJ rate increase	Approved Administration's request, 3-0	
2100	ABC	Issue #1: Fee in lieu of suspension	Approved Administration's request, 3-0	Trailer bill should be forwarded to policy committee for review.
2100	ABC	Issue #2: New licensing staff	Approved Administration's request, 3-0	
2150	DFI	Issue #1: IT security and recovery	Approved Administration's request, 3-0	
2150	DFI	Issue #2: Financial privacy (SB 1) staffing	Hold open	Continue to look at staffing need.
2180	Corporations	Issue #1: Financial privacy (SB 1) staffing	Hold open	Continue to look at staffing need.
2240	HCD	Consent Issue #1: IT system	Approved Administration's request, 3-0	
2240	HCD	Consent Issue #2: Move Military Base Retention position to the BT&H Agency	Approved Administration's request, 3-0	
2240	HCD	Issue #1: Staffing increase for bond workload	Approved Administration's request, 3-0	
2240	HCD	Issue #2: Enterprise Zone staffing and funding	Held open	Chair asked that Finance work to find a consensus approach.
2240	HCD	Issue #3: Migrant Services augmentation for repairs	Approved Administration's request, 3-0	The separate by related issue of daily rental rates will be discussed further at a later hearing.

2240	HCD	Issue #4: Housing-element mandate	Held open	Staff should resolve cost difference with LAO.
2240	HCD	Issue #5: School Facilities Fund transfer to General Fund	Approve staff recommendation, 3-0	
2240	HCD	Issue #6: Child Care Facilities Prog. - transfer to General Fund	Approve staff recommendation, 3-0	
2240	HCD	Issue #7: Homeless Shelter Asst. funding level	Held open	Hold for May Revision, also Sen. Ducheny has a related District issue for the next hearing.
2240	HCD	Issue #8: Foregive GF loans of \$36.8 million, backfill with bond funds	Held open	LAO should continue discussions with the Administration if this is a legally-viable option.
2320	Real Estate	Issue #1: Staffing augmentation	Approved Administration's request, 3-0	
8885	Commission on State Mandates	Abolish the State Mandates Claim Fund and transfer \$461,000 to General Fund	Approve staff recommendation, 3-0	

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, April 28, 2004
1:30 p.m.
Room 3191

<u>Item</u>	<u>Department</u>	<u>Page</u>
2660	Department of Transportation	2
0860	Board of Equalization.....	3
1100	Science Center	10
1700	Department of Fair Employment and Housing	12
1730	Franchise Tax Board	14
8860	Department of Finance	23
9612	Enhanced Tobacco Settlement Asset-Backed Bonds.....	25

Proposed Consent Calendar

0280	Commission on Judicial Performance
1705	Fair Employment and Housing Commission
9860	Capital Outlay Planning and Studies Funding

CONTROL SECTIONS:

4.30	Lease Revenue Payment Adjustments
4.60	Rent Increase
4.80	State Public Works Board Interim Financing
4.90	Architectural Revolving Fund Transfer
4.95	Inmate Construction Revolving Account Transfer
6.00	Project Alterations Limits
8.50	Federal Funds Receipts
8.51	Federal Funds Accounts
9.20	Administrative Costs Associated with the Acquisition of Property
9.30	Federal Levy of State Funds
9.50	Minor Capital Outlay Projects
11.00	EDP/Information Technology Reporting Requirements
11.10	Reporting of Statewide Software License Agreements
11.11	Privacy of Information in Pay Stubs
11.52	Transfer of Unencumbered Balance of Various Funds to the General Fund
12.30	Special Fund for Economic Uncertainties

26.00	Intraschedule Transfers
28.00	Program Change Notification
35.00	General Fund Deficit Recovery Payments
35.50	Estimated General Fund Revenue Per ACA 5

Proposed Consent Calendar

Staff Recommendation: No issues have been raised with these budgets. Staff recommends the subcommittee approve all items on the consent calendar.

Vote:

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The state highway system comprises approximately nine percent of the total roadway mileage in California but handles approximately 54 percent of the miles traveled. The department also has responsibilities for congestion relief, transportation technology, environmental and worker protection, airport safety, and land use and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The budget proposes total expenditures of \$7.4 billion, a decrease of \$1.1 billion (13.3 percent) from the current-year budget.

Mid-Year Proposals to Aid the General Fund: The Administration and the LAO should update the sub-committee on any new developments and any erosions related to the following Administration mid-year proposals:

- a) Accelerate the receipt of \$800 million in federal reimbursements by utilizing cash management of locally-subvented federal Obligation Authority (OA). With this additional \$800 million in federal reimbursement to the State Highway Account, which was not anticipated in the 2004 STIP Fund Estimate, the Administration proposes the following:
 - Reimburse the General Fund for debt service on current transportation general-obligation bonds (\$406 million).
 - Loan \$200 million to the General Fund for up to 3 years (Proposition 2 loan).
 - Retain \$194 million to support highway project allocations.

- b) Transfer income from the sale of property, rental income, and miscellaneous revenues (“non-Article XIX revenue”) to the General Fund (\$108 million over two years).
- c) Retain gasoline sales tax “spillover” revenue in the General Fund (\$17 million). The sales tax on gasoline and diesel sales is allocated for transportation purposes. A portion of the sales tax on gasoline (and diesel sales) is allocated to the Public Transportation Account (PTA). When gasoline prices are high relative to other non-gasoline sales, the PTA receives the “spillover” sales tax revenues.
- d) Transfer \$189 million from the Traffic Congestion Relief Fund to the General Fund, and repeal the statutory authority for the projects in the Traffic Congestion Relief Program (TCRP). The Administration indicates that the TCR project sponsors will have to secure funding through the State Transportation Improvement Program (STIP), or local funding mechanisms.

Included in the discussion should be the following, which have occurred since the December hearing on mid-year proposals:

- The Administration’s proposal to fully suspend Proposition 42 in 2004-05.
- Finance Letter #1, which requests 16.1 personnel years (two-year limited term) to implement cash management for locally-subvented federal funds.
- The new provisional language proposed by the Administration for the transfer of non-Article XIX funds.
- The survey of TCRP project sponsors concerning close-out costs.

Staff Recommendation: Hold open pending May Revision.

0860 Board of Equalization

The Board of Equalization (BOE) collects state and local sales and use taxes and a variety of business and excise taxes and fees, including those levied on gasoline and diesel fuel, alcoholic beverages and cigarettes. BOE also assesses utility property for local property tax purposes, oversees the administration of the local property tax by county assessors, and serves as the appellate body to hear specified tax appeals.

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$316,322	\$328,256	\$11,934	3.8%	\$326,820	-\$1,436	-0.4%
Personnel Years*	3667.8	3483.5	-184.3	-5.0%	3461.8	-21.7	-0.6%

(Dollars in 000s)

*Positions adjusted for salary savings and other adjustments

ISSUE #1: Issues Proposed for Consent

The following Finance Letter and Budget Change Proposal have been submitted by the Administration.

Budget Change Proposals and Finance Letters		
TITLE	Positions	Cost (\$s in 000s)
Department of Motor Vehicles Fee Increase. It is requested that the BOE's budget be increased by \$687,000 in order to accommodate an increase in the DMV charges for collecting use taxes on behalf of the BOE. The DMV provides these administrative duties to the BOE via an interagency agreement to act as the BOE agent at the time of the DMV registration.	0	\$550 General Fund \$137 Reimbursements
Annual Water Rights Fee. Ongoing funding and positions are sought to implement and administer the new water rights program under the provisions of Chapter 741, Statutes of 2003 (Senate Budget Committee). This chapter increased the application fees for water rights and assessed an annual fee to be paid and collected by the BOE. The funding pays for the BOE to carry out certain provisions of the Water Code.	2.2 (2003-04) 3.8 (ongoing)	\$664 reimbursements (2003-04) \$428 Water Rights Fund (2004-05) \$333 Water Rights Fund (ongoing)

Staff Recommendation. Approve as budgeted the Finance Letter and Budget Change Proposal described under Issue #1.

ISSUE #2: Chapter 890, Statutes of 2003, The Cigarette and Tobacco Products Licensing Act of 2003.

Chapter 890, Statutes of 2003, (AB 71) mandated that the BOE administer a statewide program to license businesses that distribute cigarettes and tobacco products (manufacturers, importers, distributors, wholesalers, and retailers). The new program prohibits manufacturers, importers, distributors, and wholesalers from selling cigarettes and tobacco products to an unlicensed distributor, wholesaler, or retailer, and imposes fines and penalties for violation of the law.

Administration Proposal. The Administration's proposal requests positions and funding to be paid for out of the Cigarette and Tobacco Compliance Fund. That fund was established to improve voluntary compliance by reducing smuggling and counterfeiting and receives income through the licensing tobacco businesses.

- \$5,598,000 (Cigarette and Tobacco Products Compliance Fund) and 40.6 personnel years in 2003-04
- \$8,161,000 (Cigarette and Tobacco Products Compliance Fund) and 80.7 personnel years in 2004-05
- \$8,044,000 (Cigarette and Tobacco Products Compliance Fund) and \$80.7 personnel years ongoing

Staff Comment. There has been a decline in both total consumption of taxable cigarettes and per capita consumption of taxable cigarettes over the last ten years. During this period, the cigarette tax has increased from 10 cents to 87 cents per pack. In addition, there are new statewide restrictions on smoking in public buildings. These restrictions and the increased price of cigarettes have resulted in some decline in consumption. Some of this decline, however, is due to an increase in the consumption of untaxed cigarettes. Major areas of cigarette tax evasion include stamp counterfeiting, smuggling across state or international borders, Internet purchases, and unstamped products.

Staff Recommendation.

1. **Request the BOE report to the Subcommittee on General Fund revenues to be gained** through increased voluntary compliance resulting from this law in 2003-04 (revenues to date), 2004-05, and 2005-06 and beyond.
2. **Hold open.** Based on the possibility of revised General Fund revenue estimates, staff recommends the Subcommittee leave this issue open for reconsideration after the May Revision has been released.

ISSUE #3: Allocation of Reductions Pursuant to Control Section 4.10

Board of Equalization Control Section 4.10 Plan. The BOE reports that approximately \$35.5 million (\$27 million General Fund) will be lost due to the implementation of the Control Section 4.10 reduction plan. In deciding where to reduce positions BOE used the following priorities:

- (1) Prevent layoffs
- (2) Minimize revenue losses to the state and local governments
- (3) Eliminate vacant positions.

In implementing their plan, the BOE lost 141 positions and over \$16 million in funding, with \$3.8 million of that reduction taken from operating expenses and equipment (OE&E) and the remainder (\$12.2 million) from personal services.

LAO Recommendation. The LAO estimates that approximately \$20 million of the General Fund revenues lost due to 4.10 reductions could be recaptured if the BOE revised their Control Section 4.10 plan. The BOE plan includes 91 positions that will have a negative impact on the collection of revenues.

Staff Comment. The Subcommittee should note the value that BOE has placed on preventing layoffs, relative to minimizing General Fund revenue losses. Based on the LAO's assessment that 91 revenue producing positions are being eliminated and \$20 million could be reclaimed, each of the 91 positions represents an average of approximately \$220,000 in lost revenues to the state.

Staff Recommendation.

- (1) **Hold open** for reconsideration after the May Revision has been released and the extent of the General Fund shortfall is updated.
- (2) **Request the BOE report to the Subcommittee** on the LAO's estimates of lost revenue due to the implementation of their Control Section 4.10 plan.

ISSUE #4: Board Staff Reduction

LAO Recommendation. The LAO has provided a recommendation that the Legislature reduce the budget authority for staff support positions for Board members of the BOE and reset their budget authority to the 2002-03 level. This reduction would result in savings of \$700,000 General Fund and \$300,000 special fund reimbursements, as well as a reduction of 14 positions. The LAO asserts that tasks for the Board have not changed appreciably since 2002-03 and that it is reasonable that the Board itself absorb losses to staff support.

Staff Comment. In light of the Control Section 4.10 revenue losses, the LAO proposal may constitute a practical assignment of the staff reduction that will not hinder revenue collections.

Staff Recommendation. **Hold open** until after the May Revision has released and the extent of the General Fund shortfall is updated.

ISSUE #5: Cigarette and Tobacco Distributor Twice-Monthly Payment and Reporting pursuant to Chapter 867, Statutes of 2003 (AB 1666)

Administration's Proposal. The Administration requests the BOE's budget be augmented by \$53,000 and .5 position on a limited-term basis through December 31, 2006. This funding and position are sought to implement the provisions of Chapter 867, Statutes of 2003 (AB 1666), which allows cigarette and tobacco product distributors to elect to file excise tax returns either on a monthly or twice-monthly basis (a potential tax benefit for tobacco distributors). This proposal also provides funding for the associated Bank of America contract to process additional payments and reconcile accounts.

Staff Comment. Staff notes that this proposal could potentially result in additional revenues for the state. Chapter 867, Statutes of 2003, directs the LAO to report back by January 1, 2006, on additional revenues generated by increasing the periodicity of payments.

Staff Recommendation. **Hold open** for reconsideration after the May Revision has been released and the extent of the General Fund shortfall is updated.

ISSUE #6: Special Taxing Districts—Reimbursement Level

A primary responsibility of the BOE is to administer the state's sales and use tax (SUT). BOE administers the SUT on behalf of local governments and special districts. These agencies must then reimburse the BOE for collection and allocation costs.

Chapter 890, Statutes of 1998 (Sweeney) required the BOE in certain circumstances to cap the reimbursements it receives from special taxing districts, in order to make tax assessments more financially feasible for these districts.

LAO Recommendation. The LAO recommends the Legislature make the special taxing districts self-supporting by ending the caps on reimbursements it may receive for administrative costs. This action is estimated to reduce the General Fund appropriation of this item by \$1.3 million annually. Reimbursements would be increased by an equivalent amount.

Staff Recommendation.

- (1) **Request the BOE report to the Subcommittee** on the findings of their Special Taxing Jurisdiction model and any other concerns with the LAO proposal.
- (2) **Reduce the General Fund appropriation item (0860-001-0001) by \$1.3 million and increase reimbursements by an equal amount.**

VOTE:

ISSUE #7: Field Office Consolidations

The BOE currently maintains 27 field offices throughout the state and four nationwide (Houston, Chicago, New York, and the Sacramento "out of state" office). These offices provide technical and general information support to taxpayers.

LAO Issue. The LAO questions the need for 31 field offices and points out that a like agency (the FTB) is undertaking a comprehensive review of their 16 field offices to determine which facilities can be closed. (Some of their 16 are actually co-located with BOE offices.) The LAO asserts that technology efficiencies (e.g. Internet, telecommunications) could reduce the need for face-to-face interaction and allow field offices to be closed, saving the state millions of dollars annually.

LAO Recommendation. The LAO recommends the following supplemental report language be adopted by the Legislature to initiate a review of the BOE's facilities needs.

The Board of Equalization (BOE) shall provide to the Chair of the Joint Legislative Budget Committee and the chairs of the fiscal committees of the Legislature by December 1, 2004, a report containing the following information: (1) unit costs of providing taxpayer services and audit and collection activities at the BOE's 27 field offices; (2) net annual budgetary benefits of consolidating or closing four BOE field offices (one in each BOE district); (3) estimated impact on

all BOE-collected tax revenues from field office consolidations or closures identified in (2) above; (4) net annual benefits of reducing or eliminating an out-of-state office. Data provided shall include one-time and ongoing budgetary and revenue impacts.

Staff Comment. Notwithstanding the short-term costs associated with breaking leases, it is unclear that technology efficiencies (e.g. Internet, telecommunications) won't overcome those temporary expenses. The proposed LAO supplemental report language is a vehicle to address this uncertainty.

Staff notes that by closing the field office in Torrance (independent of an external recommendation to do so), the BOE demonstrated a commitment to controlling facilities costs. The BOE estimates that the 2004-05 savings for this closure to be \$296,000 General Fund and \$74,000 in reimbursements. However, at the April 27, 2004, Assembly Subcommittee #4 hearing, the BOE suggested that the savings were "half a million."

Staff Recommendations:

- (1) Adopt the LAO's proposed supplemental report language.**
- (2) Request the BOE report on the actual amount of General Fund and other savings generated by the closure of the Torrance office.**
- (3) Reduce the BOE's General Fund appropriation by the amount identified in (2) to reflect the savings generated by the closure of the Torrance field office.**

VOTE:

ISSUE #8: Out of State Field Offices

The BOE operates three out of state offices, Chicago, New York, Houston, and one office in Sacramento for out of state services.

Staff Comment. In light of the state's General Fund shortfall and the recent precedent for closure of out of state offices (e.g. the Technology, Trade, and Commerce offices), the need for out of state offices is questionable. Furthermore, advances in information technology suggest that the duties performed by the BOE may be accomplished without face-to-face interaction in other parts of the country.

Staff Recommendation:

- 1. Request the BOE report to the Subcommittee** on the unique benefits provided by each of the out of state offices and identify the revenue impacts to basing all out of state activity from the Sacramento "out of state" office.
- 2. Staff recommends the following supplemental report language be adopted** by the Legislature to initiate a review of the BOE's out of state facilities needs. If adopted, provision (4) of the supplemental report language under Issue #8 ("Field Office Consolidations") should be removed.

The Board of Equalization (BOE) shall provide to the Chair of the Joint Legislative Budget Committee and the chairs of the fiscal committees of the Legislature by December 1, 2004, a report containing the following information: (1) unit costs of providing taxpayer services and audit and collection activities at the BOE's out of state offices; (2) net annual budgetary benefits of closing the four BOE out of state offices; (3) estimated impact on all BOE-collected tax revenues from out of state office closures identified in (2) above; (4) net annual benefits of reducing or eliminating all out-of-state offices. Data provided shall include one-time and ongoing budgetary and revenue impacts.

VOTE:

ISSUE #9: INFORMATIONAL ISSUE

Senate Bill 17 (Escutia), Property Taxation: Change in Property Ownership

Current property tax law is framed by Proposition 13, the landmark tax reform measure of 1978. Among other effects, Proposition 13 froze property tax levels at the level of that year and allowed property value reassessments only when properties are sold.

Among owners of commercial properties, reassessments are sometimes subject to manipulation. For example, the commercial interest may simply not report a sale and thereby escape reassessment.

Senate Bill 17 is an attempt to curb the practice of reassessment evasion by making the following changes to law:

- (1) Requiring the Franchise Tax Board (FTB) to furnish the BOE with the name and address of any entity that does not respond to a question concerning change in ownership on partnership, bank, and corporate returns.
- (2) Requiring publicly traded companies to file annual real property statements with the BOE and impose penalties for failure to file the statement.
- (3) Modifying and increasing the penalty assessed when a legal entity does not file a change in ownership statement with the BOE after a change in ownership.
- (4) Making various legislative findings and declarations related to change in ownership of nonresidential and commercial properties.

Staff Comment.

If enacted, this bill could annually generate hundreds of millions in new General Fund revenue by reducing the incidence evasion of property tax reassessments. In curbing evasion by certain commercial property owners, the property tax will be more equitably borne. Additionally, penalty revenues would also provide some General Fund relief.

Staff Recommendation. Request the BOE report to the Subcommittee on revenue impacts, including increased property tax revenues and penalties associated with this bill, and other policy implications related to this bill.

1100 California Science Center

The California Science Center is an educational, scientific and technological center administered by a nine-member board of directors appointed by the Governor. It is located in Exposition Park, a 160-acre tract just south of the central part of Los Angeles, which is owned by the State. The Science Center presents a series of exhibits and conducts associated educational programs focusing on scientific and technological developments of the State. The California African American Museum is housed in a building adjacent to the Science Center and receives state funding through the Science Center budget.

The Science Center budget is proposed to increase from \$19.9 million in the current year to \$20.1 million in the budget year – an increase of \$132,000. The General Fund support in the current year is \$12.8 million and is proposed at \$14.2 million in the budget year – an increase of \$1.4 million.

Issues Proposed for Consent

1. **Operating Budget for the New Parking Facility (BCP #2).** The Administration requests \$260,000 in special funds for the operation of the new California Science Center and California African American Museum Parking Facility. The parking facility would also be used for event parking for the Los Angeles Sports Arena and the Los Angeles Memorial Coliseum.

Staff Comment: The Science Center estimates parking revenue from this new facility will exceed operation costs. No General Fund savings would result from delaying the opening of this new facility.

2. **Technical Correct to California African American Museum (CAAM) Reimbursements (April FL).** The Administration requests a \$1 million reduction in reimbursements to correctly reflect the completed expenditure of bond funds provided to the CAAM in the Budget Act of 2000.

Staff Comment: No concerns have been raised with this technical correction.

3. **Restoration of 3.0 Positions for the California African American Museum (CAAM) – No New Funding is Requested. (FL # 1).** The Administration requests the restoration of 3 positions eliminated by Government Code 12439 (vacant for more than 6 months). These positions were deemed critical by the Administration and not included in the Control Section 4.10 reductions. Funding was retained in the budget for these 3 positions and therefore no funding augmentation is necessary.

Staff Comment: According to the Administration, these positions were vacant during a period when the museum was under renovation and therefore the vacancies were manageable. The CAAM re-opened in March 2003 and the Museum is now requesting restoration of the positions.

Staff Recommendation: Approve the Administration's requests. No issues have been raised with these consent items.

Vote:

Discussion Issues

- 1. Staff and Operational Costs for the New Science Center School and the new Center for Science Learning (BCP #1).** The Administration requests 23 positions (21.9 personnel years) and \$2.424 million, of which \$1.443 million is state General Fund and \$981,000 is reimbursements from the Los Angeles Unified School District (LAUSD), for operational costs for the new Science Center School and the new Center for Science Learning. The Science Center School will operate as a neighborhood charter school and serve 720 K-5 students. The Center for Science Learning will serve the 720 students and faculty, and be incorporated into ongoing Science Center education programs. The request includes 16 facilities operations staff (i.e. Janitors and Stationary Engineers) and 7 program related staff (i.e. Exhibit Designer-Installer, Office Technician, Education Administrator). The LAUSD would fund approximately half of the facility operations cost, and none of the Learning Center program costs.

LAO Option: Delay the opening of the Center for Science Learning for General Fund savings of \$1.4 million. The LAO indicates the charter school could be opened without General Fund support, since it is funded by the Los Angeles Unified School District. The option is to delay opening the Center for Science Learning, which would eliminate the Center for Science Learning programming for the K-5 charter school and other educational groups that would use the facility. The charter school would still have access to the nearby California Science Center.

Staff Comment: The Science Center disputes the LAO finding that the Science Center School could be opened, but the opening of the Center for Science Learning deferred, to generate General Fund savings of \$1.4 million. Since the Learning Center and the School are located in the same building and share common areas and utilities, the Science Center indicates some savings would occur with the LAO option, but not the full amount suggested. A staff analysis of the BCP indicates that savings of at least \$900,000 General Fund should be feasible if the Center for Science Learning and its associated programs were deferred until 2005-06.

Staff Recommendation: Discuss the LAO Recommendation below prior to taking an action on this issue. The Staff Recommendation for Issue #1 and Issue #2 are combined below in the Issue #2 Recommendation.

- 2. Phase Out of General Fund Support for Science Center Operations (LAO Recommendation).** In the current year, the Science Center receives \$8.7 million in General Fund support for operations, and \$2.7 million in General Fund for the payment of lease revenue bonds. An additional \$1.4 million is requested in 2004-05 for the Science Learning Center. The California African American Museum receives General Fund of \$1.9 million. Total General Fund support is proposed at \$14.2

million in 2004-05. The Science Center does not currently charge an entrance fee, but operates associated programs that do charge fees such as the IMAX theater and private events and parties.

LAO Recommendation: Phase out General Fund support for operational costs (a \$5.0 million reduction in 2004-05 and an additional \$3.1 million reduction in 2005-06) and backfill this funding with new admission fees, increases in other charges, and Science Center Foundation revenue. Continue General Fund support for lease-revenue bond payments and for the California African American Museum.

Staff Comment on the LAO Recommendation: The Science Center has performed an analysis that suggests charging admission fees would significantly reduce attendance and the ethnic diversity of the attendees, and would not generate sufficient revenue to replace lost General Fund revenue. A staff review of the information suggests that it may be difficult to backfill \$8.1 million in General Fund support with entrance fees; however, opportunities do exist to generate additional fee-generated funding and to shift some activities supported by the General Fund to the Science Center Foundation.

Staff Alternative to the LAO Recommendation: If the subcommittee does not wish to phase out General Fund support for the Science Center operations, an alternative would be to hold General Fund at the current-year level and deny the request for the \$1.4 million General Fund augmentation (Issue #1 above). The Science Center would then have the option to increase fees to cover the new costs, to cut costs in other areas (i.e. reduce the funding for new exhibits or reduce hours of operations, etc.), or appeal to donors to cover the cost of new operations.

Staff Recommendation on Issues #1 and #2: Deny the funding augmentation requested in Issue #1, but approve reimbursements from the Los Angeles Unified School District. This would reject General Fund support in 2004-05 for new or expanded Science Center activities. Keep the Science Center budget open and direct staff to work with the Science Center to determine if any funding shift between operating expenses and equipment (OE&E) and personal services is desirable. Note, new positions could be added for the Center for Science Learning without General Fund cost, if OE&E is reduced by the same amount. These OE&E costs would then have to be funded from increased fees or Foundation support.

Vote:

1700 Department of Fair Employment and Housing

The Department of Fair Employment and Housing (DFEH) has the mission of protecting the people of California from unlawful discrimination in employment, housing and public accommodations, and from the perpetration of acts of hate violence.

The DFEH budget is proposed to decrease from \$19.9 million in the current year to \$18.7 million in the budget year – a decrease of \$1.2 million. The General Fund support in the current year is \$13.5 million and is proposed at \$13.5 million in the budget year.

Issues Proposed for Consent

- 1. Federal Fund Augmentation of \$1 Million to Match Receipts and Resolve an Operating Expense Shortfall (BCP #1).** The Administration requests an augmentation of \$1 million in federal funds to align the department's budget to its annual federal receipts, and to partially resolve a structural shortfall within the department budgets. The Administration indicates that an operating expenses shortfall has existed since 1998-99 due to unfunded rent increases and other costs. The department has used using salary savings and the Section 28.00 process (to bring in additional federal funds) to meet its fixed costs.

Staff Comment: A December 11, 2003, Section 28.00 letter was submitted and by DFEH that requested \$1,000,000 in additional federal funds expenditure authority. The Section 28.00 letter indicated that this was a structural issue that would addressed in the Governor's Budget. The DFEH indicates that it has already significantly reduced its communications, printing, travel, training and general expenses. No General Fund augmentation is included in this request.

- 2. Postage and Other Savings from Chapter 447, Statutes of 2003 (BCP # 3).** The Administration requests to reduce the DFEH budget by \$75,000 (\$38,000 in the current year) to reflect savings that result from Chapter 447, Statutes of 2003 (AB 1536). Chapter 447 allows DFEH to serve only those complaints that are filed for investigation by certified mail and therefore saves postage cost. The legislation also provides that where a person claiming to be aggrieved by an unlawful practice is represented by private counsel, private counsel, and not the department, would serve the complaint.

Staff Comment: No issues have been raised with this request.

Staff Recommendation on Consent Issues: Approve the Administration's requests.

Vote:

Issues for Discussion

- 1. Handle Complaints Through Mediation (LAO Option).** The 2000-01 Budget Act included \$1 million in funding for a pilot mediation program. Under the program, parties using the program agreed to mediate the complaints instead of having the department investigate complaints. The LAO reports that an independent evaluation found that participants were satisfied with the program and that cases that went through mediation cost the state \$500 less than the average case.

LAO Option: Direct 2,000 cases (20 percent of total cases) to mediation for a General Fund savings of \$1 million.

Staff Comment: The department indicates that the mediation process resulted in no net savings. While cases settled through mediation did result in an average savings of \$500, cases not settled through mediation then went to investigation – with mediation only adding costs to those cases.

Staff Recommendation: Withhold action on the LAO option at this time since the DFEH indicates no savings would result.

Vote:

2. **Return Joint Jurisdiction Cases to the Federal Government (LAO Option).** By agreement with the federal government, the department investigates complaints on behalf of the Equal Employment Opportunities Commission (EEOC) and the Department of Housing and Urban Development (HUD) when there is joint jurisdiction between federal and state law (approximately 70 percent of department cases according to the LAO). The EEOC and HUD reimburse the department for part of the investigation expenses (about one-third for most cases, again according to the LAO). The General Fund covers the remaining costs.

LAO Option: Return to the EEOC and HUD the joint-jurisdiction cases and reduce DFEH staffing and funding for a General Fund savings of \$8 million.

Staff Comment: The DFEH indicates that many joint-jurisdictional cases involve state laws that are broader than federal laws (such as in the area of disabilities) – in which case portions of the state law would not be enforced.

Staff Recommendation: Withhold action on this LAO's option at this time. The subcommittee may wish to consider revisiting this item at a later date, or adding this proposal to a potential savings list.

Vote:

1730 Franchise Tax Board

The Franchise Tax Board (FTB) is one of the state's two major tax collection agencies and is primarily responsible for the collection of personal income and corporate taxes. The FTB also administers the Senior Homeowners and Renters' Assistance program, the Political Reform Audit Program, and several non-tax-related programs, among those the collection of delinquent child support payments. The FTB is governed by a three-member board, consisting of the Director of Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, administers the daily operations and functions of FTB. FTB is funded at \$560 million in the budget year, of which \$441 million is General Fund.

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$441,344	\$532,643	\$91,299	20.7%	\$560,536	\$27,893	5.2%
Personnel Years*	5745.6	5215.2	-530.4	-9.2%	5075.0	-140.2	-2.7%

(Dollars in 000s)

*Positions adjusted for salary savings and other adjustments

ISSUE #1: Issues Proposed for Consent

The following Finance Letters and Budget Change Proposals have been provided by the Administration.

Budget Change Proposals and Finance Letters		
TITLE	Positions	Cost (\$s in 000s)
California Child Support Automation System (CCSAS). This ongoing project will facilitate child support payments from delinquent parents. Budget year funding is needed to make payments for procurement activities. Failure to implement CCSAS results in a significant loss of federal TANF funding.	0	\$33,806: \$12,493 GF and \$21,313 reimbursements (one year)
California Missions Foundation Fund. Funding is sought for administrative costs for processing contributions to the California Missions Foundation Fund, a "check in the box" option on state tax returns. Chapter 460, Statutes of 2003 (Speier) established this donation option through 2008.	0	\$1,000 California Missions Foundation Fund
Voter Registration Card. The FTB seeks reimbursement for printing costs associated with adding a voter registration card to all 2003 personal income tax booklets. Approximately 3.5 million books are mailed annually. Chapter 412, Statutes of 2003 (Poochigian) established this requirement.	0	\$236 GF
Phase III Occupancy Costs. Funding for ongoing maintenance and operations for the FTB's new State office building complex (known as Phase III), consisting of a new office, central plant, and warehouse buildings. This project was approved by Chapter 328, Statutes of 1998 (Vargas, Koretz, and Lieber).	0	\$6,467,000: \$6,046 GF \$259 Reimbursements \$27 Motor Vehicle Account \$50 Motor Vehicle License Fee Account \$85 Court Collection Account
Central Processing Unit Augmentation. Industry standards recommend 90 percent capacity for the CPU for tax processing, which allows for a 10 percent buffer. Based on projected growth, the system will be at 101 percent capacity in 2004-05. The feasibility study report for this project has been approved by Finance.	0	\$1,013 GF

Resident Real Estate Withholding. This proposal seeks to provide funding for 11.5 positions for the resident real estate withholding program, which was established last year. FTB has identified the pertinent workload and determined that future revenue collections of \$157 million will be at risk if these positions are not approved.	11.5	\$575 GF
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Staff Recommendation. Approve as budgeted the Finance Letters and Budget Change Proposals described under Issue #1.

ISSUE #2: Political Reform Audit Fee.

The Political Reform Audit Program was enacted in the wake of the Watergate scandal and has been a responsibility of the FTB since 1975. This program determines the accuracy of political statement reports filed the Secretary of State and conducts randomly selected field audits of political committees.

Administration Proposal. The Administration requests to change the funding source for the Political Reform Audit (PRA) Program from the General Fund to the new Political Reform Audit Fee Fund. As proposed, the PRA Program will be funded by \$1,442,000 in fees collected from candidates for elected political offices at the state level, as well as lobbyists, lobbying firms, lobbying employers, and certain political committees. The proposed fees will be used to defray the cost of the mandated audits.

Trailer Bill. The trailer bill proposed to implement this proposal would impose a fee on certain candidates filing for elected public offices, lobbyists, lobbying firms, lobbyist employers, and certain committees for deposit in the newly established fund.

The language requires the FTB to notify the Department of Finance biannually of the existing fee amount, the current fiscal year costs for the audit program, projected costs for the next two fiscal years, and the recommended fee amount for the next two years. The Director of Finance is directed to report on the amount of any fee increase no later than June 30, 2004 and biannually thereafter. This section is intended to ensure that the fee matches program costs.

Staff Comment. The new fee will be set to generate \$1.42 million to pay for the audit costs of the FTB. If this fee is not adopted, Item 8640 (Political Reform Act of 1974) must be augmented by \$1.42 million General Fund. While not yet implemented into the trailer bill, staff has been told that fees will be set at the following levels.

ASSESSED PARTY	VOLUME	FEE	TOTAL REVENUE
Lobbyists (individuals and firms)	1,000	\$757	\$757,000
Ballot measure committees	54	\$757	\$40,878
Political party, PAC, and other general purpose committees	500	\$757	\$378,500
State candidate committees	325	\$757	\$246,025
TOTAL FEE REVENUE			\$1,422,403

A number of concerns have emerged with regards to this proposal. First, this proposal may be subject to litigation. The FPPC has identified the potential for a lawsuit based on the state forcing disclosure by committees and individuals and then assessing fees from those who are to be audited. It is also anticipated that lobbying organizations will file suit based on infringement of their rights. Second, the litigation costs may be substantial, based on the possible suits to be filed.

Staff Recommendation. Hold open and request testimony on:

1. Issues related to potential litigation and potential litigation costs.
2. The rationale for the specified committees and state-level offices designated for a fee.
3. Reasons why the fee is set to fund the FTB portion only, and not the related activities of the FPPC and Secretary of State

ISSUE #3: Substandard Housing Mandate (Chapter 238, Statutes of 1973)

Revenue and Taxation Code Sections 17274 and 24436.5 provide that if a taxpayer derived rental income from substandard housing, no deduction for interest, taxes, depreciation, or amortization paid in conjunction with substandard housing is allowed.

The mandate is created by local housing agencies having to report these taxpayers to the counties, who in turn must report them to the state. The FTB has stated that in the last three years this mandate has been suspended, they have not encountered difficulty in retrieving the information necessary from local agencies to carry out this activity.

Administration Proposal: Suspend the Substandard Housing Mandate.

LAO Proposal: Repeal the Substandard Housing Mandate.

Staff Comment. Most recently, this mandate was suspended in 2001-02, 2002-03, and is suspended in the current year.

Staff Recommendation.

1. **Hold open** pending a recommendation from the policy committee who reviews this mandate.

ISSUE #4: Fees for Franchise Tax Board Services

The FTB provides a variety of services to individuals and businesses to facilitate the collection of personal income and corporations taxes. Some of these services are distinct from normal tax administration and processing activities and constitute a commitment of state resources for the benefit of individual taxpayers.

LAO Recommendation: The LAO recommends that the Legislature adopt language that would allow the FTB charge fees for the services identified below and generate a General Fund savings of approximately \$3.9 million ongoing. These fee proposals are not inconsistent with the fees already charged for similar services by the Internal Revenue Service. Specifically, the LAO recommends the following services be assessed fees at the indicated rates.

SERVICE	PROJECTED VOLUME	PROPOSED FEE	PROJECTED REVENUE
Installment Agreements. These are agreements that allow certain taxpayers to schedule periodic partial payments on a balance due of under \$10,000 that can be fully paid within 36 months.	117,600	\$15	\$1,764,000
Tax Practitioner Hotline. This service provides technical support to professional tax practitioners. The FTB reports that an annual fee would be the least obtrusive method to accounting professionals. The fee would be set to pay for program costs only (approximately \$750,000/year).	200,000	(variable)	\$750,000
Refund Stop Payment. The purpose of this processing activity is to prevent a refund warrant to be cashed by an unauthorized individual.	52,345	\$10	\$523,450
Transcript Preparation or Tax Computation. These activities require the preparation of a document or report showing annual activity on a taxpayer's account including: filings, tax amounts, penalty amounts, interest amounts, payments, assessments, credits, and refunds.	47,292	\$10	\$516,420
Lien Release or Subordination. This service requires the review and analysis of extensive documentation in order to determine whether the removal or subordination of a state tax lien from a specific piece of property is appropriate, prudent, and justified.	500	\$145	\$72,500
Rush Services. These services provide 24-hour "turn-around" for various actions including corporation reviver (brings a corporation out of suspension), escrow demand (used to process lien releases), entity exemption (for tax-exempt corporation status), and estate income tax certificate (certification of taxes paid).	20,980	\$10 - \$75	\$257,500
TOTAL PROJECTED REVENUE FROM ALL NEW FEES			\$3,883,870

Staff Recommendation. Hold open. Staff recommends the Subcommittee leave this issue open for reconsideration until after the May Revision has released and the extent of the General Fund shortfall is updated.

ISSUE #5: Revenue Acceleration Program.

LAO Issue. The Revenue Acceleration Program was established in 2002-03 to allow FTB to waive the payment of penalties and interest for taxpayers owing balances, in exchange for their immediate payment of unpaid taxes. The program was targeted to taxpayers who had not responded to notices, liens, levies, and telephone contact for at least two years. For the year that the RAP operated (between October 2002 and October 2003), the program is estimated to have generated \$32 million. If this program were to be extended, the FTB has preliminarily estimated that extending the program will net approximately \$20 million.

LAO Recommendation. Request the FTB report at hearings regarding final cost and revenue results of the initial RAP as well as provide estimate costs and revenue to the state resulting from extending the RAP for an additional year.

Staff Comment. This proposal may have some overlap with issue #9 (Tax Amnesty), with regards to revenue scoring. The overlap will be described under that issue.

Staff Recommendation. Request the FTB report to the Subcommittee regarding

- (a) final cost and revenue results of the initial RAP and provide an estimate of costs and
- (b) revenues to the state if the RAP were extended for an additional year.
- (c) the overlap of issues related to this proposal.

ISSUE #6: Independent Contractors and Self-Employed Individuals – Unreported Income

LAO Issue. The LAO has explored a fiscal problem wherein underreported income, specifically by self-employed individuals and independent contractors, costs the state potentially hundreds of millions of dollars. One reason this problem occurs is because payments to independent contractors do not require the withholding of taxes. Consequently, if the independent contractor does not report the income, it remains untaxed.

LAO Recommendation. In an effort to close the “tax gap” (the amount of tax owed versus the amount of tax actually paid), the LAO proposes additional filing and enforcement measures for independent contractors and self-employed individuals. The LAO recommends the FTB report to the Legislature on a number of corrective proposals.

Staff Recommendation. Request the FTB report to the Subcommittee on

- a. The viability of **businesses** withholding taxes on certain non-wage workers as a means to reduce the tax burden borne by compliant taxpayers. A withholding rate of 3.5 percent to 5 percent is proposed.
- b. The potential costs and estimated revenues of implementing that proposal.

ISSUE #7. District Office Service Reductions

LAO Issue. The FTB operates 16 field offices throughout the state in order to serve the public. These offices provide face to face consultations, as well as call centers, Internet, and voice response-based systems. The public access counters at the field offices are the most expensive option available for taxpayer assistance. The FTB has recently taken action to close public access counters at all district offices except for six offices. In the wake of these service reductions, the need for the field offices is in question.

LAO Recommendation. In light of the closure of public access windows and other activities at some field offices, the FTB should report at budget hearings on the district office restructuring proposals, including budget changes and state revenue impacts.

Staff Recommendation. Request the FTB report to the Subcommittee on the district office restructuring proposals, including budget changes and state revenue impacts.

ISSUE #8: Personal Income Tax (PIT) Nonfiler Program.

The FTB requests 29.5 positions and \$1.8 million General Fund to perform manual review, write correspondence, and answer calls on PIT nonfiler accounts. This program identifies and gains compliance from individuals who are filing returns by using a variety of manual and automated processes. Each year when potential nonfilers are identified, there are over 268,000 accounts placed in review status. This will enable the FTB to expand this activity by 134,000, up to 268,000.

Staff Comment. This program is predicted to result in new General Fund revenues for the state. Revenue estimates for this program are \$12.3 million in 2004-05, increasing to \$63 million by 2007-08. Based on those estimates, the positions are expected to pay for their expense several times over.

Staff Recommendation.

- (1) **Request the FTB report to the Subcommittee on the basis for the General Fund revenue estimates.**
- (2) **Approve the Personal Income Tax Nonfiler Program proposal as budgeted.**

VOTE:

ISSUE #9: Tax Amnesty

Tax amnesty programs are designed to encourage payment from people and businesses that have not paid past tax debts. By establishing a period wherein penalties will not be assessed if the payments are made by a certain date, the state expects to receive revenues that might otherwise not have been collected.

The fiscal benefits of amnesty programs can be significant. Illinois and New York have had very successful amnesty programs in recent years, generating over \$500 million each. Besides the fiscal benefits to the state, tax amnesty programs are an excellent means to reduce the tax burden borne by businesses and individuals who do pay their fair share of taxes.

California's latest tax amnesty program, called the Voluntary Compliance Initiative (VCI) was estimated to generate approximately \$90 million in 2003-04. **As of April 26, 2004, the VCI had netted over \$1 billion.** That number is expected to increase further as final receipts are calculated. The breakdown was as follows:

- Approximately \$600 million has been paid in Personal Income Tax (568 taxpayers), an average of \$1 million per personal income tax payment.
- Approximately \$400 million has been paid in Corporation Tax (296 taxpayers), an average of \$1.35 million per corporate tax payment.
- Of all 864 taxpayers partaking in the VCI, the average payment was \$1,157,407.

AB 2203. Assembly Member Chu has called for a new broad-based amnesty period for personal income tax and corporation tax to be applied between February 1, 2005 and March 31, 2005 (or any other two-month period in 2004-05). This bill has gone to the Appropriations Committee.

According to the FTB analysis of the bill, the gross amount of revenue from the amnesty bill is \$595 million, \$50 million of which is attributable to penalty revenues established in the bill. Actual new revenue generated is \$55 million. The remaining \$490 million is money that would have been received even absent the amnesty and represents a revenue acceleration.

The \$490 million that would have been received notwithstanding AB 2203 would have penalties associated with it as well. The amnesty program waives those penalties—a revenue reduction to the state.

Staff Recommendation: Request the FTB report to the Subcommittee on the following issues:

1. The reasons for the enormous underestimation of revenues from the VCI and how this miscalculation affects other revenue estimates that have been built into the Governor's Budget and proposed changes to the Governor's Budget.
2. The existence of non-taxpayers (other than the 864 who complied this year) who may comply during a later amnesty period or to a different type of compliance incentive.
3. AB 2203, including the potential revenue and compliance issues.
4. The General Fund revenue "overlap" from the Revenue Acceleration Program proposal (issue #4) relative to the amnesty proposed in AB 2203.

ISSUE #10: Abusive Tax Shelters

Recent data collected by the Internal Revenue Service and interpreted by the General Accounting Office (GAO) suggests that ATS' are proliferating nationwide. In the nine-month period between January 2003 and September 2003, the GAO estimated that the number of ATS transactions increased by 42 percent. The associated loss of revenue to the country over that period rose from \$74 billion to \$85 billion.

In California, the Multistate Tax Commission (MTC) found in a 2001 study that the state's annual revenue losses from ATSS were approximately \$1.3 billion. Today, the FTB estimates that **losses to the state due to ATS activity range from \$600 million to \$1 billion annually.**

According to the LAO, abusive tax shelters (ATSS) usually have the following characteristics:

- They are promoted with the promise of tax benefits
- They have predictable tax losses or tax consequences
- They involve a literal reading of a tax statute inconsistent with its underlying intent.

The FTB and Internal Revenue Service identify ATSS as having no true economic purpose and existing solely for the reason of tax avoidance.

LAO Recommendation. The LAO recommends the FTB report on:

- a. the current status of its ATS enforcement activities,
- b. the need for and potential effectiveness of the following activities
 - Restricting the issuance of tax insurance policies available to investors in ATSS.
 - Expanding California's False Claims Act (which provides for penalties for making a false claim against the state) to include claims, records, or statements made under the Revenue and Taxation Code.
- c. the value and benefits of an integrated plan for ATS enforcement.

2. Also, the LAO recommends the FTB expand its existing annual *Supplemental Report on FTB Audits and Collections Activities* to include a section that specifically addresses the status of ATS enforcement activities

Staff Recommendation.

1. **Request the FTB report to the Subcommittee on:**
 - a. The current status of its ATS enforcement activities
 - b. The need for and potential effectiveness of the following activities
 - Restricting the issuance of tax insurance policies available to investors in ATSS.
 - Expanding California's False Claims Act (which provides for penalties for making a false claim against the state) to include claims, records, or statements made under the Revenue and Taxation Code.
 - c. The benefits of an integrated plan for ATS enforcement
 - d. The steps necessary to implement the recommended elements of (a), (b), and (c).
2. Adopt the LAO proposal and direct the FTB to expand its existing annual *Supplemental Report on FTB Audits and Collections Activities* to include a section that specifically addresses the status of ATS enforcement activities

VOTE (on recommendation 2.)

ISSUE #11: Abusive Tax Shelters Consultant Services

The Administration has requested that FTB's General Fund appropriation be increased by \$400,000 to provide funding for contracts with tax shelter experts whose expertise will assist the FTB in identifying and sustaining assessments for abusive tax shelters and in understanding overseas financial markets. FTB staff does not yet have sufficient experience in this area. The FTB indicates it needs assistance and training to identify and analyze complex abusive tax shelters. The Internal Revenue Service has also found it necessary to contract with experts in this field. This augmentation would result in an estimated \$11 million to \$14 million General Fund revenue increase (\$138 million to \$184 million total through 2008-09), over-and-above what the FTB is estimated to collect without these expert consultants.

Staff Comment. According to the Finance Letter, the "investment" of \$400,000 in tax shelter experts will yield a return of between 27.5 and 35 times the initial cost (\$11 million to \$14 million). Given the Administration's past practice of submitting proposals that have an expected cost-benefit ratio of as little as 1:5, a larger investment in ATS consultant services may be prudent.

Staff Recommendation. Hold open and request the FTB report to the Subcommittee on the extent to which increased investment in tax shelter experts and other means to identify abusive tax shelters will curb ATS activity and generate General Fund revenues.

8860 Department of Finance

The Department of Finance serves as the Governor's chief fiscal policy advisor. The objectives of the Department of Finance are to (1) prepare, present, and support the annual financial plan for the state, (2) assure responsible and responsive state resource allocation within resources available, (3) foster efficient and effective state structure, processes, programs and performance, and (4) establish integrity in state fiscal databases and systems.

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$40,776	\$44,111	\$3,335	8.2%	\$43,336	-\$775	-1.8%
Personnel Years*	421.2	430.6	9.4	2.2%	409.7	20.9	-4.9%

(Dollars in 000s)

*Positions adjusted for salary savings and other adjustments

Issues Proposed for Consent

The following Budget Change Proposals have been submitted by the Administration.

ISSUE #1. Technology Oversight and Security Unit

Administration Proposal. The Department of Finance requests \$2 million in continued funding and 20.3 positions for the information technology oversight and security programs within the Technology Oversight and Security Unit (TOSU). TOSU was established within the Department of Finance as the replacement for the Department of Information Technology. Ongoing funding is needed to continue existing TOSU security and oversight functions.

Staff Comment. The Department of Finance's TOSU unit oversees \$7 billion in IT projects for the state. Without continued funding for these positions, the state will lose an important asset in identifying misuse of state funds on IT programs and oversight for IT risk management. The LAO has raised no concerns with this BCP.

Staff Recommendation. Approve as budgeted the Technology Oversight and Security BCP.

VOTE:

ISSUE #2. Capital Outlay Project Tracking System (COPTS) – Reimbursed Position.

Administration Proposal. The Department of Finance requests one full time permanent Staff Programmer Analyst position in the Information Services Unit to support the department's COPTS. The position will be reimbursed from the Public Works Board, the principal beneficiary of the COPTS.

Staff Comment.

In 2004-05 the state will spend approximately \$1.6 billion in capital outlay expenditures. The implementation of the COPTS will be helpful in managing this immense investment in capital outlay projects by improving the budgeting and sequencing of new and existing projects. The LAO has raised no concerns with this BCP.

Staff Recommendation. **Approve as budgeted** the Capital Outlay Project Tracking System BCP.

VOTE:

9612 Enhanced Tobacco Settlement Asset-Backed Bonds

Chapter 225, Statutes of 2003, requires the Department of Finance to place an item in the budget that would authorize the Director of Finance to allocate from the General Fund should tobacco revenues be below the level required to pay the debt service. This enhancement was to provide assurance to bond purchasers that there will be sufficient funding to pay further debt service. In September 2003, enhanced tobacco bonds were sold at favorable interest rates that resulted in net proceeds to the General Fund of \$2.264 billion.

Administration's Proposal. In accordance with Chapter 225, Statutes of 2003, this item appropriates \$1000 to serve as a backstop should tobacco revenues fall short of making debt service payments on the tobacco bonds. While this authority exists, it is not anticipated that the General Fund will be required to make any payments.

Staff Comments. While statutory authority has been provided to allocate up to \$200 million General Fund, it is not expected to be utilized and the item contains only a \$1000 "placeholder" appropriation. This item is the state's commitment to the bondholders should tobacco revenues fall short of making debt service payments on the tobacco bonds.

Staff Recommendation. **Approve as budgeted** the Enhanced Tobacco Settlement Asset-Backed Bonds budget item.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
 Dick Ackerman
 Denise Moreno Ducheny



Wednesday, April 28, 2004
 1:30 p.m.
 Room 3191

DECISIONS

ORG	Department	Issue	Action	Remarks
0280	Commission on Judicial Performance	(none)	Approved as budgeted, 3-0	(consent)
0890	Board of Equalization	Issue #1: DMV Motor Vehicles Fee Increase	Approved with the 65%GF-35% reimbursements split, 3-0.	\$447,000 GF, \$240,000 reimbursements.
		Issue #1: Annual Water Rights Fee	Approved as budgeted, 3-0	
		Issue #2: Ch 890, Stats. 2003 (Tobacco Licensing Act)	Hold open	BOE reported \$4m GF revenues in 03-04 and \$8m 04-05 and beyond.
		Issue #3: Allocation of Reductions Pursuant to CS 4.10	Hold open	
		Issue #4: Board Staff Recommendation	LAO Issue rejected.	
		Issue #5: Cigarette and Tobacco Twice Monthly Payments	Hold open. BOE directed by Subcommittee to look into redirecting for 1/2 position.	
		Issue #6: Special Taxing Districts	Hold open. BOE/Admin to provide (1) detail of \$1.5 m figure and (2) the trailer bill.	
		Issue #7: Field Office Consolidations	Approved Staff Recommendation, 3-0	DOF will reflect the \$370,000 (\$296,000 GF, \$74,000 reimbursements) savings in BY. SRL adopted.
		Issue #8: Out of State Field Offices	Hold open	
		Issue #9: SB 17	Informational	Subcommittee requested they be informed of

				developments with that bill.
1100	Science Center	Consent Issue #1: Operating cost for new parking facility	Approved as budgeted, 3-0	
		Consent Issue #2: Technical reimbursement adjustment	Approved as budgeted, 3-0	
		Consent Issue #3: African American Museum position restoration	Approved as budgeted, 3-0	
		Issue 1: New Science Center School and Center for Science Learning	No vote taken	
		Issue 2: LAO Recommendation to phase out General Fund	No action taken on LAO Option	
1730	Franchise Tax Board	Issue #1; ISSUES PROPOSED FOR CONSENT: CCSAS, California Missions Foundation Fund, Voter Registration Card, Phase III Occupancy Costs, CPU Augmentation, Resident Real Estate Withholding.	Approved as budgeted, 3-0	
		Issue #2: Political Reform Audit Fee	Hold open and direct DOF, FTB, LAO and staff to continue to resolve implementation issues.	
		Issue #3: Substandard Housing Mandate	Hold open in accordance with staff recommendation.	
		Issue #4: Fees for Franchise Tax Board Services	Hold open	1/2 year revenue in 04-05
		Issue #5: Revenue Acceleration Program	Hold open.	
		Issue #6: Independent Contractors and Self-Employed Individuals	Hold open and direct DOF, FTB, LAO and staff continue to work on a proposal to implement a withholding program.	FTB identified a range of revenues between \$100 million to \$200 million if the proposal were implemented.
		Issue #7: District Office Service Reductions	Hold open and request FTB to provide final up front costs and benefits of implementing this proposal.	

		Issue #8: PIT Non-Filer	Approved as budgeted, 3-0	
		Issue #9: Tax Amnesty	Hold open	
		Issue #10: Abusive Tax Shelters	SRL approved, 3-0. Subcommittee requested the FTB and DOF evaluate best means to implement items under staff recommendation (1).	
		Issue #11: Abusive Tax Shelters Consulting Services	Approved as budgeted, 3-0	
1700	Department of Fair Employment and Housing	Consent Issue #1: Federal funding augmentation	Approved as budgeted, 3-0	
		Consent Issue #2: Postage savings	Approved as budgeted, 3-0	
		Issue #1: LAO Option - Mediation	No action taken on LAO Option	
		Issue #2: LAO Option - Return joint jurisdictional cases to the federal government	No action taken on LAO Option	
1705	Fair Employmen and Housing Commission	(none)	Approved as budgeted, 3-0	(consent)
8860	Department of Finance	Issue #1: Technology Oversight and Security Unit	Approve as budgeted, 3-0	
		Issue #2: Capital Outlay Project Tracking System	Approve as budgeted, 3-0	
9612	Enhanced Tobacco Settlement Asset-Backed Bonds	(Item, including "backstop" appropriation for bondholders)	Approved as budgeted, 2-1	
9860	Capital Outlay Planning and Studies Funding	(none)	Approved as budgeted, 3-0	(consent)
4.30	Sec. 4.30--Lease Revenue Payment Adjustments	(none)	Approved as budgeted, 3-0	(consent)
4.60	Sec. 4.60--Rent Increase	(none)	Approved as budgeted, 3-0	(consent)
4.80	Sec. 4.80--State Public Works Board Interim Financing	(none)	Approved as budgeted, 3-0	(consent)
4.90	Sec. 4.90--Architecture Revolving Fund Transfer	(none)	Approved as budgeted, 3-0	(consent)
6.00	Sec. 6.00--Project Alterations Limits	(none)	Approved as budgeted, 3-0	(consent)
8.50	Sec. 8.50--Federal Funds Receipts	(none)	Approved as budgeted, 3-0	(consent)

8.51	Sec. 8.51--Federal Funds Accounts	(none)	Approved as budgeted, 3-0	(consent)
9.20	Sec. 9.20--Administrative Costs Associated with the Acquisition of Property	(none)	Approved as budgeted, 3-0	(consent)
9.30	Sec. 9.30--Federal Levy of State Funds	(none)	Approved as budgeted, 3-0	(consent)
9.50	Sec. 9.50--Minor Capital Outlay Projects	(none)	Approved as budgeted, 3-0	(consent)
11.00	Sec. 11.00--EDP/Information Technology Reporting Requirements	(none)	Approved as budgeted, 3-0	(consent)
11.10	Sec. 11.10--Reporting of Statewide Software License Agreements	(none)	Approved as budgeted, 3-0	(consent)
11.11	Sec. 11.11--Privacy of Information in Pay Stubs	(none)	Approved as budgeted, 3-0	(consent)
11.52	Sec. 11.52--Transfer of Unencumbered Balance of Various Funds to the General Fund	(none)	Approved as budgeted, 3-0	(consent)
12.30	Sec. 12.30--Special Fund for Economic Uncertainties	(none)	Approved as budgeted, 3-0	(consent)
26.00	Sec. 26.00--Intraschedule Transfers	(none)	Approved as budgeted, 3-0	(consent)
28.00	Sec. 28.00--Program Change Notification	(none)	Approved as budgeted, 3-0	(consent)
35.00	Sec. 35.00--General Fund Deficit Recovery Payments	(none)	Approved as budgeted, 3-0	(consent)
35.50	Sec. 35.50--Estimated General Fund Revenue per ACA 5	(none)	Approved as budgeted, 3-0	(consent)

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, May 5, 2004

Upon adjournment of the
Committee on Banking, Commerce, and International Trade

Room 3191

<u>Item</u>	<u>Department</u>	<u>Page</u>
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9100	Tax Relief	20
9210	Local Government Financing.....	25
9840	Augmentation for Contingencies and Emergencies.....	36
27.00	Deficiency Reporting Requirements	37

0845 Department of Insurance

The Office of the Insurance Commissioner enforces the insurance laws found in the California Insurance Code through regulation of the insurance industry. The Department fulfills that regulatory responsibility by regulating the over \$105 billion in direct premiums written in the state. The Department conducts examinations of insurance companies and producers to ensure that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially viable and able to meet their obligations to policyholders and claimants. The Department also investigates complaints and responds to consumer inquires, administers the conservation and liquidation of insolvent and delinquent insurance companies, reviews and approves insurance rates, and enforces laws to combat insurance fraud.

DEPARTMENT OF INSURANCE BUDGET

(Dollars in thousands)

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$159,634	\$173,419	\$13,785	7.95%	\$170,365	-\$3,054	-1.79%
Personnel Years*	1216.3	1232	16	1.27%	1230.1	-1.9	-0.15%

*Positions adjusted for salary savings and other adjustments

Issue #1—Finance Letter: Uninsured Employer Fraud – Limited Term Position Extension Pursuant to Chapter 6, Statutes of 2002

The Department of Insurance requests a two-year extension of 1.9 personnel years and \$399,000 from the Insurance Fund. This funding supports the positions and a related requirement that the Department of Insurance provide reimbursement funding for producing and distributing workers' compensation fraud notices. The Department reports that an extended term of two-years will enable them to fill the positions and meet the requirements of Chapter 6, Statutes of 2002 (AB 749).

Chapter 6, Statutes of 2002, defined additional criminal acts that both the Department of Insurance's Fraud Division and grant-funded district attorney's are required to investigate and prosecute. Funding is derived from fraud assessments against employers that is deposited in the Insurance Fund.

Staff Comment. Staff concurs with the need for the positions in order to implement the chaptered legislation.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

Issue #2—Finance Letter: Disability and Health Fraud Spending Authority Increase

The Department of Insurance requests 12 positions and \$2.6 million in ongoing funding from the Insurance Fund. These resources will be used to expand the investigations of disability and health fraud statewide. The \$2.6 million is comprised of support for the department (including the 12 positions) of \$1.3 million and \$1.3 million in local assistance to support district attorneys who are participating in the program. Suspected fraudulent claims workload growth and the Department's lack of capacity to respond to that growth precipitated this request.

Staff Comment. Staff concurs with the request for the positions and funding in order to respond to the growth in suspected fraudulent claims.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

Issue #3—Finance Letter: Local Assistance Workers' Compensation Spending Authority Increase

The Department of Insurance requests an ongoing increase of \$987,000 in local assistance expenditure authority to provide additional grant funding to local district attorneys participating in the Fraud Workers' Compensation Program. As a consequence of recent benefit agreements between the Public Employee Retirement System and various counties, several local agencies have identified a funding deficiency in being able to afford the higher benefit costs. This Finance Letter seeks to align the compensation for county investigators of workers' compensation fraud with all other counties in the state.

Staff Comment. Staff concurs with the request for increased local assistance funding.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

Issue #4—Finance Letter: Local Assistance Spending Authority Increase for the Fraud Automobile and Urban Grant Programs

The Department of Insurance requests \$2,920,000 in one-time expenditure authority to distribute excess local assistance funds to district attorneys for the Fraud Automobile and Urban Grant Programs. These programs enable district attorney offices to prosecute automobile insurance fraud cases. The funding for this proposal is provided by excess balances in the Insurance Fund caused by the level of fees assessed per insured vehicle in the state.

Staff Comment. The excess funding cited by the Department of Insurance is created by a \$1.50 fee paid when a person insures their vehicle. The fee is comprised of \$1.00 for the Fraud Automobile Program and \$.50 for the Urban Grant Program. The \$1.50 fee is set to expire on January 1, 2007.

Based on current balances, it would be possible to reduce the fee to \$1.25 and still have sufficient balances to fund the programs up to the expiration date. If a fee reduction were adopted, the reduction would be effective January 1, 2005, the effective date for assessment changes.

Staff Recommendations.

1. **Adopt the Finance Letter.**
2. **The Subcommittee requests the Department of Insurance report on the merits of a \$.25 fee decrease and the mechanism to implement such a fee reduction.**

VOTE:

Issue #5—Finance Letter: Health Insurance Counseling Fees Increased Authority Proposal.

The Department of Insurance requests additional expenditure authority of \$323,000 ongoing to transfer from the Insurance Fund an increased annual assessment on health care plans (from \$1.00 to \$1.20 per Medicare beneficiary) to the Department of Aging for the Health Insurance Counseling and Advocacy Program (HICAP). This transfer is made pursuant to Chapter 545, Statutes of 2003, which increased the fee amount. For every dollar collected by the Department of Aging, the Insurance Fund transfers two dollars to the State HICAP Fund.

Staff Comment. Staff concurs with the request for increased expenditure authority.

Staff Recommendation. **Adopt the Finance Letter.**

VOTE:

Issue #6—Finance Letter: Investigation Division Positions

The Department of Insurance requests 5 positions and \$570,000 ongoing in expenditure authority from the Insurance Fund to address a backlog in cases, caseload maintenance, and program enhancements related to violations by automobile insurance agents and insurance companies. The Department has identified a workload backlog that these positions will help them to eliminate within three years.

Staff Comment. Staff has identified no concerns with this request.

Staff Recommendation. **Adopt the Finance Letter.**

VOTE:

0890 Secretary of State

The Secretary of State's (SOS) office has statutory responsibility for managing the filing of financial statements and corporate-related documents for the public record. As the chief election officer, the SOS administers and enforces election law and campaign disclosure requirements. In addition, the SOS office appoints notaries public, registers auctioneers, and manages the State's archives.

SECRETARY OF STATE BUDGET

(Dollars in thousands)

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$69,279	\$132,146*	\$62,867	90.7%	\$68,792	-\$63,354	-48.0%
Positions	433.6	478.5	44.9	10.4%	478.5	0	0%

* Includes \$57,300 in HAVA funds.

ISSUE #1—Finance Letter: The Help America Vote Act

The federal Help America Vote Act of 2002 (HAVA) is expected to provide approximately \$250 million for changes to election equipment and processes in California. The Secretary of State is responsible for administering the federal HAVA requirements. The SOS has already received approximately \$81.2 million in current year HAVA funding through the Control Section 28 budget revision process.

SOS Proposal. The Secretary of State has submitted a Finance Letter requesting \$264 million in expenditure authority from the Federal Trust Fund to continue HAVA program implementation. The HAVA requirements identified by SOS to date are listed in the following table.

FEDERAL HAVA REQUIREMENTS – May 2004

PROGRAM	COST ESTIMATE
Voting Systems Standards (local assistance funding)	\$42.6 million - \$84 million
Provisional Voting - for individuals' whose name do not appear on the official list	\$1 million - \$3 million
Voter Information Posting - specified information on election day	\$100,000 - \$500,000
Statewide Database – A multi-million dollar project to implement a statewide database	\$8 million - \$40 million
Verification of Voter Registration Information	\$100,000 - \$500,000
Requirements of Certain Voters Who Register By Mail	\$100,000 - \$500,000
Mail-In Registration Form Requirements	\$0
Voter Education – a clearinghouse for voter education processes	\$15 million - \$45 million

Elections Official Education – for local election officials	\$15 million - \$45 million
Poll Worker Education	\$15 million - \$45 million
Complaint Procedure	\$100,000 - \$500,000
Voting Rights of Military and Overseas Procedures	\$100,000 - \$400,000
TOTAL	\$97,100,000 — \$264,400,000

Subsequent to the April 1 Finance Letter submittal, the SOS provided clarifying detail that they intend to include in a May Revision Finance Letter. This information is expected to contain more program activity information and proposed budget bill language to permit the transfer of federal funds between local assistance and support costs, in accordance with federal guidelines.

LAO Recommendation. Similar to when this issue was considered previously by the Subcommittee, the LAO has raised concerns that the SOS should provide a more detailed spending plan for the anticipated HAVA funds. The LAO suggests budget bill language be used to ensure that oversight. Elements of that budget bill language would include:

- A detailed spending plan requirement including: proposed expenditures by function and activity, information on hiring practices, a timeline on meeting federal requirements, and the estimated costs that may exceed appropriations.
- A provision that plan approval be subject to 30-day review by the JLBC and the committee that reviews elections issues.
- A provision that no funds be spent on a voter database without an approved Feasibility Study Report (FSR).

Staff Comments: Delays in forming the Election Assistance Commission (the HAVA oversight body) and in promulgating guidelines for use have hindered states' ability to plan for how the federal funds are to be spent. When federal guidelines are released (perhaps later this summer), they are expected to provide wide latitude to the states regarding how to spend HAVA funds. As such, the Legislature should consider the extent to which it wishes to involve itself in the expenditure of those funds.

Notwithstanding implementation delays that may be caused by requiring greater Legislative oversight, the gravity of the policy decisions involved with HAVA projects suggests that budgeting these funds should be done at a level commensurate with the normal budget development process. The election equipment used to improve voter participation, priorities of program spending, and the state/local spending split are a few election matters the Legislature may wish to consider.

There is no certainty that schedules will slip appreciably and federal funds lost if this oversight is required. Nor are there indications that federal guidelines won't be extended to accommodate the schedule that the federal government has already allowed to slip. However, the risk of hastening along some of the proposed programs, such a FSR for a database system expected to cost up to \$40 million, suggests that prudent legislative oversight is essential.

The two options the Legislature may wish to consider for HAVA funding in the budget year are:

1. A review process as described by the LAO recommendation above.
2. The introduction of a bill at a time in the budget year after federal guidelines are known. This process will allow for the most complete consideration by the policy committees and the Legislature as a whole

Subsequent HAVA spending proposals should come through the BCP or April Finance Letter process.

Staff Recommendation: Hold this issue open to provide the SOS an opportunity to work with Legislative staff, the LAO, and DOF to refine the reporting requirements and obtain new information on federal HAVA requirements (if available).

VOTE:

ISSUE #2—Finance Letter: Restoration of the International Business Relations Program

The Administration proposes to increase the Secretary of State’s Business Fees Fund by \$284,000 to restore 3 positions in the International Business Relations Program. This program was originally proposed for elimination in the Governor’s Budget. Restoring these positions results in a General Fund reduction of the same amount, as these funds would otherwise be transferred to the General Fund.

Staff Comment. In abolishing the Technology, Trade, and Commerce Agency and the Legislature made a decision to no longer provide state resources for international business activities. Specifically, by eliminating the Global Economic Development Program, the Legislature committed to no longer spending state resources to promote California exports and encourage investment in the state.

The SOS International Business Relations Program was established with some objectives that no longer appear essential. These include facilitating the implementation of the North American Free Trade Agreement (NAFTA) and developing a web site for international business interests (now established).

Staff Recommendation. Reject the Finance Letter.

ISSUE #3—MANDATE: Voter Registration Procedures

This mandate provides for uniform voter registration procedures and voter outreach for each county in the state.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Voter Registration Procedures (Chapter 704, Statutes of 1975)	Suspend	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #4—MANDATE: Voter Registration Roll Purge

This mandate provides for uniform voter registration procedures and voter outreach for each county in the State.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Voter Registration Roll Purge (Chapter 1401, Stats. 1976)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #5—MANDATE: Absentee Ballots

This mandate provides that absentee ballots must be available to all voters who request an absentee ballot.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Absentee Ballots (Chapter 77, Stats. 1978)	Defer	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #6—MANDATE: Handicapped Voter Access Information

This mandate requires that a county elections officials must ensure that polling places are accessible to the physically handicapped and specifies in the polling place notice that is sent to each voter whether the polling place is handicapped accessible.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Handicapped Voter Access Information (Chapter 494,	Suspend	Suspend	REPEAL

Stats. 1979)			
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LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #7—MANDATE: Local Elections Consolidation

This mandate requires a county board of supervisors, prior to adopting a resolution to approve or deny request to consolidate specified local elections, to obtain from the county elections official a report on the cost-effectiveness of the proposed consolidation.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Local Elections Consolidation (Chapter 1013, Stats. 1981)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #8—MANDATE: Permanent Absent Voters

This mandate provides that counties must grant permanent absent voter status to anyone who requests it.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Permanent Absentee Voters (Chapter 1422, Stats. 1982)	Defer	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #9—MANDATE: Democratic Party Presidential Delegates

This mandate requires procedures for selecting the California delegation to the Democratic National Convention.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Democratic Party Presidential Delegates (Chapter 1603, Stats. 1982)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #10—MANDATE: Election Materials

This mandate requires local election officials to furnish and post signs identifying polling places and other election activities.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Election Materials (Chapter 1042, Stats. 1985)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Repeal. (Actual repeal will be subject to a mandate policy bill.)

VOTE:

ISSUE #11—MANDATE: Brendon Maguire Act

This mandate provides that a special election be held if a statewide office candidate or incumbent dies within 68 days of the election.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Brendon Maguire Act (Chapter 391, Stats. 1988)	Suspend	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

1880 State Personnel Board

The State Personnel Board (SPB) has the authority to adopt civil service rules and regulations. These duties include, but are not limited to, adopting classifications within the State Civil Service System, conducting hearings and appeals on matters of discipline for civil service employees, and developing and administering the merit-based civil service hiring and promotional process.

STATE PERSONNEL BOARD BUDGET (Dollars in thousands)

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$18,801	\$17,803	-\$998	-5.6%	\$17,056	-\$747	-4.4%
Personnel Years*	153.1	126.9	-26	-20.6%	120	-6.9	-5.8%

(Dollars in 000s)

*Positions adjusted for salary savings and other adjustments

ISSUE #1—Budget Change Proposal: Fiscal Year 2004-05 General Fund Reduction.

The Administration proposes a \$600,000 General Fund reduction to staffing and operating expenses related to merit appeals, examination services, bilingual services, and information technology services.

Staff Comments:

The SPB has taken large reductions in their main programs relative to 2001-02. The five main program reductions have been as follows:

SPB POSITION REDUCTIONS BETWEEN 2001-02 AND 2004-05 (proposed)

Program	2001-02 Staffing	2004-05 Staffing	Reduction
Executive Services	14	11	21%
Appeals	45.9	36.2	21%
Policy	36.6	16.5	55%
Merit Employment and Technical Resources	53.3	34.1	36%
Administrative Services	39.9	21.9	45%

Within these programs, the SPB has taken even more significant reductions. For example, the policy division within the policy program has been reduced from 21 positions in 2001-02 to 4.5 positions in 2004-05, a 79 percent decrease.

As the table above indicates, the SPB's main programs have been decimated in recent years, to the point where their effectiveness and purpose are in question. A reduction of

this size delivered over the course of four years suggests that a broader perspective on program objectives should be adopted.

Staff understands that the California Performance Review (CPR) is including the SPB in their deliberations on how to make government more efficient. It is possible that the CPR process will provide direction to the whether to augment, consolidate, or eliminate SPB in order to meet the mission of that organization.

Staff Recommendation: **Hold this issue open**, pending information from the CPR (if available) as to the most efficient way to achieve the mission entrusted to the SPB and the updated General Fund shortfall information to be presented in the May Revise.

VOTE:

ISSUE #2—Finance Letter: Funding for Limited Examination Appointment Program (LEAP)

The Administration requests a reduction of 2.1 personnel years and \$157,000 of reimbursement authority to reflect the loss of federal funding to support the LEAP. Through an interagency agreement, the Department of Rehabilitation had provided the federal funding to the SPB for this special employment program for persons with disabilities. Due to changes in federal spending criteria, beginning in 2004-05, LEAP will no longer be eligible for federal rehabilitation funds.

Staff Comment. Staff concurs that funding is no longer available for this program. No issues have been raised with this Finance Letter.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

ISSUE #3—Finance Letter: Restoration of Position Lost Due to Government Code Section 12439

The Administration requests the reestablishment of one staff counsel position that was eliminated erroneously as a vacant position. The position had been filled on June 30, 2003, but the paperwork had not been processed and the position appeared vacant on that date. The “vacant six months rule” (Government Code Section 12439) eliminated resulted in the position being eliminated. If this position is not established the SPB will have difficulty meeting its legal obligations in a timely manner.

Staff Comment. Staff concurs that this position should be reestablished. No issues have been raised with this Finance Letter.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

ISSUE #4—MANDATE: Police Officer Procedural Bill of Rights

This mandate provides for a higher level of service during the investigation of an adverse action against a peace officer.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Peace Officer Procedural Bill of Rights (Chapter 675, Statutes of 1990)	Suspend	Defer	Defer

LAO Recommendation: Suspend. This matter should be referred to the Joint Legislative Audit Committee (JLAC) for review and recommendation for revisions to the mandate’s parameters and guidelines. Once the JLAC has completed its audit, the LAO recommends the Legislature hold an oversight hearing to consider the JLAC’s findings and recommendations.

Staff Recommendations:

1. **Suspend**
2. **Request the JLAC review this mandate for possible revisions, in accordance with the LAO recommendation.**

VOTE:

1760 Department of General Services

The Department of General Services (DGS) is responsible for providing a wide array of support services to State departments and performing management and oversight activities related to these services. DGS provides these through three programs, (1) building regulation services, (2) real estate services, and (3) statewide support services.

Expenses for these services are primarily reimbursed through fees assessed to State departments.

DEPARTMENT OF GENERAL SERVICES BUDGET (Dollars in thousands)

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$805,961	\$854,863	\$48,902	6.1%	\$875,908	\$21,045	2.5%
Positions	3831.5	4149.7	318.2	8.3%	4130.8	18.9	-1.0%

*Positions adjusted for salary savings and other adjustments

ISSUE #1—Finance Letter: Public Utilities Commission Deferred Maintenance.

The Administration requests a \$435,000 one-time Service Revolving Fund augmentation to allow the Department of General Services to recover costs for deferred maintenance on the Edmund G. Brown building in San Francisco. Funds have been scheduled within Public Utilities Commission budget for 2004-05. This proposal will pay for maintenance, repair, and safety projects performed by DGS' Building and Property Management Branch.

Staff Comment. This one-time funding is consistent with a Memorandum of Understanding established between DGS and PUC to fund maintenance, repairs, and safety projects at the Edmund G. Brown building.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

ISSUE #2—Finance Letter: Operations and Maintenance for CalTrans District 7 (Los Angeles) Office Building

The Administration requests \$4,770,000 ongoing from the Service Revolving Fund and 28.3 personnel years to allow DGS to operate and maintain the CalTrans District 7 Office Building in Los Angeles. Resources to reimburse DGS are included in a Finance Letter for CalTrans. That Finance Letter was accepted. This Finance Letter reflects that the District 7 Office Building will be occupied in August 2004 and that

the maintenance and operation of the facility will be the responsibility of DGS' Building and Property Management Branch.

Staff Comment. Staff has identified no concerns with this issue.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

ISSUE #3—Finance Letter: Operations and Maintenance for Franchise Tax Board Phase III Project

The Administration requests \$7,365,000 ongoing from the Service Revolving Fund and 71.4 personnel years to allow the DGS to operate and maintain the third phase of the Franchise Tax Board Headquarters project. This project includes a warehouse, central plant, parking, and 934,000 square feet of office space that were originally authorized by legislation chaptered in 1996.

Staff Comment. Staff has identified no concerns with this issue.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

ISSUE #4—Finance Letter: Budget Bill Language for DGS' Rate Setting Process.

The Administration proposes the following language be added to Item 1760-001-0666 (Service Revolving Fund) in order to provide improved oversight in the budget year for the Department of Finance and LAO with regards to DGS' rate setting process.

1760-001-0666, as follows:

Provisions:

XX. On or before July 1, 2004, the Department of General Services shall submit to the Department of Finance and the Legislative Analyst's Office, a report detailing the cost factors reflected in the 2004-05 rates. This report shall include:

- 1) A statement of the department's expenditures and revenues, by function, and an assessment of whether the rates charged for a given function recover the cost of providing the service;*
- 2) Information detailing the incremental changes to rates between fiscal years, including the reason for, and aggregate amount of, the change*

The Department of Finance shall use this report to review the current methodologies used to set rates and shall provide a report of its findings as part of the 2005-06 Governor's Budget.

XX. Beginning in 2005-06 and each fiscal year thereafter, by August 1, the Department of General Services shall submit to the Department of Finance a proposal that reconciles the current year rates and details any adjustments proposed for budget year rates to be included in the Governor's Budget.

LAO Recommendation. The LAO recommends the second provision on the annual reporting requirement be submitted as trailer bill as it involves an ongoing activity.

Staff Comment. Staff concurs that the provisions related to the annual reconciliation of rates be processed as trailer bill.

Staff Recommendation. Adopt the first provision of the budget bill language dealing with the report on 2004-05 rates only.

VOTE:

ISSUE #5—Finance Letter: Reappropriation of Funding for Three Local Seismic Projects

The Administration proposes to reappropriate up to \$1,891,259 in funding authorized by Proposition 122, the Earthquake Safety and Public Building Bond Fund of 1990. These projects were reappropriated in 2003. The budget bill language to effect this reappropriation is as follows:

1760-492—Reappropriation, Department of General Services. The balance, as of June 30, 2004, of the funds appropriated pursuant to Item 1760-101-0768, Budget Act of 1994 (Ch. 139, Stats. 1994), as reappropriated by Item 1760-492, Budget Act of 2003 (Ch. 157, Stats. 2003), are reappropriated and shall be available for expenditure through June 30, 2005.

Schedule:

<i>(1) 3116-Richmond, Contra Costa – City Hall.....</i>	<i>1,149,975</i>
<i>(2) 3117-Richmond, Contra Costa – Hall of Justice</i>	<i>683,613</i>
<i>(3) 4042-Orinda, Contra Costa: Orinda Fire Station 44.....</i>	<i>57,671</i>

Staff Comment. Staff has identified no issues with this reappropriation.

Staff Recommendation. Adopt the budget bill language to make these reappropriations.

VOTE:

ISSUE #6—Finance Letter: Reversion of Funding for one Local Sismic Project

The Administration proposes to revert up to \$500,000 in funding authorized by Proposition 122, the Earthquake Safety and Public Building Bond Fund of 1990. A local seismic grant to retrofit an Oakland Police and Administration facility was reappropriated last year. The budget bill language to effect a reversion of the balance in the budget year is as follows:

1760-495—Reversion, Department of General Services. As of June 30, 2004, the unencumbered balances of the appropriation provided for in the following citation shall revert to the balance of the fund from which it was made:
0768—Earthquake Safety and Public Buildings Rehabilitation Fund of 1990
Item 1760-101-0768, Budget Act of 1994 (Ch. 139, Stats. 1994), as reappropriated by Item 1760-192, Budget Act of 2003 (Ch. 157, Stats. 2003)
(1) 4029-Alameda, Oakland Police and Administration
Retrofit – Oakland 500,000

Staff Comment. Staff has identified no issues with this reversion.

Staff Recommendation. Adopt the budget bill language to make the reversion.

VOTE:

ISSUE #7—Trailer Bill: Permanent Authorization for Printing Services

The Administration proposes trailer bill language to make permanent a provision of Government Code that (1) allows state agencies to use printers other than the Office of State Publishing, (2) allows the Office of State Publishing to offer its printing services to non-state public agencies, and (3) declares that all state agencies must solicit a bid from the Office of State Publishing when the project is anticipated to cost more than \$5000. This current section of code is repealed as of January 1, 2004. The language would be an urgency statute in order to implement the changes as close as possible to the start of the budget year. The proposed language is as follows:

Government Code 14612.2 is amended to read:

“14612.2. (a) Notwithstanding Chapter 7 (commencing with Section 14850) of Part 5.5 of Division 3 of Title 2 of, or Section 14901 of, the Government Code, no agency is required to use the Office of State Publishing for its printing needs and the Office of State Publishing may offer printing services to both state and other public agencies, including cities, counties, special districts, community college districts, the California State University, the University of California, and agencies of the United States

government. When soliciting bids for printing services from the private sector, all state agencies shall also solicit a bid from the Office of State Publishing when the project is anticipated to cost more than five thousand dollars (\$5,000).

~~(b) This section shall remain operative only until the effective date of the Budget Act of 2003 or July 1, 2003, whichever is later, and as of January 1, 2004, is repealed, unless a later enacted statute that is enacted before January 1, 2004, deletes or extends the dates on which it becomes inoperative and is repealed.~~

(b) This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are: In order to make the necessary changes to implement the Budget Act of 2004 at the earliest possible time, it is necessary that this act take effect immediately."

Staff Comment. Staff has identified no concerns with this bill. These provisions related to the Office of State Publishing were first effective in the current year.

Staff Recommendation. Adopt the trailer bill language.

ISSUE #8: Statewide Procurement Training and Certification Program

The current year budget contains \$2 million ongoing expenditure authority for DGS to continue the implementation of a statewide procurement training and certification program. During budget hearings last year, DGS was unable to provide specifics about the program. For that reason, the Legislature passed supplemental report language to require a status report that was due on April 1, 2004. The supplemental report has not been received to date.

The status report was to include: (a) descriptions of training courses conducted over the past 12 months, (b) the number of state staff attending each training course by department, (c) description and status of the state's certification program, (d) the number of state staff receiving certification over the past 12 months by department, (e) descriptions of proposed training courses to be provided over the next 12 months and the estimated number of state staff to be trained, and (f) descriptions of training courses still under development. LAO understands that the report is currently under review within the administration.

LAO Recommendation. Until the Legislature has information about the training program which justifies its continuation, the LAO recommends that DGS' expenditure authority be reduced by \$2 million.

Staff Recommendation. Adopt the LAO recommendation and reduce Item 1760-001-0666 by \$2 million.

VOTE:

8320 Public Employee Relations Board

The Public Employee Relations Board (PERB) works to promote the improvement of personnel management and employer-employee relations by working to (1) prevent and remedy unlawful acts and conduct of employers and employee organizations, and (2) determine and implement, through secret ballot elections, the free, democratic choice by employees as to whether they wish to be represented by a union in dealing with public school employers (pre-kindergarten through community colleges), the State of California, the University of California, the California State University, Hastings College of Law, and public agencies subject to the Meyers-Millias-Brown Act.

PUBLIC EMPLOYEE RELATIONS BOARD BUDGET

(Dollars in thousands)

	2002-03	2003-04	CHANGE FROM 2002-03		2004-05	CHANGE FROM 2003-04	
Total Budget	\$4,291	\$4,568	\$277	6.1%	\$4,568	\$0	0.0%
Personnel Years*	36.1	41	4.9	12.0%	41	0	0.0%

*Positions adjusted for salary savings and other adjustments

ISSUE—Finance Letter: Support Funding for the Board of PERB

The Administration requests \$337,000 ongoing General Fund to provide the PERB with funding for salaries and related expenses for two Board Members and one administrative assistant to the Chair of PERB. The original funding for these positions was redirected after its budget was reduced through Control Section 3.90 and Control Section 31.60.

Staff Comment. The workload growth PERB is expected to encounter suggests that two new Board members will enable the organization to meet a growing caseload. PERB reports that without this augmentation the backlog of cases pending before the Board is expected to grow to 26 months. PERB expects the two additional Board members to allow them to process 50 more cases a year, enabling them to contain the backlog from growing further.

Notwithstanding the apparent need for two board members, it is unclear that the administrative assistant position cannot be absorbed by PERB. PERB has explained that they will be providing a 2005-06 BCP in the fall that will address the growing statewide workload. It is expected that staff needs will be clarified in that request.

Staff Recommendation. Approve funding for the two board member positions only.

VOTE:

9100 Tax Relief

Homeowners in California are afforded a variety of tax relief programs through a reduction in rates or nonrefundable tax credits. The state also provides the tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. This includes relief to low-income senior citizens and disabled persons as well as to those in agricultural areas who agree to hold their land as open space under the Williamson Act of 1965.

TAX RELIEF BUDGET (Dollars in thousands)

	2002-03	2003-04	Change		2004-05	Change	
Senior Citizens' Property Tax Assistance	\$37,543	\$37,036	-\$507	-1.35%	\$37,036	\$0	0.00%
Senior Citizens' Property Tax Deferral	\$11,583	\$11,900	\$317	2.74%	\$11,900	\$0	0.00%
Senior Citizen Renters' Tax Assistance	\$146,999	\$146,355	-\$644	-0.44%	\$146,355	\$0	0.00%
Homeowners' Property Tax Relief	\$414,211	\$427,600	\$13,389	3.23%	\$433,200	\$5,600	1.29%
Subventions for Open Space	\$38,997	\$39,420	\$423	1.08%	\$39,750	\$330	0.83%
Substandard Housing	\$44	\$44	\$0	0.00%	\$0	-\$44	0.00%
Vehicle License Fee Offset	\$3,797,368	\$2,702,542	-\$1,094,826	-28.83%	\$4,062,075	\$1,359,533	33.47%
State-Mandated Local Programs	\$3	\$3	\$0	0.00%	\$3	\$0	0.00%
Total Budget	\$4,446,748	\$3,364,900	-\$1,081,848	-24.33%	\$4,730,319	\$1,365,419	28.87%

(Dollars in 000s)

Information Only: Vehicle License Fee (VLF) Funding to Locals.

As shown in the preceding "Tax Relief Budget" table, Vehicle License Fee (VLF) tax relief in the current year is 28 percent less than what was paid in 2002-03 and 33 percent less than that what is budgeted for 2004-05. The "triggering" of the VLF rate back to two percent of the value of a vehicle in June 2003 was suspended in November by the current Administration and the rate put back at .65 percent. The following month the Administration and the SCO opted to pay the remainder of General Fund VLF backfill to local governments through the current year—despite the fact the Legislature had not granted an appropriation for this action. (While the VLF portion of the Tax Relief item is normally funded through a continuous appropriation, the Legislature suspended that continuous appropriation for the current year by "in lieu" of the continuous appropriation with a \$1000 placeholder in the budget act.)

The Administration's action left in place a gap period of VLF funding and consequently the current year appropriation is \$1.3 billion less than in the budget year (\$4.1 billion). Chapter 231, Statutes of 2003 provides that this gap amount will be paid in 2006.

Staff Comment. Senate Subcommittee #4 staff are currently working with policy committees, the Administration, and other relevant stakeholders to address unresolved VLF funding issues. Updated information on General Fund revenues and commitments as they affect local governments will be presented in the May Revision.

ISSUE #1: Elimination of the Substandard Housing Program

The Governor's Budget proposes to eliminate certain allocations to cities and counties for the enforcement of housing codes and rehabilitation. Existing state tax laws deny taxpayers deductions associated with rental income from substandard housing. The revenue from the denied deductions is allocated to the local governments in which the substandard housing is located to pay for the enforcement activities. The budgeted expenditures for this program were \$44,000 in the past year and current year.

Staff Comment. A related issue, the mandate requiring locals to report to the state the amount withheld from a taxpayer who owns substandard housing, was addressed by the Subcommittee on April 28. (This mandate falls under the Franchise Tax Board budget.) The FTB reported that in the last three years the mandate has been suspended, they have not encountered difficulty in gaining compliance from locals. Consequently, the revenue from the denied deduction should still be accruing. The Subcommittee action on the mandate was to hold the mandate issue open pending a recommendation from the policy committee.

Staff Recommendations.

- 1. Request the Administration report on reasons why funding for this item has not changed over the last several years and suggest recommendations on how to encourage greater enforcement by local communities.**
- 2. Restore the substandard housing program (\$44,000) in the Tax Relief budget.**

VOTE:

ISSUE #2: Williamson Act Subventions For "Open Space" Funding

The Williamson Act allows cities and counties to enter into contracts with landowners to restrict certain property to open space and agricultural uses. In return for these restrictions, the property is assessed at a reduced rate. The state provides subventions to locals to pay part of the exemption based on the amount and type of land under contract.

LAO Issue. The LAO has identified three main concerns with the operation of the Williamson Act subventions program.

- First, while the state provides substantial subventions, it exercises no control over the specific parcels that are put under contract and cannot ensure that the funds are being used for appropriate lands.

- Second, Williamson Act subventions are for a short-term commitment only. If sufficient development pressures are brought to bear, a landowner may cancel or decline to reapply for the tax break. He or she will face a penalty for breaking the contract, but that penalty will presumably be less than the benefits of the sale.
- Third, the costs to the state are greater than the \$39.8 million appropriation. However, the state also bears added cost for educational funding since reduction in assessed property values also reduce the amount of property taxes that go to schools. Since the school share of property tax is approximately 52 percent, the real cost of Williamson Act program exceeds \$80 million. Furthermore, given that that open space subvention represents only a portion of the local property tax loss, it is possible that total costs to the state (subventions plus increased education funding) are substantially higher—although no statewide figures are available.

LAO Recommendations.

1. The Legislature should explore more efficient and permanent solutions to the issues related to open space and development pressures. One alternative would be for local communities to adopt more stringent regulatory and zoning policies or to purchase land that is most at risk of development.
2. The Legislature should provide for the gradual elimination of payments to local governments for the local revenue losses associated with Williamson Act contracts. Specifically, the program should be reduced by ten percent over ten years (reduce Item 9100-001-0001 by \$3.9 million), enabling the locals to phase in an alternative processes for open space preservation.

Staff Comment. The Williamson Act subventions have been operating for nearly four decades and are credited with preserving hundreds of thousands of acres for agricultural use where the acreage would otherwise have been developed for commercial and residential use. Over the past four decades this program has also provided a valuable tax subsidy to many farmers.

While the history of accomplishment of this program is significant, allegations that program funds are unnecessarily supplanting local funds or landowner payments have been voiced often.

To clarify the advantages of the Williamson Act subvention program, the Legislature may wish to consider commissioning econometric research on how the state and the subvention recipients benefit from this program. This research would attempt to better direct Williamson Act subventions towards protecting agricultural land from the intrusion of commercial and residential development.

Funding for such a study, preliminarily estimated to cost \$50,000, would be provided by the Soil Conservation Fund in the Department of Conservation’s (DOC) budget. No reductions to the DOC budget are expected, as increased fee revenues for Williamson Act-related penalties will be sufficient to make this appropriation possible.

Staff Recommendation.

1. **Approve the Williamson Act subventions as budgeted.**

2. Request the LAO and Administration representatives report on the necessity and recommended focus of such a study.

VOTE:

ISSUE #3: Senior Citizen’s Tax Relief Reduction.

LAO Option. As part of the LAO’s “Additional Options” list for General Fund expenditure reductions, the LAO provides an option that the tax relief to senior citizens’ renters and property-owners be set back to the 1999-00 baseline level, for a savings of \$75 million.

Staff Recommendation. Staff recommends the subcommittee not adopt the LAO option at this time and keep the issue open. The LAO should provide further fiscal detail and information on the economic and social impacts of this option.

ISSUE #4—MANDATE: Senior Citizens' Property Tax Deferral Program

The Senior Citizen's Property Tax Deferral Program covers costs for county tax collectors associated with the deferral program. After the SCO approves the deferral request, the senior citizen submits paperwork provided by the SCO to the tax collector to have all or part of their property taxes postponed. The mandate claim is for the tax collector's costs to process that paperwork.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Senior Citizens' Property Tax Deferral Program (Ch. 1242, Stats. 1977)	Defer	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #5—MANDATE: Countywide Tax Rates

This mandate requires county auditors to allocate and account for property tax revenues derived from state-assessed properties. State-assessed property tax revenues are allocated on a countywide basis, unlike locally assessed revenues that are allocated on a situs basis.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Countywide Tax Rates (Ch. 921, Stats. 1987)	Defer	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #6—MANDATE: Allocation of Property Tax Revenue

This mandate requires counties to implement, plan, administer, report, and account for new or changed property tax allocations for schools.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Allocation of Property Tax Revenue (Ch. 697, Stats. 1992)	Defer	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #7—MANDATE: Senior Citizen's Mobilehome Property Tax Deferral

This mandate requires assessors, tax collectors, and recorders to file certificates of eligibility with the State Controller's Office (SCO) that establish liens, record tax postponement information, and disseminate that information to all interested parties. The mandate also requires county officials to notify the SCO of any changes in ownership of affected mobilehomes.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Senior Citizen's Mobilehome Property Tax Deferral (Ch. 1051, Stats. 1983).	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #8—MANDATE: Property Tax Family Transfers

This mandate requires county assessors to provide quarterly reports to the Board of Equalization on specified property purchases and transfers made after November 6, 1986.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
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Property Tax Family Transfers (Ch. 48, Stats. 1987)	Suspend	Suspend	REPEAL
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LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

9210 Local Government Financing

The Local Government Finance item proposes \$260 million in funding for local agencies. The state provides other assistance to local governments, primarily counties, through other direct programs budgeted in other items in the budget. Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

The state provides other assistance to local governments, primarily counties, through other direct programs budgeted in other items in the budget. Health and Human Services has numerous programs where the state and counties jointly provide funding for services. State funding is included in Public Safety for such issues as local crime labs and suppression of high intensity drug trafficking areas.

LOCAL GOVERNMENT FINANCING BUDGET

(Dollars in thousands)

	2002-03	2003-04	CHANGE		2004-05	CHANGE	
Reimbursement for Booking Fees	\$38,220	\$38,220	\$0	0.0%	\$0	-\$38,220	n/a
Property Tax Administration Grant Program	\$87,661	\$60,624	-\$27,037	-30.8%	\$60,000	-\$624	-1.0%
Citizens' Option for Public Safety (COPS)	\$232,600	\$199,725	-\$32,875	-14.1%	\$200,000	\$275	0.1%
Special Supplemental Subventions	\$1,400	\$0	-\$1,400	-100.0%	\$0	\$0	n/a
State-Mandated Local Programs	\$3	\$3	\$0	0.0%	\$5	\$2	40.0%
Totals	\$359,884	\$298,572	-\$286,490	-17.0%	\$260,005	-\$16,392	-14.8%

ISSUE #1: Reimbursement for Booking Fees.

The Governor's Budget proposes to eliminate booking fee subventions to cities in 2004-05, along with counties' authority to charge booking fees to cities. Current law continuously appropriates \$38.2 million annually for these subventions. The Administration seeks passage of AB 1749 (Assembly Committee on Budget) to repeal the counties authority to charge and the continuous appropriation.

LAO Issue.

Faced with a \$3.6 billion shortfall in the 1990-91 state budget, the Legislature and Governor enacted measures that significantly reduced state support for county and joint state-county programs. To mitigate a portion of the impact of these budget cuts, the

Legislature enacted Chapter 466, Statutes of 1990 (SB 2556, Maddy), authorizing counties to raise revenues locally from three sources:

- Booking fees—charges imposed on cities, special districts, school districts, colleges, and universities to recover the costs associated with booking persons into the county jail.
- Property tax administration fee—charges imposed on cities and other noneducational local government agencies to offset their share of property tax administration costs.
- County taxes—authority to impose utility user and business license tax in their unincorporated areas. (In 1996, Proposition 218 made this county taxing authority subject to approval by local voters.)

Legislative materials regarding Chapter 446 suggest the Legislature intended booking fees to serve purposes beyond simple county fiscal relief. Specifically, booking fees would provide a disincentive to local agencies booking low-level offenders into county jail. This, in turn, would reduce the pressure on severely overcrowded county detention facilities and preserve county jail space for more serious offenders. Booking fees also would give cities an incentive to develop alternatives for nonviolent, less serious offenders.

Currently, most counties impose booking fees. The fee rate is determined locally, based on a county's annual costs for jail booking services and the number of bookings. In most cases, the fee is in the range of \$100 to \$200 per arrestee. The total amount of fees imposed statewide is unknown, but may be in the range of \$40 million annually.

Seeking to offset local government costs associated with booking fees, but not alter the fiscal disincentives local agencies face regarding booking arrestees into county jails, the Legislature enacted a booking fee relief program with a fixed allocation formula. Under Chapter 79, Statutes of 1999 (AB 1662, Leonard)—as amended by Chapter 1075, Statutes of 2000 (SB 225, Rainey), and Chapter 1076, Statutes of 2000 (AB 2219, Battin)—the state provides a \$38.2 million continuous appropriation to annually reimburse local agencies for booking fees paid in 1997. That is, every year the state reimburses local agencies for booking fees paid in 1997; the reimbursement amount does not vary to reflect changes in the booking fee rate or the number of people booked into county jail.

LAO Recommendation.

County authority to impose booking fees gives local agencies incentives to use county booking and detention services wisely and efficiently. Eliminating this incentive likely would result in significant increases to county costs, without any identifiable gain to public safety. Accordingly, we recommend the Legislature maintain county authority to impose booking fees.

In terms of cities, special districts, and other local agencies, we think it is appropriate that they pay for the jail booking-related costs their activities impose on counties. Such a payment requirement is analogous to many other financial arrangements among local governments, including the sharing of costs for property tax administration. In addition, we note that the \$38.2 million booking fee relief program, as currently structured, allocates funding in a manner devoid of any policy rationale. We note, for example, that

cities in Orange County continue to be reimbursed for their 1997 booking fee costs despite their county's decision several years ago to repeal its booking fee.

Staff Comment. Legislation seeking to preserve the booking fee program and update its provisions has recently been introduced. Senate Bill 1808 (Committee on Local Government) would accomplish the following:

- Shift the booking fee reimbursement base year from 1997-98 to 2002-03. This would effectively recalibrate the basis for reimbursement to reflect the 2002-03 booking fees.
- Sunset the booking fee reimbursement program on January 1, 2007.

The Local Government Committee notes that based on the controversial nature of the booking fee budget proposals and the historical lack of legislative debate on the topic, the Committee on Local Government seeks to facilitate a public discussion of the issues.

Staff Recommendation. Adopt the LAO proposal to eliminate booking fee subventions and preserve the authority for counties to charge booking fees.

ISSUE #2: Eliminate Citizens' Option for Public Safety (COPS) Grant Program

Chapter 134, Statutes of 1996 (AB 3229, Brulte), established the Citizens' Option for Public Safety (COPS) which provided \$100 million from the General Fund to local public safety entities including police (75 percent) and sheriff departments (12.5 percent) and district attorneys (12.5 percent). Chapter 289, Statutes of 1997 (AB 1584, Prenter) extended the program through the 1999-2000 fiscal year. Chapter 353, Statutes of 2000 (AB 1913 Cardenas) expanded the program to include support for juvenile justice grants. The 2001-02 and 2002-03 Budget Acts appropriated \$232.6 million for these programs in each year. The current year and budget year (proposed) appropriations are approximately \$200 million.

LAO Option. As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO notes that the COPS program provides grants to local law enforcement mostly for personnel and equipment. Given that COPS funding represents less than 1 percent of local law enforcement expenditures, its impact on public safety, if any, is likely to be relatively small. Anticipated savings from this proposal is \$100 million General Fund.

Staff Recommendation. Staff recommends the Subcommittee not adopt this LAO option at this time and keep the issue open. The LAO should provide further fiscal detail for this option and information related to the economic and social impacts.

ISSUE #3: Suspend the Juvenile Justice Grants Program for One Year Pending Evaluation Results

LAO Option. As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO notes that the Juvenile Justice grants provide funds to

address service gaps in county juvenile justice systems. This option would suspend funding for one year pending evaluations currently underway. Suspension would not stop the programs because grant recipients receive funding one year in advance of projected expenditures. Anticipated savings from this proposal is \$100 million General Fund.

Staff Recommendation. Staff recommends the Subcommittee not adopt this LAO option at this time and keep the issue open. The LAO should provide further fiscal detail for this option and information related to the economic and social impacts.

ISSUE #4. The Administration’s Property Tax Shift

Administration Proposal. The Administration proposes to redirect to K-14 districts \$1.3 billion of property taxes that otherwise would be allocated to cities, counties, special districts, and redevelopment agencies. This shift, if enacted, would bring K-14’s share of the property tax to an overall statewide average of 56 percent and would decrease state General Fund education spending by \$1.3 billion. Similar to the ERAF shifts in the 1990s, this redirection of property taxes is expected to provide ongoing, growing state fiscal relief.

The table below summarizes the distribution of property tax losses to each group of local agencies under the Administration’s plan.

LOCAL GOVERNMENT	AMOUNT (Dollars in millions)
Counties	\$909
Cities	\$188
Redevelopment Agencies	\$135
Special Districts	\$105
TOTAL	\$1,336

LAO Issue.

Similar to the 1990s, the budget proposes to shift \$1.3 billion of property taxes from local governments to K-14 districts and reduce state education spending by an equal amount. This proposal raises questions concerning the Legislature’s role regarding the property tax. In our view, the Legislature should use its authority over this tax for the overall betterment of local government, not as a state rainy day fund. Accordingly, we recommend the Legislature reject this proposal.

Given the state’s fiscal difficulties, we recognize that the Legislature may decide to explore elements of this proposal, despite evident shortcomings. If the Legislature reviews proposals to reduce local taxes, we recommend it consider these guidelines:

- Minimize Reductions to General Purpose Revenues.
- Leave Past Formulas in the Past.
- Give Local Control.
- Be Mindful of Effect on Land Use Incentives.
- Consider Impact of Revenue Reductions.

Consistent with these guidelines, we outline an alternative budget reduction. While this alternative also represents an undesirable intrusion into local finance, it would have fewer negative effects. Our alternative includes a: \$216 million reduction in local subventions, \$400 million locally determined special district property tax shift, \$320 million redevelopment property tax shift, and \$400 million reduction in city and county sales taxes

LAO Conclusion.

By shifting to K-14 districts \$1.3 billion of property taxes currently allocated to city, county, special districts, and redevelopment agencies, the administration's proposal places significant burdens on local agencies as a means of resolving the state's budget difficulties. We think it is inappropriate for the state to reallocate local taxes for the sole purpose of reducing state spending obligations. We also find that the shift would impose considerable fiscal disruptions to local governments and does not, in any real sense, represent a budget "solution." Accordingly, we recommend that the Legislature reject the administration's proposal.

If the state determines that, given its fiscal difficulties, local agency funding must play a role in resolving the state's budget crisis, we recommend the Legislature avoid relying upon the dated property tax shift formulas from the 1990s. Rather, we recommend the Legislature develop a new approach, consistent with the guidelines outlined in this analysis.

In our view, the alternative local government budget reduction outlined above—while still imposing undesirable fiscal effects on local governments—offers significant advantages over the administration's approach. Specifically, our alternative focuses a larger percentage of the property tax losses on those agencies that can offset revenue reductions through user fees or other revenues, if the community so desires. Our alternative also minimizes the loss of general-purpose revenues to cities and counties—and modestly improves the fiscal incentives local agencies face regarding land development and redevelopment.

Staff Comment. As has been described in the recent media stories, the Administration and representatives of local governments are considering alternatives to the Governor's Budget proposal. Staff understands that this information will be released publicly by the May Revision.

Staff Recommendation. **Hold open** for reconsideration in the May Revision. At that time the scope of the General Fund shortfall will be updated and a revised property tax shift proposal may be made.

VOTE:

ISSUE #5—MANDATE: Mandate Reimbursement Process

This mandate provides reimbursement for costs incurred in preparing and presenting test claims, including attorney services. Reimbursement is allowed only if the claim is successful.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
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Mandate Reimbursement Process (Chapter 486, Stats. 1975).	Defer	Defer	Defer
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LAO Recommendation: Defer.

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #6—MANDATE: Filipino Employee Surveys

This mandate requires localities to report on their number of Filipino employees.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Filipino Employee Surveys (Chapter 845, Stats. 1978)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #7—MANDATE: Involuntary Lien Notices

This mandate requires that the county recorder notify, under certain circumstances, the subject of an involuntary lien on their property.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Involuntary Lien Notices (Chapter 1281, Statutes of 1980)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #8—MANDATE: Photographic Record of Evidence

This mandate requires that locals establish alternate procedures for handling or storing dangerous or bulky court exhibits. Most often, this means a photographic record of evidence.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Photographic Record of Evidence (Chapter 875, Stats. of 1985)	-	Suspend	Defer

LAO Recommendation: The LAO recommends the Legislature request the Commission on State Mandates review its Statement of Decision regarding the Photographic Record of Evidence mandate and make changes necessary to ensure that the decision is consistent with the City of San Jose vs. State of California Case and Government Code Section 17556(e).

Furthermore, the LAO recommends the following budget bill language be adopted in order to implement that proposal.

The commission shall review its Statement of Decision regarding the Photographic Record of Evidence test claim and make any modifications necessary to this decision to clarify whether the subject legislation imposed a mandate consistent with the Court of Appeal's ruling in *City of San Jose versus State of California* and Government Code Section 17556(e).

Staff Recommendation: Defer and adopt the LAO recommendation.

VOTE:

ISSUE #9—MANDATE: Lis Pendens

This mandate requires certain notices be made in the county office of the recorder where a property in question is situated.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Lis Pendens (Chapter 889, Stats. 1991)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #10—MANDATE: Proration of Fines and Court Audits

This mandate requires localities to assist the state in maintaining a uniform accounting system related to penalties assessed by the courts.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Proration of Fines and Court Audits (Ch. 980, Stats. 1984)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #11—MANDATE: Domestic Violence Information

This mandate requires a certain periodicity of domestic violence response training for law enforcement officers.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Domestic Violence Information (Ch. 1609, Stats. 1984)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendations:

- (1) Request the LAO and Administration report on measures taken by local communities to fulfill the requirements of this mandate during the previous periods of suspension.
- (2) Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #12—MANDATE: Open Meetings Act

This mandate requires local agencies and legislative bodies to post a single agenda containing a brief description of items to be heard, and specifying the time and location of the meeting.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Open Meetings Act (Chapter 641, Stats. of 1986)	Defer	Defer	Defer

LAO Recommendation: Defer.

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #13—MANDATE: Cardio-pulmonary Resuscitation (CPR) Pocket Masks

This mandate requires CPR and first aid training for certain law enforcement officers and that those officers be provided CPR pocket masks.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
CPR Pocket Masts (Ch. 1334, Stats. 1987)	Suspend	Suspend	REPEAL

LAO Recommendation: Repeal. This mandate has been suspended for over a decade.

Staff Recommendation: Approve as budgeted. (Zero dollars in the budget - actual repeal will be subject to mandate policy bill.)

VOTE:

ISSUE #14—MANDATE: Rape Victim Counseling Center Notices

This mandate requires local law enforcement agencies to reprint and provide to rape victims information cards, obtain consent to notify local rape counseling center, notify the center, and verify, with consent, that the counseling center has been notified.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Rape Victim Counseling Center Notices (Chapter 999, Stats. 1991)	Defer	Defer	Defer

LAO Recommendation: Defer

Staff Recommendation: Approve as budgeted.

VOTE:

ISSUE #15—MANDATE: Health Benefits for Survivors of Peace Officers and Firefighters

This is a new mandate that has not yet been funded. This benefit was first provided in 2002 and would probably be considered a vested right that could not be eliminated.

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Health Benefits for Survivors of Peace Officers and Firefighters (Chapter 1120, Stats. 1996)	Suspend	Suspend	Defer

LAO Recommendation: The LAO recommends the Legislature request the commission to review its Statement of Decision to consider whether the administrative costs related to collective bargaining for survivor health benefits constitute a state-reimbursable mandate. The LAO also recommends the enactment legislation to repeal

the requirement to provide health benefits for survivors of local public safety personnel because providing this benefit is more appropriately determined through the local collective bargaining process.

The following budget bill language must be adopted in order to implement the review proposal:

The commission shall review its Statement of Decision for Chapter 1120, Statutes of 1996, and Chapter 193, Statutes of 1997—Health Benefits for Survivors of Peace Officers and Firefighters—and make any modifications necessary to clarify whether collective bargaining duties constitute a state-reimbursable mandate or whether these duties simply reflect broad-based collective bargaining duties of employers in general.

Staff Recommendations:

1. **Approve as budgeted.**
2. **Adopt the LAO’s proposed budget bill language.**

VOTE:

ISSUE #16—MANDATE: Brown Act Reform

This mandate requires agenda postings by local advisory bodies and the disclosure of matters discussed in executive sessions

MANDATE	2002-03 Action	2003-04 Action	2004-05 Proposed
Brown Act Reform (Chapters 1136 and 1137, Stats. of 1993)	Defer	Defer	Defer

LAO Recommendation: The LAO recommends the Legislature change certain requirements of the Brown Act imposed in 1993 (requiring agenda postings by local advisory bodies and disclosure of matters discussed in executive sessions) into advisory guidelines, because detailed rules governing advisory bodies do not necessitate a statewide mandate. Alternatively, if the Legislature wishes to maintain these requirements, they recommend that the Legislature direct the commission to reconsider its mandate determination in light of a recent California Supreme Court decision.

Staff Recommendation: Budget zero dollars for this mandate. (The actual repeal will be subject to a mandate policy bill.)

ISSUE #17—Finance Letter: Santa Barbara County Formation Commission

The Administration requests a \$400,000 General Fund loan to Santa Barbara County to fund it required duties associated with the proposed formation of a new county (Mission County). A petition to initiate the formation of Mission County has garnered the necessary signatures, and once this occurs, the Governor is statutorily required to appoint a five-member County Formation Review Commission to study the proposal.

Santa Barbara has identified a \$400,000 need; however, statute authorizes a maximum loan amount of \$100,000.

Trailer bill. The Administration intends to submit trailer bill language to abolish the current revolving fund, increase the maximum loan from \$100,000 to \$400,000, and allow the State Controller to reduce the Santa Barbara County's Homeowners Property Tax subvention if the loan is not paid. Repayment of the loan will be due one year from when the issue of county formation is voted on by the people of Santa Barbara County.

Budget bill. Budget bill language will also be introduced to specify the use of funds and terms or repayment. That budget bill language is as follows:

*9210-102-0001—For local assistance, Local Government
Financing.....\$400,000*

Provisions:

- 1. For allocation by the State Controller to the Santa Barbara County Formation Commission pursuant to Chapter 3 (commencing with Section 23331) of Division 1 of Title 3 of the Government Code.*
- 2. The amount appropriated in this item is a loan and shall be repaid with interest within one year from when the issue of county formation is voted on by the people.*

Staff Comment. Staff has identified no concerns with this request.

Staff Recommendation. Adopt the Finance Letter.

VOTE:

9840 AUGMENTATION FOR CONTINGENCIES AND EMERGENCIES

The Budget Act annually provides appropriations for unforeseen contingencies or emergencies for which no appropriation or an insufficient appropriation has been made. Amounts, as required, are allocated to the various agencies by the Department of Finance based upon the determination of need. Because the amounts provided in the Budget Act are nominal amounts and typically cannot meet total deficiency funding needs, the Department of Finance annually sponsors a deficiency bill to provide additional funding.

The three 9840 items are used to provide deficiency funding when that funding is needed before the passage of the omnibus deficiency bill (usually in April). In the past, these 9840 items have been budgeted at the low level of \$1 - \$2 million, and have used on a first-come, first-served basis.

LAO Issue. Pursuant to their overall reform approach to the state's Control Section 27 deficiency process (see Control Section 27 issue that follows) the LAO recommends this item be utilized when a deficiency appropriation is needed and the Legislature is out of session (typically for a total of three months out of the year). With more funding in this item, the Administration can address unanticipated needs with funds previously appropriated by the Legislature. To ensure that use of the 9840 is consistent with Legislative intent, restrictions will be added. For example, there would be a prohibition using this item to pay for prior year costs or fund new programs. The normal notification process would of course be included.

LAO Recommendation. The LAO has recommended supplemental appropriations as part of the larger deficiency reform process. This proposal seeks to augment the 9840 items to \$25 million, a figure based on an average of past amounts that would have been subject to 9840 in the Legislature's absence. This mechanism is meant to provide new administrative flexibility when the Legislature is out of session (an average of three months per year).

Staff Recommendation. **Hold the 9840 item open**, consistent with the Control Section 27.00 reform proposal. The Administration and LAO are directed to continue to work towards reforming the deficiency process.

CONTROL SECTION 27

The Control Section 27 deficiency process allows the Department of Finance to authorize departments to spend at a rate that will result in a funding deficiency. The actual funding is provided when the omnibus deficiency bill is passed (usually in April or May). The omnibus deficiency bill will contain an augmentation to the amounts included in the 9840 budget item (described earlier).

On February 2, the Joint Legislation Budget Committee took an action of deleting Control Section 27 from the budget bill and directed the Administration and the LAO to develop an alternative to the current process. The LAO provided a reform proposal in their *Perspectives and Issues* and the Administration, LAO, and staff have met to discuss that reform proposal.

LAO ISSUE. The LAO has identified three main concerns with the current deficiency process.

- The 30-day review period is sometimes insufficient to allow a thorough review of the Administration's proposal, especially when compared with the time period the Legislature is allowed to explore the proposed budget.
- Objections raised by the Legislature are unenforceable and can be ignored. The Administration, on rare occasions, has dismissed the Legislature's objections and proceeded with the deficiency correction.
- Control Section 27 has been utilized in situations when the deficiency was not, in fact, unanticipated. The premise that deficiencies be related to both *critical* and *unanticipated* expenses is fundamental to its existence. In some cases the deficiency is spurred by a regulatory change that was known at the time of the budget. Also, underestimation of expenditures with the expectation of deficiency approval is a significant problem, notably by the Department of Corrections. And on some occasions, these funds are used to establish new programs that have not been reviewed by the Legislature.

Additionally, the Control Section 27(b) which was first included in the 2003 Budget Act has raised several concerns. While 27(b) was approved by the Legislature for the purpose of preventing deficiencies in one appropriation, the Administration has used broad discretion to exchange funds between programs. The Administration has also exceeded the five percent limit on transfers, although no such waiver process exists.

Perhaps the most egregious recent misuse was the Administration's citation of a "fiscal emergency" in order to appropriate billions of dollars to the Local Government Financing Item.

LAO Recommendation. The LAO recommends a two-part approach to reforming this process: deficiencies for when the Legislature is in session and deficiencies for when the Legislature is out of session.

In session—Supplemental appropriations. This “pay as you go” approach would be a natural shift because reforms in this Budget Act already requires hearings for deficiencies after March. Supplemental appropriations would give a means to make mid-year corrections and, if necessary, make changes like those originally intended for Section 27(b). Furthermore, writing, analyzing, and passing a bill, is wholly feasible during the legislative session that meets most times during the year.

Out of session—Augmentations for Contingencies or Emergencies.

Increase the 9840 item, as described above under the 9800 item. This will provide new administrative flexibility when the Legislature is out of session. A conservative estimate for that amount is \$25 million, based historic deficiency claims that would have fallen under this process. During the Legislature’s longest absence (normally October through December, unless called in for special session) deficiency requests are relatively few.

Staff Recommendation. Hold open Control Section 27. Consistent with the JLBC action on February 2, 2004, the LAO and Administration are directed to work on an alternative to the current deficiency process.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
 Dick Ackerman
 Denise Moreno Ducheny



Wednesday, May 5, 2004

DECISIONS

ORG	Department	Issue	Action	Remarks
0845	Department of Insurance	Issue #1--Finance Letter: Uninsured Employer Fraud – Limited Term Position Extension Pursuant to Chapter 6, Statutes of 2002	Adopt the Finance Letter, 3-0	
0845	Department of Insurance	Issue #2--Finance Letter: Disability and Health Fraud Spending Authority Increase	Adopt the Finance Letter, 3-0	
0845	Department of Insurance	Issue #3--Finance Letter: Local Assistance Workers' Compensation Spending Authority Increase	Adopt the Finance Letter, 3-0	
0845	Department of Insurance	Issue #4--Finance Letter: Local Assistance Spending Authority Increase for the Fraud Automobile and Urban Grant Programs	Adopt the Finance Letter, 3-0 AND resolve issues of expenditure level, appropriate reserve, fee decrease, and deferral of GF loan repayment.	May Revise Issue.
0845	Department of Insurance	Issue #5--Finance Letter: Health Insurance Counseling Fees Increased Authority	Adopt the Finance Letter, 2-1 ("no" Ackerman)	
0845	Department of Insurance	Issue #6—Finance Letter: Investigation Division Positions	Adopt the Finance Letter, 3-0	
0890	Secretary of State	ISSUE #1—Finance Letter: The Help America Vote Act	Hold open.	
0890	Secretary of State	ISSUE #2—Finance Letter: Restoration of the International Business Relations Program	Adopt the Finance Letter, 2-1 ("no" Ackerman)	
0890	Secretary of State	ISSUE #3—MANDATE: Voter Registration Procedures	Approve as budgeted (3-0)	
0890	Secretary of State	ISSUE #4—MANDATE: Voter Registration Roll Purge	Approve as budgeted (3-0)	

0890	Secretary of State	ISSUE #5—MANDATE: Absentee Ballots	Approve as budgeted (3-0)	
0890	Secretary of State	ISSUE #6—MANDATE: Handicapped Voter Access Information	Approve as budgeted (3-0)	
0890	Secretary of State	ISSUE #7—MANDATE: Local Elections Consolidation	Approve as budgeted (3-0)	
0890	Secretary of State	ISSUE #8—MANDATE: Permanent Absent Voters	Approve as budgeted (3-0)	
0890	Secretary of State	ISSUE #9—MANDATE: Democratic Party Presidential Delegates	Approve as budgeted (3-0)	
0890	Secretary of State	ISSUE #10—MANDATE: Election Materials	Approve as budgeted (3-0)	
0890	Secretary of State	ISSUE #11—MANDATE: Brendon Maguire Act	Approve as budgeted (3-0)	
1880	State Personnel Board	ISSUE #1—Budget Change Proposal: Fiscal Year 2004-05 General Fund Reduction.	Hold open.	
1880	State Personnel Board	ISSUE #2—Finance Letter: Funding for Limited Examination Appointment Program (LEAP)	Adopt the Finance Letter, 3-0	
1880	State Personnel Board	ISSUE #3—Finance Letter: Restoration of Position Lost Due to Government Code Section 12439	Adopt the Finance Letter, 3-0	
1880	State Personnel Board	ISSUE #4—MANDATE: Police Officer Procedural Bill of Rights	Defer the POBOR mandate (i.e. approve as budgeted), 2-1 ("no" Ackerman)	
1760	Department of General Services	ISSUE #1—Finance Letter: Public Utilities Commission Deferred Maintenance.	Adopt the Finance Letter, 3-0	
1760	Department of General Services	ISSUE #2—Finance Letter: Operations and Maintenance for CalTrans District 7 (Los Angeles) Office Building	Adopt the Finance Letter, 3-0	
1760	Department of General Services	ISSUE #3—Finance Letter: Operations and Maintenance for Franchise Tax Board Phase III Project	Adopt the Finance Letter, 3-0	
1760	Department of General Services	ISSUE #4—Finance Letter: Budget Bill Language for DGS' Rate Setting Process.	Adopt the first provision of the language as budget bill and adopt the second provision as trailer bill, 3-0	
1760	Department of General Services	ISSUE #5—Finance Letter: Reappropriation of Funding for Three Local Seismic Projects	Adopt the Finance Letter, 3-0	
1760	Department of General Services	ISSUE #6—Finance Letter: Reversion of Funding for one Local Seismic Project	Hold open.	

1760	Department of General Services	ISSUE #7—Trailer Bill: Permanent Authorization for Printing Services	Amend the trailer bill language to make the provisions effective through June 30, 2005 only.	The Subcommittee expects the interested parties will work on a long-term proposal to be considered next year.
1760	Department of General Services	ISSUE #8: Statewide Procurement Training and Certification Program	Hold open.	
8320	Public Employee Relations Board	ISSUE—Finance Letter: Support Funding for the Board of PERB	Adopt the Finance Letter, 3-0	
9100	Tax Relief	ISSUE #1: Elimination of the Substandard Housing Program	Hold open.	
9100	Tax Relief	ISSUE #2: Williamson Act Subventions For "Open Space" Funding	Approve as budgeted (3-0)	
9100	Tax Relief	ISSUE #3: Senior Citizen's Tax Relief Reduction.	Approved staff recommendation, 3-0.	
9100	Tax Relief	ISSUE #4—MANDATE: Senior Citizens' Property Tax Deferral Program	Approve as budgeted (3-0)	
9100	Tax Relief	ISSUE #5—MANDATE: Countywide Tax Rates	Approve as budgeted (3-0)	
9100	Tax Relief	ISSUE #6—MANDATE: Allocation of Property Tax Revenue	Approve as budgeted (3-0)	
9100	Tax Relief	ISSUE #7—MANDATE: Senior Citizen's Mobilehome Property Tax Deferral	Approve as budgeted (3-0)	
9100	Tax Relief	ISSUE #8—MANDATE: Property Tax Family Transfers	Approve as budgeted (3-0)	
9210	Local Government Financing	ISSUE #1: Reimbursement for Booking Fees.	Hold open.	
9210	Local Government Financing	ISSUE #2: Eliminate Citizens' Option for Public Safety (COPS) Grant Program	Approved staff recommendation, 3-0.	
9210	Local Government Financing	ISSUE #3: Suspend the Juvenile Justice Grants Program for One Year Pending Evaluation Results	Approved staff recommendation, 3-0.	
9210	Local Government Financing	ISSUE #4. The Administration's Property Tax Shift	Hold open.	
9210	Local Government Financing	ISSUE #5—MANDATE: Mandate Reimbursement Process	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9210	Local Government Financing	ISSUE #6—MANDATE: Filipino Employee Surveys	Approve as budgeted, 2-0 (Dunn, Ducheny)	

9210	Local Government Financing	ISSUE #7—MANDATE: Involuntary Lien Notices	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9210	Local Government Financing	ISSUE #8—MANDATE: Photographic Record of Evidence	Approved staff recommendation, 2-0 (Dunn, Ducheny)	Includes BBL.
9210	Local Government Financing	ISSUE #9—MANDATE: Lis Pendens	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9210	Local Government Financing	ISSUE #10—MANDATE: Proration of Fines and Court Audits	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9210	Local Government Financing	ISSUE #11—MANDATE: Domestic Violence Information	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9210	Local Government Financing	ISSUE #12—MANDATE: Open Meetings Act	Hold open and request LAO/DOF report back on the effects of deferral.	
9210	Local Government Financing	ISSUE #13—MANDATE: Cardio-pulmonary Resuscitation (CPR) Pocket Masks	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9210	Local Government Financing	ISSUE #14—MANDATE: Rape Victim Counseling Center Notices	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9210	Local Government Financing	ISSUE #15—MANDATE: Health Benefits for Survivors of Peace Officers and Firefighters	Approved staff recommendation, 2-0 (Dunn, Ducheny)	Includes BBL.
9210	Local Government Financing	ISSUE #16—MANDATE: Brown Act Reform	Hold open and request LAO/DOF report back on the effects of deferral.	
9210	Local Government Financing	ISSUE #17—Finance Letter: Santa Barbara County Formation Commission	Approve as budgeted, 2-0 (Dunn, Ducheny)	
9840	Augmentation for Contingencies or Emergencies	(Deficiency Process)	Hold open.	
27, CS	Deficiency Reporting Requirements	(Deficiency Process)	Hold open.	

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny



Wednesday, May 12, 2004
1:30 p.m.
Room 3191

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1110 Contractors' State License Board

The Contractors' State License Board protects consumers by regulating the construction industry through policies that promote the health, safety, and general welfare of the public in matters relating to construction.

The Board accomplishes this by:

- Ensuring that construction is performed in a safe, competent and professional manner;
- Licensing contractors and enforcing licensing laws;
- Providing resolution to disputes that arise from construction activities; and
- Educating consumers so that they make informed choices.

Consent Issue:

1. **Augmentation for SB 1953 Contractor Fingerprint Requirement (FL #1).** The Administration requests 3.0 positions (2.8 personal years) and \$187,000 (\$146,000 ongoing) from the Contractors' License Fund to implement the fingerprinting program required by Senate Bill 1953 (Chapter 744, Statutes of 2002). The fingerprints are required from applicants for conducting criminal history record checks to further public safety.

Staff Comment: At the time SB 1953 was heard, it was anticipated that the fingerprinting requirement would increase costs by about \$227,000 annually, so this request falls below the anticipated cost.

Staff Recommendation: Staff recommends the subcommittee approve the Administration's request.

Vote:

1110 Board of Registered Nursing

The Board of Registered Nursing ensures that registered nurses are competent and safe to practice through 1) sound licensing standards, 2) an effective enforcement program to prosecute violations of the Nursing Practice Act, 3) a diversion program to intervene with chemically dependent or mentally ill nurses, 4) oversight of nursing school programs, and 5) public education efforts.

Consent Issue:

1. **One-time Augmentation for Legal Costs (FL #1).** The Administration requests \$229,000 in one-time funding from the Board of Registered Nursing Fund to reimburse the Attorney General for costs associated with a suit brought by Excelsior College. The Administration indicates this large case cannot be absorbed within existing resources.

Staff Comment: The Board is not requesting a permanent augmentation. The Attorney General recently increased its rates for legal services.

Staff Recommendation: Staff recommends the subcommittee approve the Administration's request.

Vote:

2150 Department of Financial Institutions

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

The DFI budget is proposed to increase from \$21.5 million in the current year to \$23.6 million in the budget year. No General Fund support.

Issues

1. **New Workload for the California Financial Information Privacy Act (BCP #2):**

The Administration requests \$1,881,000 and 17.0 positions to address the increased workload related to the provisions within Senate Bill 1 (Chapter 241, Statutes of 2003), which restricts financial institutions from sharing non-public personal information. The Administration requests:

- a) 12.0 Senior Financial Institution Examiners to conduct regular field examinations, and investigate complaints
- b) 2.0 Staff Counsel IV's to approve the forms of disclosure and litigate
- c) 1.0 Senior Legal Secretary
- d) 1.0 Staff Services Analyst
- e) 1.0 Associate Information Systems Analyst.

An increase of 17 positions represents a 9 percent increase in total staffing. The Senate policy analysis for SB 1 estimated "moderate enforcement costs, probably less than \$1 million annually," with the cost of enforcement spread across four departments: Justice; Financial Institutions; Insurance; and Corporations.

April 21 Hearing: This issue was heard on April 21 and the subcommittee kept the issue open so staff could gather more information from the department on staffing alternatives. The following alternatives have been developed:

Staffing Alternatives

Options	Description	Positions	Cost
1	Investigate and litigate based on complaints, but do not incorporate SB 1 audits into bi-annual examinations.	6.0	\$679
2	Investigate and litigate based on complaints, and also perform nonroutine, "red flag" SB 1 audit checks triggered by a certain level of complaints against individual licensees.*	6.0	\$679
3	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 25 percent of firms each bi-annual cycle.	8.0	\$907
4	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 50 percent of firms each bi-annual cycle.	12.0	\$1,363
5	BCP Request: Investigate all firms for SB 1 compliance during bi-annual examinations and follow-up on complaints	17.0	\$1,881

* DFI indicates that for them, Option 2 would be the same as Option 1.

All of the above options assume the DFI reviews notification forms as required by SB 1.

Staff Comment: The LAO withheld recommendation on this proposal in its *Analysis of the Budget Bill* citing too many unresolved issues regarding the interaction between Chapter 241 and federal law. A lawsuit was recently filed against the Department concerning federal preemption of state law. If the lawsuit were successful, the workload associated with SB 1 would decline, however the DFI indicated it is not able to estimate that workload change at this time.

Staff Recommendation: Approve Option 3 to investigate and litigate complaints and investigate 25 percent of firms for compliance every cycle. Add the following provisional language to item 2150-001-0298:

Provisions:

- The Department of Financial Institutions shall report to the budget committees of each house of the Legislature and the LAO by January 10, 2006, on (a) the level of non-compliance found with Chapter 241, Statutes of 2003, (b) any changes to state or federal law, or court decisions, that affect Chapter 241 workload, and (c) any staffing changes requested based on the level of compliance or changes in law.*

Vote:

2180 Department of Corporations

The Department of Corporations (DOC) protects the public and provides businesses with a financial services marketplace that is cost-effective and efficient through administration and enforcement of state laws regulating securities, franchise investment, lenders, and fiduciaries. Activities include licensing, examination, investor, and consumer education, and responding to public inquiries and complaints. Each program enforces its laws through administrative and civil actions.

The DOC budget is proposed to increase from \$26.9 million in the current year to \$29 million in the budget year. No General Fund support.

Issues

1. **New Workload for the California Financial Information Privacy Act (BCP #2):** (Note, this issue overlaps with the prior DFI discussion on the California Financial Information Privacy Act.) The Administration requests \$1,945,000 and 22.0 positions (including one limited-term position) to address the increased workload related to the provisions within Chapter 241, Statutes of 2003 (SB 1), which restricts financial institutions from sharing non-public personal information. The Administration requests staffing increases in the following areas:
 - a) Regulatory Examination Workload: 9.0 positions
 - b) Customer Service Calls: 1.0 position
 - c) Duty Counsel: 1.0 position
 - d) Complaint Review and Investigation: 2.0 positions
 - e) Enforcement and Litigation: 8.0 positions
 - f) Regulations, Releases, Opinions, Forms Review and Training: 1 limited-term position.

An increase of 21 positions represents a 9 percent increase in total staffing. The Senate policy analysis for SB 1 estimated “moderate enforcement costs, probably less than \$1 million annually,” with the cost of enforcement spread across four departments: Department of Justice, Financial Institutions, Insurance and Corporations.

April 21 Hearing: This issue was heard on April 21 and the subcommittee kept the issue open so staff could gather more information from the department on staffing alternatives. The following alternatives have been developed:

Staffing Alternatives

Options	Description	Positions	Cost (1,000s)
1	Investigate and litigate based on complaints, but do not incorporate SB 1 audits into periodic examinations.	8.0	\$782
2	Investigate and litigate based on complaints, and also perform nonroutine, "red flag" SB 1 audit checks triggered by a certain level of complaints against individual licensees.	10.0	\$932
3	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 25 percent of firms each examination cycle.	11.0	\$1,005
4	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 50 percent of firms each examination cycle.	14.0	\$1,272
5	BCP Request: Investigate all firms for SB 1 compliance during examinations and follow-up on complaints	22.0	\$1,945

All of the above options assume the Department of Corporations reviews notification forms as required by SB 1. All of the above include some one-time costs that do not exceed \$260,000 in any alternative.

Staff Comment: The LAO withheld recommendation on this proposal in its *Analysis of the Budget Bill* citing too many unresolved issues regarding the interaction between Chapter 241 and federal law. A lawsuit was recently filed against the Department concerning federal preemption of state law. If the lawsuit were successful, the workload associated with SB 1 would decline, however the Department of Corporations indicates it is not able to estimate that workload change at this time.

Staff Recommendation: Approve Option 3 to investigate and litigate complaints and investigate 25 percent of firms for compliance every cycle. Add the following provisional language to item 2180-001-0067:

Provisions:

- The Department of Corporations shall report to the budget committees of each house of the Legislature and the LAO by January 10, 2006, on (a) the level of non-compliance found with Chapter 241, Statutes of 2003, (b) any changes to state or federal law, or court decisions, that affect Chapter 241 workload, and (c) any staffing changes requested based on the level of compliance or changes in law.*

Vote:

2240 Department of Housing and Community Development

A primary objective of the Department of Housing and Community Development (HCD) is to expand and preserve safe and affordable housing opportunities and promote strong communities for all Californians. The department administers housing finance, economic development and rehabilitation programs; proposes housing policy; analyzes and implements building codes; and enforces construction standards for manufactured homes.

The HCD budget is proposed to decrease from \$772.5 million in the current year to \$619.1 million in the budget year. The General Fund support in the current year is \$15.7 million and is proposed at \$14.2 million in the budget year.

Issues for Discussion:

- Daily Rental Rates for Farmworker Housing:** HCD indicates it plans to use existing statutory authority to increase farmworker-housing rental rates by \$2.00 per day, effective July 1, 2004. The existing and new rates are as follows:

Daily Rental Rates by Size of Unit			
	2 Bedroom	3 Bedroom	4 Bedroom
Current	\$7.50	\$8.00	\$8.50
New	\$9.50	\$10.00	\$10.50

Last year, the Legislature approved a trailer bill (AB 1756) that prohibited HCD from increasing any rent charged at a migrant farm labor center during the 2003-04 fiscal year.

HCD indicates that absent the \$2 rent increase, a General Fund augmentation of \$300,000 would be required in 2004-05 to continue the program at the proposed level (and about \$600,000 ongoing). If the rent increase were held to \$1 per day, the General Fund augmentation would be \$150,000 in 2004-05 (and about \$300,000 ongoing).

The LAO indicates that the rents were last raised in 1997-98.

Staff Comment: Housing and Community Development Committee staff have suggested an option of trailer bill language that would allow the \$2 increase but limit future increases without legislative approval to an amount wherein rent would not exceed 30 percent of the average farmworker household income. HCD indicates the proposed rates for 2004-05 would not exceed 30 percent of the average farmworker household income (based on their survey of renters).

Staff Recommendation: Approve the attached trailer bill language that would constrain rents for residents of Office of Migrant Services facilities to a level not to exceed 30 percent of the average household incomes of center residents unless specific legislative authorization for a higher rent level has been received.

Vote:

- 2. Mandate for Regional Housing Plan.** The budget proposes to defer the mandate on regional housing needs assessments. Last year the prior Administration also proposed a deferral and this subcommittee restored mandate funding of \$750,000 for councils of governments (COGs) and adopted budget bill language to specify the funding was for COGs (the funding and language was deleted by the Legislature in the final budget bill). Statute requires COGs to assess a locality its share of the regional housing need. As part of its general plan, every city and county is required to prepare a "housing element" which assesses the conditions of its housing stock and outlines a five-year plan for housing development. The housing element must be approved by HCD - the LAO indicates less than 60 percent of local governments currently meet this obligation.

LAO Recommendation from the *Analysis of the Budget Bill*: Eliminate the mandate for regional planning. The LAO indicates the planning mandate costs about four times more than the Legislature expected and may not increase the construction of affordable housing. Repeal of the mandate would save the General Fund about \$4 million in annual liabilities. The LAO recommends that if the Legislature wishes to impose certain mandated requirements, the best approach would be to "start from scratch," and develop a new process through the normal legislative process.

April 21 Hearing Outcome: This issue was heard by the subcommittee on April 21, but kept open. During the discussion, the subcommittee questioned the high cost of this mandate.

LAO Options to Lower the Costs of this Mandate: Since the April 21 hearing, the LAO has worked with HCD, the Mandates Commission, and legislative staff to develop options to lower the cost for this mandate. The Board of Control adopted the Parameters and Guidelines for this mandate prior to the establishment of the Mandates Commission. The Commission has indicated that under current interpretation of case law, COGs may not be eligible for reimbursement, although this determination would not be made unless a request is received by a party with standing (a legislator, a State department, etc.) to reconsider the adopted Parameters and Guidelines. The LAO estimates the 2004-05 cost of the mandate for COGs to be \$1 million.

COG Mandate Options: The LAO provided the following non-codified trailer bill language that would request the Mandates Commission to reexamine the existing mandate finding for COGs:

Notwithstanding any other provision of law, the Commission on State Mandates shall reconsider the Board of Control decisions (3916, 3759, 3760, and 3929) regarding the regional housing needs mandate (Chapter 1143 of the Statutes of 1980) to determine whether the statute is a reimbursable mandate under Section 6 of Article XIII B of the California Constitution in light of federal and state statutes enacted and federal and state court decisions rendered since this statute was enacted. The Commission, if necessary, shall revise its Parameters and Guidelines to be consistent with this reconsideration. Any changes by the Commission shall be deemed effective July 1, 2004.

If the Mandates Commission were to find no State reimbursement requirement exists in the case of COGs, the General Fund liability for this cost would be eliminated. If the Legislature wished to continue COG reimbursements for this expense the LAO suggests either the establishment of a State General Fund grant program or the adoption of the following language that would allow COGs to recover their costs through fees:

Add to Government Code 65584

(h) Councils of government may charge a fee to local governments to cover the reasonable, actual costs of the council in implementing this section. Any fee shall not exceed the estimated amount required to implement its obligations under this section. A city or county, or city and county may charge a fee, including, but not limited to, a fee pursuant to Section 65104 to support the work of the planning agency, to reimburse it for the cost of any fee charged by the council of government to cover the council's actual costs in implementing this section. The legislative body of the city, county or city and county shall impose any fee pursuant to Section 66016.

City and County Mandate Options: The LAO provided trailer bill language that would specify some of the housing element activities are optional and therefore not reimbursable:

Add Government Code Section 65584 (h) to read:

(h) Any review or appeal by a locality of the allocation data provided by the department or the council of governments regarding its share of the regional housing need, or submittal of data or information for a proposed allocation, as permitted by this section, is not mandatory and is conducted by a locality at its option.

~~Government Code Section 65583 (b)(7) An analysis of opportunities for energy conservation with respect to residential development.~~

Add Government Code 65583.05:

The housing element may contain, at a locality's option, an analysis of opportunities for energy conservation with respect to residential development.

The LAO continues to look at the farmworker-housing component of the mandate. Some urban cities and counties with little farmland are claiming high costs for this mandate, which could be reduced.

Staff Comment: At the hearing, the LAO should explain options for lowering the cost of this mandate.

Staff Recommendation: Direct staff to work with the LAO to finalize trailer bill language for the next hearing.

Vote:

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) manages the nonmerit aspects of the State's personnel system. The goals of the DPA are to ensure proper administration of existing terms and conditions of employment for the State's civil service employees, and to represent the Governor as the employer in all matters concerning State employer-employee relations. The DPA also administers the personnel classification plan, develops the compensation plan, including terms and conditions of employment, and develops and implements the training plan for the State's management team and other employees not represented in the collective bargaining process.

Consent Issue:

- 1. Reduction to the DPA Support Appropriation to Reflect Savings (FL #2).** The Administration requests a \$250,000 reduction to the General Fund appropriation to reflect savings from the expiration of the Memorandum of Understanding with Bargaining Unit 17 (Registered Nurses), which obligated the State to make payments to a union scholarship fund. Under the agreement, eligible nurses were able to obtain monetary assistance to continue their education for a specific academic certification. The scholarship funding was limited in nature and expires with the current contract on June 30, 2004.

Staff Comment: Finance indicates that if this scholarship funding is included in the next contract, the funding can be provided through the 9800 Item – augmentation for Employee Compensation, instead of the DPA appropriation.

Staff Recommendation: Staff recommends the subcommittee approve the Administration's request.

Vote:

8940 Military Department

The Military Department is responsible for the command and management of the California Army, Air National Guard, and four other related programs.

The Governor proposes \$93.9 million (\$31 million from the General Fund and \$56.4 million from federal funds) in total expenditures for the Military Department, a decrease of \$13 million from the current fiscal-year. Additional federal funding of \$571.3 million supports the Army National Guard, Air National Guard, and Office of the Adjutant General, but those funds are not deposited in the State Treasury.

Proposed Consent Issues

The following list summarizes a number of Budget Change Proposals and Finance Letters submitted by the Military Department.

Issue Title	Positions	Dollars
1. Homeland Security Augmentation for Equipment, Training, Exercises, and Infrastructure. Requests one-time reimbursement authority of \$2.1 million and 7 limited term positions to spend grant funds awarded by the Office of Emergency Services for homeland security. These funds would be used for training and exercises. (Reimbursement Authority)	7.0	\$2,116,000
2. Establish Five Active Duty Firefighter Positions for the Fresno Air National Guard Base. Requests permanent five active duty firefighter positions at the Fresno Air National Guard Base due to increased workload requirements. (Federal Funds).	5.0	\$383,000
3. Increase Active Duty Captain Positions to Operate Military Construction Program. Requests three full-time project managers for the Major Military Construction Program, Sustainment, Restoration, and Modernization Program, and the Armory Maintenance Program. These positions would replace three federal project managers positions being eliminated by the National Guard Bureau. (Federal Funds).	3.0	\$360,000
4. Joint Training and Experimentation Program. Requests funding to establish a program manager for the Joint Training and Experimentation Program. (Federal Funds).	1.0	\$133,000
5. Operations Ready Family Program. Requests funding and one position to manage and oversee the family Assistance Center Coordinators. (Federal Funds).	1.0	\$129,000
6. Re-Establish Three Environmental Programs Positions. Requests position authority to re-establish three abolished positions in the California Environmental Program to ensure that the Army National Guard is in compliance with environmental laws and regulations. (Federal Funds).	3.0	
7. General Fund Reduction. Requests a General Fund reduction to the California Cadet Corps and the California National Guard Youth Programs. The reductions include \$375,000 from the Cadet Corps, \$875,000 to the Oakland Military Institute, \$82,000 from the Challenge Youth Academy, and \$50,000 from the STARBASE program.	-11.0	-\$1,382,000
8. Finance Letter – Increase State Active Duty Compensation. Requests and increase of \$722,000 from the General Fund and \$960,000 in federal funds to increase State Active Duty compensation based on federal military compensation.		\$1,682,000
10. New Bakersfield Armory. Requests \$5 million General Fund and \$6.4 million federal funds for preliminary plans, working drawings, construction, and equipment for a new armory in the City of Bakersfield.		\$11,415,000

11. Advanced Plans and Studies. Requests federal funds for capital outlay advance plans and studies.		\$836,000
12. Finance Letter – Renovation and Expansion of the Roseville Armory. Requests \$411,000 from the General Fund and \$202,000 from federal funds to replace heating, plumbing, electrical, and telephone systems at the Roseville armory. Also funding for expansion of the current facility.		\$613,000
13. Finance Letter – Reappropriation. Requests to reappropriate funding for working drawings, construction, and equipment for the Lancaster Armory. Reappropriation is necessary due to environmental mitigation issues that delayed completion of the acquisition and the preliminary plans.		

Staff Recommendation. No issues have been raised. Staff recommends approval of the listed Budget Change Proposals and Finance Letters.
Action.

Issues

1. Santa Ana Armory. The armory in Santa Ana was built in 1957. It currently houses a rifle company with approximately 100 national guardsmen. It is used as a training site one weekend per month. The remainder of the month it is used primarily for vehicle and equipment storage.

The armory is on a 3.5-acre site between an elementary school and a park. Both the elementary school and the park were developed after the armory was built.

If the armory were moved, the armory would need to be larger and upgraded to current standards. The funding is split between the federal government and the state government. The City of Santa Ana is currently searching for a site for the new armory.

What is the status of efforts to locate alternative federal or state property?

2. Los Alamitos Armed Forced Reserve Center - Fire Protection Services. The firefighters of the Los Alamitos Joint Forces Training Base (LAJFTB) are employees of the Military Department. The employees are considered on state active duty. The Military Department pays these firefighters from federal funds. The employees have similar protections to civil servants, although they do not have collective bargaining rights.

The Los Alamitos firefighters have attempted to convert their personnel status over the last twenty years. Legislation was enacted in 1993 that allowed these firefighters to convert to state civil service provided that federal dollars were made available to cover related conversion costs. Federal funding has not been appropriated for this purpose.

In November 2003, Governor Davis signed Executive Order D-75-03, requiring the Department of Finance to negotiate with the firefighters to convert to civil service within the Orange County Fire Authority.

In April 2004, the Military Department sent a status on the issue indicating that federal regulations prohibit them from contracting out for the firefighter positions at Los Alamitos.

Do other military bases or installations in California contract for firefighting activities?

3. Finance Letter – Restoration of Funding for the Oakland Military Institute (OMI). This Finance Letter requests to restore \$875,000 in funding and 11 positions that were proposed to be eliminated as part of the General Fund Reduction BCP (see issue #7 in the consent list above). Restoration of this item would reduce the originally proposed General Fund reduction of \$1.4 million to \$507,000.

In the current year the Military Department anticipates expenditures of \$2.2 million and 24.3 positions for the OMI. The January reduction would leave \$1.3 million and 13 positions for this activity. This funding provides for assistant teachers in the classrooms to teach military customs and military history, and for extra curricular activities such as physical education, drill and ceremonies, leadership, and team development. This funding is on top of funding that the OMI receives similar to any other charter school in the state under Proposition 98. In its third year of operation, the Military Department indicates that OMI had 321 students enrolled in grades 7-9, primarily from Oakland and the East Bay area.

Staff Comments. For the current year, with an estimated ADA of 296, staff notes that in these General Fund expenditures through the Military Department translate to per pupil spending of over \$7,400 on top of state funding through Proposition 98. Statewide Proposition 98 spending averages about \$7,000 per ADA.

Staff Recommendation. Staff recommends rejection of the Finance Letter. This action would leave \$1.3 million in the Military Department budget for this activity.
Action.

Attachment A

Housing and Community Development – Issue #1: Trailerbill language related to rent increases at migrant worker housing facilities.

Amend section 50710.1 of the Health and Safety Code as follows:

50710.1. (a) If all the development costs of any migrant farm labor center assisted pursuant to this chapter are provided by federal, state, or local grants, and if inadequate funds are available from any federal, state, or local service to write-down operating costs, the department may approve rents for that center which are in excess of rents charged in other centers assisted by the Office of Migrant Services. However, notwithstanding any other provision of law, commencing with the 2005 growing season the Department of Housing and Community Development shall not increase rents for residents of Office of Migrant Services facilities to a level which represents more than 30 percent of the average annualized household incomes of center residents without specific legislative authorization for such increase. ~~Prior~~ prior to approving these rents, the department shall consider the adequacy of evidence presented by the entity operating the center that the rents reimburse actual, reasonable, and necessary costs of operation. ~~The department may not increase any rent charged at a migrant farm labor center during the 2003-04 fiscal year.~~

(b) At the end of each fiscal year, any entity operating a migrant farm labor center pursuant to this chapter may establish a reserve account comprised of the excess funds provided through the annual operating contract received from the department, if the department certifies there is no need to address reasonable general maintenance requirements or repairs, rehabilitation, and replacement needs of the requesting migrant farm labor center which affect the immediate health and safety of residents. The cumulative balance of the reserve account shall not exceed 10 percent of the annual operating funds annually committed to the entity by the department. Funds in the reserve account shall be used only for capital improvements such as replacing or repairing structural elements, furniture, fixtures, or equipment of the migrant farm labor center, the replacement or repair of which are reasonably required to preserve the migrant farm labor center. Withdrawals from the reserve account shall be made only upon the written approval of the department of the amount and nature of expenditures.

(c) A migrant farm labor center governed by this chapter may be operated for an extended period beyond 180 days after approval by the department, provided that all of the following conditions are satisfied:

(1) No additional subsidies provided by the department are used for the operation or administration of the migrant farm center during the extended occupancy period except to the extent that state funds are appropriated or authorized for the purpose of funding all or part of the cost of subsidizing extended occupancy periods during the first 14 days only.

(2) Rents are not to be increased above the rents charged during the period immediately prior to the extended occupancy period unless the department finds that an increase is necessary to cover the difference between reasonable operating costs

necessary to keep the center open during the extended occupancy period and the amount of state funds available pursuant to paragraph (1) and any contributions from agricultural employers or other federal, local, or private sources. These contributions shall not be used to reduce the amount of state funds that otherwise would be made available to the center to subsidize rents during an extended occupancy period.

(3) In no event shall the rent during the extended occupancy period exceed the average daily operating cost of the center, less any subsidy funds available pursuant to paragraph (1) or (2). Households representing at least 25 percent of the units in the center shall have indicated their desire and intention to remain in residency during an extended occupancy period by signing a petition to the local entity to keep the center open for an extended period at rents that are the same or higher than rents during the regular period of occupancy. Each household shall receive a clear bilingual notice describing the extended occupancy options attached to the lease.

The Legislature finds and declares that because the number of residents may be substantially reduced during the extended occupancy period, a rent increase may be necessary to cover operating costs. It is the intent of the Legislature that the public sector, private sector, and farmworkers should each play an important role in ensuring the financial viability of this important source of needed housing.

(4) An extended occupancy period is requested by an entity operating the migrant farm labor center and received by the department no earlier than 30 days and no later than 15 days prior to the center's scheduled closing date. The department shall notify the entity and petitioning residents of the final decision no later than seven days prior to the center's scheduled closing date. During the extended occupancy period, occupancy shall be limited to migrant farmworkers and their families who resided at a migrant center during the regular period of occupancy.

(5) Before approving or denying an extension and establishing the rents for the extended occupancy period, both of which shall be within the sole discretion of the department, the department shall take into consideration all of the following factors:

(A) The structural and physical condition of the center, including water and sewer pond capacity and the capacity and willingness of the local entity to operate the center during the extended occupancy period.

(B) Whether local approvals are required, and whether there are competing demands for the use of the center's facilities.

(C) Whether there is adequate documentation that there is a need for residents of the migrant center to continue work in the area, as confirmed by the local entity.

(D) The climate during the extended occupancy period.

(E) The amount of subsidy funds available that can be allocated to each center to subsidize rents below the operating costs and the cost of operating each center during the extended occupancy period.

(F) The extended occupancy period is deemed necessary for the health and safety of the migrant farmworkers and their families.

(G) Other relevant factors affecting the migrant farmworkers and their families and the operation of the centers.

(6) The rents collected during the extended occupancy period shall be remitted to the department. However, based on financial records to the satisfaction of the department, the department may reduce the amount to be remitted by an amount it determines the

local entity has expended during the extended occupancy period that is not being reimbursed by department funds.

(7) The occupancy during the extended occupancy period represents a new tenancy and is not subject to existing and statutory and regulatory limitations governing rents. Prior to the beginning of the extended occupancy period, residents shall be provided at least two days' advance written notice of any rent increase and of the expected length of the extended occupancy period, including the scheduled date of closure of the center, and prior to being eligible for residency during the extended occupancy period, residents shall sign rental documents deemed necessary by the department.

(d) The Legislature finds and declares that variable annual climates and changing agricultural techniques create an inability to accurately predict the end of a harvest season for the purposes of housing migrant farmworkers and their families. Because of these factors, in any part of this state, and in any specific year, one or more migrant farmworker housing centers governed by this chapter need to remain open for up to two additional weeks to allow the residents to provide critical assistance to growers in harvesting crops while also fulfilling work expectations that encouraged them to migrate to the areas of the centers. In addition, if the centers close prematurely, the migrant farmworkers often must remain in the areas to work for up to two weeks. During this time they will not be able to obtain decent, safe, and affordable housing and the health and safety of their families and the surrounding community will be threatened.

The Legislature therefore finds and declares that, for the purposes of any public or private right, obligation, or authorization related to the use of property and improvements thereon as a 180-day migrant center, an extended use of any housing center governed by this chapter pursuant to this section is deemed to be the same as the 180-day use generally authorized by this chapter.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Denise Moreno Ducheny
Ross Johnson



PART I

Wednesday, May 19, 2004
1:30
Room 3191

<u>Item</u>	<u>Department</u>	<u>Page</u>
0250	Judiciary	1
0450	Trial Court Funding	3
6120	State Library (Issue referred by Subcommittee No. 1)	8
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ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
1	0250 Judiciary	April Finance Letter: Acquisition and Preliminary Plans for 2 New Court Facilities.	<p>1. Placer-Nevada Shared Use Facility: Truckee. The Judicial Council requests \$544,000 from the Courthouse Construction Fund to consolidate court operations in the Placer and Nevada counties. This request would fund the site acquisition and preliminary plans for a 25,500 square foot facility in Truckee that would combine functions of the Superior Courts in these counties.</p> <p>2. Portola-Loyalton New Branch Court: Counties of Plumas and Sierra. The Judicial Council requests \$75,000 from the Courthouse Construction Fund to consolidate court operations in the Plumas and Sierra counties. This request would fund the site acquisition and preliminary plans for a 5,400 square foot facility that would combine functions of the Superior Courts in these counties.</p> <p>These projects may reduce future capital and operational costs through innovative use of shared facility and technology. The Finance Letter also proposes provisional language to identify these as demonstration projects and require the Judicial Council to report its findings on future cost savings to the Legislature and Department of Finance:</p>	\$619 in Courthouse Construction Funds	Adopt Finance Letter	BBL	
2	0250 Judiciary	April Finance Letter: Reappropriation for the Fourth Appellate District Court of Appeal	This Finance Letter proposes to reappropriate funds for working drawings and construction for the Fourth District Court of Appeals courthouse in Orange County. The reappropriation is necessary due to the transfer of project management from DGS to the AOC when the project was reappropriated in the 2003 budget and the Judicial Council's need to create and adopt interim contracting rules and procedures.		Adopt Finance Letter	BBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
3	0250 Judiciary	May Revise: Revised Budget Proposal and Unallocated Reduction	<p>The Governor's Budget included an ongoing \$9.8 million reduction. The May Revise proposal provides additional funding for increases in judges salaries and benefits, employee salaries, and increases in the costs of contract security services provided by the CHP. It will also decrease the unallocated reduction to \$8.5 million, \$3 million of which is on-going.</p> <p>The January budget originally proposed total appropriations of \$373.8 million for support of these judicial functions in 2003-04. This had been a decrease of \$8.3 million, or 2.2 percent below estimated current-year expenditures.</p>	\$4,329 from the General Fund	Adopt Finance Letter		
4	0250 Judiciary	May Revise: Trial Court Facilities Act of 2002.	<p>Per the Trial Court Facilities Act of 2002 (Ch. 1082, St. 2002), the Judicial Council proposes \$23.3 million from the Court Facilities Construction Fund and \$1,000 from the Court Facilities Trust Fund, and 102 positions. This proposal would provide program support staffing to begin the transition of facilities from county to the state.</p> <p>The proposal is consistent with the estimate of positions and resources from the fiscal estimate provided during consideration of the Act. This is the second year of the 5-year planned organizational development process.</p> <p>The process for transferring the properties from the county to the state will formally begin in the budget year. The AOC anticipates that in the budget year between 100 and 140 facilities will be transferred to the state.</p> <p>The proposal includes language requiring the Council to provide a workplan prior to filling positions. The proposal also creates the Court Facilities Trust Fund and appropriates \$1,000 with language that allows DOF to increase funds to the item once money is in the fund.</p>	\$23,291 from the State Court Facilities Construction Fund and \$1 from the Court Facilities Trust Fund	Adopt Finance Letter	BBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
5	0450 – Trial Court Funding	May Revise: Revised Budget Proposal and Unallocated Reduction	<p>The May Revision provides an increase of \$99 million to the state’s trial courts. The proposal includes increases for existing costs that courts are experiencing but does not provide funds for new, additional, or improved services.</p> <p>Court Staff Retirement: \$23.1 million. Court Security: \$28.8 million. Judges Retirement System (JRS) Funding: \$27. 6 million. Non-Salary Driven Benefit Increases: \$11.5 million. Salary and Benefit Contract Costs: \$9.6 million. Judges Salary and Benefits: \$8.1 million. County Charges: \$1.5 million.</p> <p>Unallocated Reduction: -\$11 million. Increases the \$59 million unallocated reduction included in the January budget proposal to \$70 million.</p> <p>For 2003-04, this budget item took a one-time \$85 million unallocated reduction. However, the actual reduction to the trial courts’ operating budgets amounted to \$59.8 million as a result of other reductions, including \$10 million from judicial salary savings, \$10 million from the Trial Court Improvement Fund, \$4.3 million from the Judicial Administration Efficiency and Modernization Fund, and \$900,000 from the Assigned Judges program.</p> <p>In the January proposal the entire unallocated reduction was proposed as an ongoing reduction. This proposal makes \$20 million ongoing and \$50 million one-time. Previous unallocated reductions to the trial courts have been one-time. The courts have stressed that maintaining one-time reductions rather than ongoing reductions is important because it will mean that the impact of these reductions, such as reduced hours and services, will not become institutionalized.</p>	99,100	Adopt Finance Letter request		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
6	0450 Trial Court Funding	May Revise: Electronic Reporting	<p>The proposal reduces the budgets of the trial courts by \$6.4 million and proposes to increase the use of electronic reporting. The estimates assume increased use of electronic reporting through attrition of court reporters.</p> <p>The proposal includes trailer bill language (TBL) requiring the Judicial Council to provide by rule of court the means for taking down, storing, transcribing, and certifying the verbatim record. The language allows for electronic recording in all cases except death penalty cases. (For TBL see Attachment A)</p> <p>Staff Comments: The estimates do not include costs of transcribing the electronic record, or the staff costs of running the equipment.</p> <p>The Subcommittee may wish to adopt the following intent language: It is the intent of the Legislature to address the use of electronic recording equipment in the trial courts.</p>	\$6,381 General Fund savings	Reject Finance Letter request & Adopt intent language	TBL	
7	0450 Trial Court Funding	May Revise: Eliminate Governmental Exemption from Civil Court Filing Fees	<p>Under current law all governmental agencies are exempt from paying court filing fees. This proposed TBL would eliminate the exemption for all government agencies except for state agencies, child welfare or probation agencies in proceedings pursuant to Welfare and Institutions code section 300 et seq., and local child support or D.A.s in actions regarding establishment or enforcement of child support.</p> <p>Staff Comments: The AOC indicates that savings estimates were based on very limited information. Counties have objected to this proposal as a cost shift of court costs from the state to counties and therefore a revocation of the central principle of trial court funding reform.</p> <p>Staff notes that the state fiscal impacts are relatively minor, yet the policy change may be considered significant. For TBL see Attachment B</p>	\$312 in General Fund savings	Reject Finance Letter request	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
8	0450 Trial Court Funding	May Revise: Reduce Peremptory Challenges in All Cases	<p>Proposes to reduce peremptory challenges from 20 peremptory challenges per side to 10 in death penalty or life cases, from 10 challenges per side in other felonies to 6, from 6 per side for misdemeanors and 2-party civil cases to 3, and from 8 per side for multi-party civil cases to 6. This proposal requires trailer bill language (Attachment C).</p> <p>Staff Comments: Savings amount for this proposal may be overstated. The reduction in peremptory challenges may lead to greater use of challenges for cause, which take up more court time and resources. In addition, the estimate assumes that all peremptory challenges are currently used.</p> <p>Staff notes that the state fiscal impacts are relatively minor, yet the policy change may be considered significant.</p>	\$372 in General Fund Savings	Reject Finance Letter request	TBL	
9	0450 Trial Court Funding	May Revise: Implement Smaller Jury Panel Sizes Statewide	<p>May Revise proposal would reduce jury panel size to 35 jurors. According to AOC, there is an average of 68 jurors on felony panels, 53 on misdemeanor panels, and 57 on civil panels. The proposal includes trailer bill language.</p> <p>Staff Comments: This proposal is based on changes that LA County made. Staff notes that there are a number of other factors that affect the need for jury panel sizes. Staff understands that LA County allows fewer excuses from jury service than any other counties. Should this proposal be adopted, other counties would need to change policies to allow significantly fewer excuses from jury service.</p> <p>Staff notes that the state fiscal impacts are relatively minor, yet the policy change may be considered significant.</p> <p>(See TBL Attachment D)</p>	\$241 in General Fund savings	Reject Finance Letter request	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
10	0450 Trial Court Funding	May Revise: Decrease Jury Size in Limited Civil Cases	Limited civil cases are those in which the amount in controversy does not exceed \$25,000. Current law allows 12 jurors, this proposal would allow 8 jurors. Requires trailer bill language. (See Attachment E) Staff notes that the state fiscal impacts are relatively minor, yet the policy change may be considered significant.	\$173 in General Fund savings	Reject Finance Letter request	TBL	
11	0450 Trial Court Funding	May Revise: Eliminate Juror Pay for Governmental Employees	Current juror fees are \$15 per day and mileage at the rate of \$0.34 per mile. This proposal would exempt government employees from receiving juror pay (but would still allow for mileage reimbursement). Requires TBL (Attachment F) Staff Comments. To the extent that employees of state agencies ask for the juror fees to be waived, give the juror fee back to the state, or have salary offset by the fee, the savings may be overestimated.	2,300 in General Fund savings	Reject Finance Letter request	TBL	
12	0450 Trial Court Funding	May Revise: Trial Court Collective Bargaining	Currently each local court negotiates with local employee unions to determine court employee salaries and benefits. The administration is proposing trailer bill language requiring the Judicial Council to establish a working group to review trial court collective bargaining issues and make recommendations to the Governor and the Legislature. This proposal has no fiscal effect on the budget. Given the significant policy issues, this proposal may be more appropriately handled through the regular policy process rather than as trailer bill language proposed at the time of the May Revise. (For TBL see Attachment G) The Subcommittee may wish to adopt the following intent language: It is the intent of the Legislature to address the collective bargaining process in the trial courts.		Reject Finance Letter request & Adopt intent language	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
13	0450 Trial Court Funding	Loan from the State Court Facilities Construction Fund to the General Fund	A loan of \$30 million from the State Court Facilities Construction Fund (SCFCF) to the General Fund. The Administration has indicated that the SCFCF will have sufficient resources to begin transferring court facilities from the counties to the state in the budget year pursuant to Chapter 1082, Statutes of 2002.	\$30,000 Loan to the General Fund	Approve proposal	BBL	
14	0450 Trial Court Funding	Fresno Court of Appeal Courthouse	<p>George N. Zenovich was elected to the State Assembly from Fresno in 1962. He served as Majority Leader and Democratic Caucus Chairman. In 1970 he was elected to the State Senate where he served until he was appointed to the Fifth District Court of Appeals in 1979.</p> <p>During his tenure in the Legislature, Zenovich was responsible for the Zenovich/Moscone/Chacon Housing and Home Finance Act which authorized bonds for low and moderate income housing and established the California Housing Finance Agency. He was instrumental in the passage of the Dixon/Zenovich/Maddy California Art Act of 1975 and the landmark Alatorre/Zenovich/Dunlap/Berman Agricultural Labor Relations Act: the first law in the nation recognizing the right of farm workers to bargain collectively.</p> <p>George Zenovich's greatest passion was championing the cause of physically, mentally, and neurologically handicapped children. He sponsored funding for autistic children and established the Diagnostic School for neurologically handicapped children in Fresno in 1973.</p> <p>The Subcommittee may wish to adopt trailer bill language stating that the state office building in the City of Fresno for the California Court of Appeal, Fifth Appellate District, shall be named and known as the "George N. Zenovich Court of Appeal Building."</p>		Approve TBL	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
15	0450 Trial Court Funding	May Revise: Costs for Homicide Trials	<p>Requests an increase of \$254,000 to provide funding for the costs of extraordinary homicide trials incurred by the courts. A corresponding reduction of \$254,000 is proposed in the Payments to Counties for the costs of Homicide Trials budget item.</p> <p>The request includes budget bill language requiring Judicial Council to develop a methodology for distributing such funding, and TBL is proposed to prohibit courts from receiving funds from the Payments to Counties for the Costs of Homicide Trials budget item. (Attachment H)</p>		Adopt Finance Letter proposal	BBL TBL	
16	0450 Trial Court Funding	Trial Court Baseline Funding	<p>Senator Ackerman has proposed some provisional language regarding baseline funding for the trial courts. The language directs the Judicial Council (1) to work with DOF and LAO to develop a trial court workload staffing and resource model, including performance measures for trial courts, (2) to work with DOF and LAO to develop a methodology for making baseline adjustments to trial court funding for mandatory cost items, and (3) to submit a report to the Legislature identifying mandatory costs facing the courts. The language is attached as Attachment I.</p> <p>The Subcommittee may wish to adopt the following intent language: It is the intent of the Legislature to direct the Judicial Council to work in conjunction with the DOF and the LAO to develop an improved court budgeting process.</p>		Adopt intent language	BBL	
17		May Revise: The California State Law Library Special Account	<p>Subcommittee #1 has referred this issue to Subcommittee #4. The May Revise proposes to extend the sunset for the portion of the appellate court filing fee that funds the State Law Library.</p> <p>Under current law, \$65 from appellate court filing fees are deposited into the California State Law Library Account for support of the State Law Library. The fee sunsets January 1, 2005. The proposed TBL would extend the sunset to January 1, 2010. Subcommittee #1 recommends approval of the TBL. (See Attachment J)</p>		Adopt Finance Letter	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
18	0450 Trial Court Funding	Court Technology	<p>The AOC, under the direction of the Judicial Council, has embarked on two major IT projects. These are the Court Accounting and Reporting System (CARS) and the California Case Management System (CCMS). The AOC has begun both projects and expects to fully implement both projects by 2009.</p> <p>Staff Comments: The AOC and LAO have agreed to reporting language for these two technology projects. (Attachment K)</p>		Adopt trailer bill language	TBL	
19	0450 Trial Court Funding	Potential Filing Fee Shortfall in the Budget Year	<p>New and increased fees approved in the 2003-04 budget are not generating the estimated revenues, thereby leaving the trial courts with a deficiency of \$24.3 million in the current year. The AOC estimates that the shortfall could be \$17.7 million in the budget year. In order to examine fee-related issues, a Court Fees Working Group was convened.</p> <p>The Subcommittee may wish to adopt the following intent language: It is the intent of the Legislature to review the impacts of the new and increased filing fees approved in the 2003-04 Budget Act and to consider recommendations for a statewide uniform fee structure.</p>		Adopt Intent language	TBL	
20	0390 Judges Retirement System	Funding for JRS I	<p>For 2004-05, the budget estimates total General Fund expenditures of \$116.2 million will be needed for the program. Similar to the current year, this amount would leave a one-month reserve for the fund.</p> <p>In the January Proposal, of the \$116.2 million, the Administration proposes maintaining the current year level of General Fund at \$88.6 and transferring \$27.6 million from the General Fund appropriation to the TCTF to make up the balance.</p> <p>As was indicated above in the Trial Court Funding budget item, the transfer from the TCTF is no longer part of this proposal.</p>		Approve amended proposal		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
21	8940 Military Department	Santa Ana Armory	<p>The armory in Santa Ana was built in 1957. It currently houses a rifle company with approximately 100 national guardsmen. It is used as a training site one weekend per month. The remainder of the month it is used primarily for vehicle and equipment storage.</p> <p>The armory is on a 3.5-acre site. If the armory were moved, the armory would need to be larger and upgraded to current standards. The funding is split between the federal government and the state government. The City of Santa Ana is currently searching for a site for the new armory.</p>				
22	8940 Military Department	Los Alamitos Firefighters	<p>The firefighters of the Los Alamitos Joint Forces Training Base (LAJFTB) are employees of the Military Department. The employees are considered on state active duty. The Military Department pays these firefighters from federal funds. The employees have similar protections to civil servants, although they do not have collective bargaining rights.</p> <p>The Los Alamitos firefighters have attempted to convert their personnel status over the last twenty years. Legislation was enacted in 1993 that allowed these firefighters to convert to state civil service provided that federal dollars were made available to cover related conversion costs. Federal funding has not been appropriated for this purpose.</p> <p>In April 2004, the Military Department sent a status on the issue indicating that federal regulations prohibit them from contracting out for the firefighter positions at Los Alamitos.</p>				

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF REC.	BBL/ TBL	VOTE
23	8940 Military Department	Finance Letter: Oakland Military Institute	<p>This Finance Letter requests to restore \$875,000 in funding and 11 positions that were proposed to be eliminated as part of a previously approved General Fund reduction BCP.</p> <p>In the current year the Military Department anticipates expenditures of \$2.2 million and 24.3 positions for the OMI. The January reduction would leave \$1.3 million and 13 positions for this activity. This funding provides for assistant teachers in the classrooms to teach military customs and military history, and for extra curricular activities such as physical education, drill and ceremonies, leadership, and team development.</p> <p>This funding is on top of funding that the OMI receives similar to any other charter school in the state under Proposition 98. In its third year of operation, the Military Department indicates that OMI had 321 students enrolled in grades 7-9, primarily from Oakland and the East Bay area.</p>		Reject Finance Letter		
24	8940 Military Department	May Revise: General Fund Reduction.	<p>This May Revise proposal requests a decrease of \$214,000 to reflect a reduction to the Military Retirement program due to a declining population served by the program and a reduction to the California National Guard Youth Programs, which will eliminate one State Active Duty-Tour position and related operating expenses from the Challenge Youth Program administrative support staff.</p>		Adopt Finance Letter		

Attachment A

SEC. 1. *Section 272 is added to the Code of Civil Procedure to read as follows:*

(a) Notwithstanding any other provision of law, the Judicial Council shall provide by rule for the means of taking down the verbatim record, the means of storing and maintaining the notes of the verbatim record, the means of producing the transcript of the verbatim record, and the certification of the verbatim record. The rule shall include a process to utilize technology to enable the courts to capture the verbatim record only by transitioning to this process through the attrition of court reporters employed by the superior court as of June 30, 2004, to ensure that no court reporter employed as of June 30, 2004 is displaced by this technology.

(b) The verbatim record includes, but is not limited to, all testimony, objections made, rulings of court, exceptions taken, arraignments, pleas, sentences, arguments of the attorneys to the jury, and statements and remarks made and oral instructions given by the judge or judicial officer. A verbatim record is required in the following cases:

- (1) In a civil case, on the order of the court or at the request of a party.*
- (2) In a felony case, on the order of the court or at the request of the prosecution, the defendant, or the attorney for the defendant.*
- (3) In a misdemeanor or infraction case, on the order of the court.*
- (4) In a juvenile proceeding that is not before a referee or commissioner.*
- (5) In proceedings in which the death penalty may be imposed.*

(c) The transcript of a verbatim record may be in the form of paper or any other means authorized by the Judicial Council. If a transcript is ordered by the court or requested by a party, or if a nonparty requests a transcript that the nonparty is entitled to receive, regardless of whether the nonparty was permitted to attend the proceeding to be transcribed, the court shall, within a reasonable time after the trial of the case that the court designates, have the transcript produced, or the specific portions thereof as may be requested.

(d) The transcript of the verbatim record, when produced by a means certified by the Judicial Council pursuant to this section, is prima facie evidence of that testimony and proceedings.

(e) A rough draft transcript, if prepared, shall not be certified and cannot be used, cited, or transcribed as the official certified transcript of the proceedings. A rough draft transcript shall not be cited or used in any way or at any time to rebut or contradict the official certified transcript of the proceedings. The production of a rough draft transcript shall not be required.

(f) The transcript of the verbatim record shall be part of the official record of the court. The court has the right to charge for the transcript at a rate that the Judicial Council shall establish by rule. The rate shall be based on the actual cost of producing the transcript.

(g) Notwithstanding subdivision (a), in any case in which a death sentence may be imposed, the verbatim record shall be both taken down and transcribed by a court reporter using computer-aided transcription equipment.

(h) Except as expressly provided in subdivision (g), any statutory reference to an official reporter, stenographic reporter, phonographic reporter, certified shorthand reporter, or court reporter shall be construed to allow any other means of taking down the verbatim record or producing the transcript as is authorized by this statute.

(i) If a defendant is convicted of a felony, after a trial on the merits, the record on appeal shall be prepared immediately after the verdict or finding of guilt is announced unless the court determines that it is likely that no appeal from the decision will be made. The court's determination of a likelihood of appeal shall be based upon standards and rules adopted by the Judicial Council.

It is the intent of the Legislature, in enacting this section, to provide that the means of taking down the verbatim record and producing the transcript of the verbatim record be determined by the Judicial Council in its sole discretion, except as expressly provided in subdivision (g) and under the requirements in subdivision (a).

SEC. 2. Section 269 of the Code of Civil Procedure is repealed.

SEC 3. Section 273 of the Code of Civil Procedure is repealed.

SEC 4. Section 274a of the Code of Civil Procedure is amended to read:

Any judge of the superior court may have any opinion given or rendered by the judge in the trial of a felony case or an unlimited civil case, pending in that court, or any necessary order, petition, citation, commitment or judgment in any probate proceeding, proceeding concerning new or additional bonds of county officials or juvenile court proceeding, or the testimony or judgment relating to the custody or support of minor children in any proceeding in which the custody or support of minor children is involved, taken down ~~in shorthand and transcribed together with such copies as the court may deem necessary by the official reporter or an official reporter pro tempore of the court.~~ *by a method authorized by the Judicial Council and transcribed together with such copies as the court may deem necessary.*

Attachment B

Issue: *Eliminate local government exemption from payment of civil court filing and service fees*

SECTION 1. Section 6103 of the Government Code is amended to read:

6103. Neither the state ~~nor any county, city, district, or other political subdivision,~~ nor any public officer or body, acting in his official capacity on behalf of the state, ~~or any county, city, district, or other political subdivision,~~ *nor any county child welfare or probation agency in any action or proceeding brought pursuant to Welfare and Institutions code section 300 et seq., nor any local child support agency or district attorney in any action or proceeding for the establishment of a child support obligation or the enforcement of a child or spousal support obligation,* shall be required to pay or deposit any fee for the filing of any document or paper, for the performance of any official service, or for the filing of any stipulation or agreement which may constitute an appearance in any court by any other party to the stipulation or agreement. This section does not apply to the State Compensation Insurance Fund or where a public officer is acting with reference to private assets or obligations which have come under his jurisdiction by virtue of his office, or where it is specifically provided otherwise. No fee shall be charged for the filing of a confession of judgment in favor of the state.

No fee shall be charged the state to defray the costs of reporting services by court reporters. Such fees shall be recoverable as costs as provided in Section 6103.5.

SEC. 2. Section 26857 of the Government Code is amended to read:

26857. (a) No fee shall be charged by the clerk:

(1) For service rendered to a defendant in any criminal action;

(2) To the petitioner in any adoption proceeding except as provided in Section 103730 of the Health and Safety Code;

~~For any service to the state;~~

(3) For any proceeding brought pursuant to Section 7841 of the Family Code to declare a minor free from parental custody or control;

(4) *To any county child welfare or probation agency in any action or proceeding brought pursuant to Welfare and Institutions code section 300 et seq.;*

(5) *To any local child support agency or district attorney in any action or proceeding for the establishment of a child support obligation or the enforcement of a child or spousal support obligation; nor*

(6) ~~No fee shall be charged by the clerk for service rendered to any municipality or county in the state, or to the state or national government, nor for any service relating thereto.~~

Attachment C

Issue: *Reduce peremptories in all case types*

SECTION 1. Section 231 of the Code of Civil Procedure is amended to read:

231. (a) In criminal cases, if the offense charged is punishable with death, or with imprisonment in the state prison for life, the defendant is entitled to ~~20~~ 12 and the people to ~~20~~ 12 peremptory challenges. Except as provided in subdivision (b), in a trial for any other *felony* offense, the defendant is entitled to ~~10~~ 6 and the *state people* to ~~10~~ 6 peremptory challenges. When two or more defendants are jointly tried, their challenges shall be exercised jointly, but each defendant shall also be entitled to ~~five~~ 3 additional challenges which may be exercised separately, and the people shall also be entitled to additional challenges equal to the number of all the additional separate challenges allowed the defendants.

(b) If the offense charged is punishable with a maximum term of imprisonment of 90 days or less as a *misdemeanor*, the defendant is entitled to ~~six~~ 3 and the *state people* to ~~six~~ 3 peremptory challenges. When two or more defendants are jointly tried, their challenges shall be exercised jointly, but each defendant shall also be entitled to ~~four~~ 2 additional challenges which may be exercised separately, and the *state people* shall also be entitled to additional challenges equal to the number of all the additional separate challenges allowed the defendants.

(c) In civil cases, each party shall be entitled to ~~six~~ 3 peremptory challenges. If there are more than two parties, the court shall, for the purpose of allotting peremptory challenges, divide the parties into two or more sides according to their respective interests in the issues. Each side shall be entitled to ~~eight~~ 6 peremptory challenges. If there are several parties on a side, the court shall divide the challenges among them as nearly equally as possible. If there are more than two sides, the court shall grant such additional peremptory challenges to a side as the interests of justice may require; provided that the peremptory challenges of one side shall not exceed the aggregate number of peremptory challenges of all other sides. If any party on a side does not use his or her full share of peremptory challenges, the unused challenges may be used by the other party or parties on the same side.

Attachment D

Issue: *Implement smaller jury panel sizes statewide*

The people of the State of California do enact as follows:

SECTION 1. Section 68517 is added to the Government Code to read:
68517. In order to promote the efficient use of court resources, to conserve jurors, and to return workdays of non-summoned jurors to the economy, the Judicial Council shall adopt a Rule of Court prescribing panel size guidelines for all jury trials. These uniform guidelines shall be followed unless the Presiding Judge, or his or her designee, allows a deviation.

Attachment E

Issue: *Decrease jury size in limited civil cases*

SECTION 1. Section 220 of the Code of Civil Procedure is amended to read:

220. A trial jury shall consist of 12 persons, except that

(a) in civil actions *in which the amount in controversy is more than \$25,000* and in ~~cases of~~ misdemeanor cases, it may consist of 12 or any number less than 12, upon which the parties may agree; *and*

(b) *in civil actions in which the amount in controversy does not exceed \$25,000, it shall consist of 8 persons or any number less than 8, upon which the parties may agree.*

Attachment F

Issue: *Eliminate juror pay for government employees*

SECTION 1. Section 215 of the Code of Civil Procedure is amended to read:

215. (a) *Except as provided in subsection (b), ~~B~~beginning July 1, 2000, the fee for jurors in the superior court, in civil and criminal cases, is fifteen dollars (\$15) a day for each day's attendance as a juror after the first day.*

(b) *A juror who is employed by a federal, state, or local government entity, or by any other public entity as defined in section 481.200, and who receives regular compensation and benefits while performing jury service, shall not be paid the fee described in subsection(a).*

(c) *All ~~J~~jurors in the superior court, in civil and criminal cases, shall be reimbursed for mileage at the rate of thirty-four cents (\$0.34) per mile for each mile actually traveled in attending court as a juror after the first day, in going only.*

Attachment G

Collective Bargaining TBL

Section 1. The Legislature finds and declares the following:

The fiscal responsibility for support of the trial courts became the responsibility of the State pursuant to the Lockyer-Isenberg Trial Court Funding Act of 1997;

The State costs to support the trial courts have increased seventy-two percent since fiscal year 1998-99 driven by increased costs for security salaries and benefits, county maintenance of effort relief, interpreter costs, county costs, jury reform, and significant increases in employee compensation related costs for which the State has no control over;

Funding for court labor increases negotiated by local courts and court employee unions becomes the responsibility of the State, even though the Administration has no role for approval of funding driven by the negotiation process;

The Administration proposes that the current collective bargaining process be reformed to provide a linkage between the appropriation process and the negotiations for wages, hours, and other terms and conditions of employment adjustments which require additional expenditure of State funds.

Section 2. The Judicial Council shall establish a working group to review trial court collective bargaining issues and make recommendations to the Governor, and the Legislature by November 1, 2004 regarding procedures to increase accountability to the funding source of the trial courts and to ensure the fair treatment of trial court employees and adequate funding for salary and benefits of trial court employees.

Attachment H

Homicide Trails BBL and TBL

Proposed Budget Bill Language:

Of the amount appropriated in this item, up to \$254,000, shall only be used for the payment of court costs of extraordinary homicide trials. The Judicial Council shall adopt a rule of court to establish a process for courts to seek reimbursement for the extraordinary costs of homicide trials. In developing the process for reimbursement, the Judicial Council shall consider the following: (1) the uniform administration of justice throughout the state is a matter of statewide interest; (2) the prosecution and conduct of trials of persons accused of homicide should not be hampered or delayed by any lack of funds available to the courts for such purposes; (3) a court should not be required to bear the entire costs of a trial involving a homicide if such costs will seriously impair the finances of the court; and (4) the methodology for reimbursement established in Government Code 15202.

Proposed TBL

Government Code

15201. As used in this chapter, "costs incurred by the county" mean all cost, except normal salaries and expenses, incurred by the county in bringing to trial or trials, including the trial or trials of, a person or persons for the offense of homicide, including costs, except normal salaries and expenses, incurred by the district attorney in investigation and prosecution, by the sheriff in investigation, by the public defender or court-appointed attorney or attorneys in investigation and defense, and all other costs, except normal salaries and expenses, incurred by the county in connection with bringing the person or persons to trial including the trial itself including extraordinary expenses for such services as witness fees and expenses, court-appointed expert witnesses, reporter fees, and costs in preparing transcripts. Trial cost shall also include all pretrials, hearings, and postconviction proceedings, if any. Costs incurred by the county shall not include any costs paid for by the superior court or for which the superior court is responsible.

ATTACHMENT I

PROPOSED PROVISIONAL BUDGET LANGUAGE – *Trial Court Baseline Funding*

0450-101-0932—For local assistance, State Trial Court Funding.....

Provisions:

(x) In order to ensure that trial court baseline funding is provided at a level sufficient to support annual court operations the Judicial Council shall undertake the following:

- a) In collaboration with the Department of Finance and the Legislative Analyst’s Office, the Judicial Council shall develop a workload staffing and resource model to be used on an annual basis in the development of the trial court budget. This model shall incorporate, to the extent feasible, court operational efficiencies and best practices, and desired court system outcomes and qualitative goals. The Judicial Council shall submit a report on the status of this effort by December 1, 2004, to the Governor, the Chairperson of the Joint Legislative Budget Committee, and the chairperson of the committee in each house which considers appropriations. This report shall include a schedule for completion of the model, which may occur in phases.
- b) The Judicial Council, in consultation with the Department of Finance and the Legislative Analyst’s Office, shall propose a methodology for making baseline adjustments to trial court funding for mandatory cost items. These items include costs which are typically adjusted in the current fiscal year for executive branch agencies, including salaries, retirement, and other benefit costs, as well as court costs related to compliance with federal and state constitutional and statutory requirements. The Judicial Council shall submit a report on the methodology to the Governor, the Chairperson of the Joint Legislative Budget Committee, and the chairperson of the committee in each house which considers appropriations by December 1, 2004.
- c) The Judicial Council shall submit a report of mandatory trial court costs to the Chairperson of the Joint Legislative Budget Committee, the chairperson of the committee in each house which considers appropriations, and the Governor by December 1, 2004. This report shall identify actual expenditures for these costs in the prior fiscal year, estimated expenditures associated with these costs in the current fiscal year, and projected costs for the next fiscal year. This report shall also identify the level of resources, if any, needed to address any net increase in costs. Updated cost information shall be reported to the Chairperson of the Joint Legislative Budget Committee, the chairperson of the committee in each house which considers appropriations, and the Governor by March 15, 2005.

ATTACHMENT J

California State Law Library Special Account

Government Code

68926.3. Notwithstanding any other provision of law, sixty-five dollars (\$65) of each fee collected in a civil case by the clerk of each court of appeal pursuant to Section 68926 shall be paid into the State Treasury for deposit in a special account in the General Fund to be known as the California State Law Library Special Account, which account is hereby established.

Moneys deposited in the California State Law Library Special Account during the 1992-93 fiscal year are hereby appropriated for that fiscal year to the California State Law Library for its support.

In fiscal years subsequent to the 1992-93 fiscal year, these moneys shall be available for the support of the California State Law Library upon appropriation thereto by the Legislature in the annual Budget Act.

This section shall remain in effect only until January 1, ~~2005~~ 2010, and as of that date, is repealed, unless a later statute which is enacted before that date extends or repeals that date.

Attachment K**State Trial Court Funding
Information Technology Projects
Proposed Trailer Bill Language**

Adopt the following trailer bill language:

On December 1st of every year and until project completion, the Judicial Council shall provide annual status reports to the chairpersons of the budget committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee for the California Case Management System and Court Accounting and Reporting System. The reports shall include, but are not limited to, (1) project accomplishments to date, (2) project activities underway, (3) proposed activities, and (4) annual revenues and expenditures to date in support of these projects, that shall include all costs for AOC and incremental court personnel, contracts, and hardware and software.

On December 1st of every year and until project completion, the Administrative Office of the Courts (AOC) shall provide, on an annual basis to the chairpersons of the budget committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee copies of any independent project oversight reports for the California Case Management System. The independent project oversight reports shall include, but are not limited to, a review and an assessment of project activities, identification of deficiencies, and recommendations to AOC on how to address those deficiencies. The AOC shall include in the annual submission descriptions on actions taken to address identified deficiencies.

Within 18 months of fully implementing the California Case Management System and the Court Accounting and Reporting System projects, the Administrative Office of the Courts (AOC) shall provide to the chairpersons of the budget committees in each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee post implementation evaluation reports for each project. The reports shall include, but are not limited to, summary of the project background, project results and an assessment of the attainment of project objectives.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
 Ross Johnson
 Denise Moreno Ducheny



Wednesday, May 19, 2004
 1:30 p.m.
 Room 3191

PART 2 AGENDA - OUTCOMES

ISSUES PROPOSED FOR CONSENT

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
	0110/ Senate	State Appropriations Limit (SAL) Adjustment	Approve budget as adjusted by SAL	Approved on consent, 2-0 (Johnson absent)
	0120/ Assembly	SAL Adjustment	Approve budget as adjusted by SAL	Approved on consent, 2-0 (Johnson absent)
	0130/ Joint Expenses – Legislature	SAL Adjustment	Approve budget as adjusted by SAL	Approved on consent, 2-0 (Johnson absent)
	0500/ Governor's Office	(none)	Approve as budgeted	Approved on consent, 2-0 (Johnson absent)
	0860/ Board of Equalization	Torrance Field Office Closure: Savings Clarification	Adopt the revised General Fund savings allocation	Approved on consent, 2-0 (Johnson absent)
	1760/ Department of General Services	Withdrawal of Asset Enhancement Consultant Services BCP Proposal	Adopt the May Revision Finance Letter	Approved on consent, 2-0 (Johnson absent)
	1760/ Department of General Services	eGovernment Initiatives	Adopt May Revision Finance Letter	Approved on consent, 2-0 (Johnson absent)
	1760/ Department of General Services	School Facilities Program Workload Enhancements	Adopt May Revision Finance Letter	Approved on consent, 2-0 (Johnson absent)
	9620/ Payment of Interest on General Fund Loans	(none)	Approve as budgeted	Approved on consent, 2-0 (Johnson absent)

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
	9625/ Interest Payments to the Federal Government	(none)	Approve as budgeted	Approved on consent, 2-0 (Johnson absent)
	9650/ Health and Dental Benefits for Retired Annuitants	Adjustment for Health and Dental Benefits for Annuitants	Adopt the May Revision Finance Letter	Approved on consent, 2-0 (Johnson absent)
	9840/ Augmentation for Contingencies and Emergencies	(none)	Approve as budgeted	Approved on consent, 2-0 (Johnson absent)
	Control Section 3.60 Contribution to Public Employee Retirement Benefits	(none)	FINAL ACTION: Adopt rates approved by PERS Board on 19 May.	1. Approved as budgeted on 19 May, 2. Approval rescinded, 3. New rates adopted and item approved.
	Control Section 4.60 (Amended)	Rental Rates for State Buildings	Adopt the May Revision Finance Letter proposal	Approved on consent, 2-0 (Johnson absent)

ISSUES PROPOSED FOR DISCUSSION

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
1	0650/Office of Planning and Research	LAO Option – Eliminate the Office of Planning and Research, a savings of approximately \$4.0 million General Fund.	Reject the LAO recommendation	(Votes not taken)
2	0840/ State Controller's Office	Unclaimed Property Program Fees	Adopt the May Revision Finance Letter, 3-0.	
3	0840/ State Controller's Office	Medi-Cal Non-Institutional Providers Audits Program	Adopt the May Revision Finance Letter, 3-0	
4	0840/ State Controller's Office	Performance Audits	Committee took no action.	
5	0840/ State Controller's Office	General Fund Reduction	Adopt May Revision Finance Letter, 3-0	
6	0840/ State Controller's Office	Human Resource Management System 21 st Century Project Procurement Phase	Adopt May Revision Finance Letter, 3-0	
7	0845/ Department of Insurance	Funding Reserve for Fraud	Approve the DOI budget as	

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
		Automobile and Urban Grant Programs	budgeted. (No Loan or new expenditure), 2-1 (Johnson no)	
8	0845/ Department of Insurance	Earthquake Grants and Loans Program: Statutory Authority	Committee took no action.	This will correspond with the Assembly action on this issue.
9	0860/ Board of Equalization	Salary Savings Correction	Adopt the May Revision Finance Letter, 3-0	
10	0860/ Board of Equalization	Cigarette and Tobacco Twice Monthly Payments	Adopt the Finance Letter, less ½ position, 3-0	Department indicated the ½ position could be absorbed.
11	0860/ Board of Equalization	Board Staff Reduction	No action taken.	
12	0860/ Board of Equalization	Alternative Cigarette Tax Stamp	Adopt the May Revision Finance Letter, 3-0	
13	0860/ Board of Equalization	450 N Street Exterior Curtainwall Repairs	Adopt the May Revision Finance Letter, 3-0	
14	0860/ Board of Equalization	Closure of a Tax Loophole: The 90-day Rule for Vehicles, Vessels, and Aircraft	Adopt the provisions of AB 694 (Levine) as trailer bill , 2-1 (Johnson no)	For the yacht loophole, is the effective date of January 1, 2005? (BOE/DOF: PLEASE CONFIRM) That means that GF revenue gains in 2004-05 would be about \$17 million.
15	0860/ Board of Equalization	Chapter 890, Statutes of 2003 (Tobacco Licensing Act)	Approve as budgeted, 3-0	
16	0860/ Board of Equalization	Special Taxing Districts Reimbursement Cap	No action. (Did not adopt LAO proposal)	
17	0860/ Board of Equalization	Out of State Field Offices	Motion passed, 3-0	Motion was to consolidate this report with other in-state SRL already approved.
18	0890/ Secretary of State	April Finance Letter for Help America Vote Act (HAVA)	1. Adopt the April Finance Letter, 3-0. 2. Adopt the Proposed Budget Bill Language, 3-0	
19	0950/ State Treasurer's Office	Mandate: County Treasury Oversight Committees	Approve as budgeted, 3-0 (i.e. suspend)	
20	0950/ State Treasurer's Office	Mandate: Investment Reports—Cities and Counties	Approve as budgeted, 3-0 (i.e. suspend)	
21	0950/	Delete budget bill	Delete Provisions 1	

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
	State Treasurer's Office	language related to mandates.	and 2 of Item 0950-295-0001, 3-0	
22	0954/ Scholarshare Investment Board	Prior Year Budget Adjustment	Adopt the May Revision Finance Letter as \$40 million, 3-0.	DOF will update for conference
23	0956/ California Debt Investment and Advisory Commission	California Debt Investment and Advisory Commission Budget and Loan	Approve the California Debt Investment and Advisory Commission Budget, 3-0.	
24	0959/ California Debt Limit Allocation Committee	California Debt Limit Allocation Committee Budget and Loan from the California Debt Limit Allocation Committee Fund	1. Approve the California Debt Limit Allocation Committee budget, 3-0. 2. Approve \$3.5 million loan and associated budget bill language, 2-1 (Johnson no)	
25	0968/ California Tax Credit Allocation Committee	California Tax Credit Allocation Committee Budget and Loan from the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account	Approve the California Tax Credit Allocation Committee budget, 3-0. 2. Approve \$35 million loan and associated budget bill language, 2-1 (Johnson no).	
26	0968/ California Tax Credit Allocation Committee	Loan from the Tax Credit Allocation Fee Account	Approve \$31 million loan and budget bill language, 2-1 (Johnson no).	
27	0985/ California School Finance Authority	Charter School Facilities Workload	Adopt the May Revision Finance Letter and the budget bill language, 2-1 (Johnson no).	Budget bill language: "The two 3-year limited-term positions authorized for this item in the 2003-04 Budget Act shall not be subject to Government Code section 19080.3 or other laws or regulations that would limit the duration of these two limited term appointments to less than 3 years."
Add	0971/ California Alternative Energy and Advanced Transportation Financing Authority	TBL to increase the amount of indebtedness that may be incurred by the Authority and provide clarifying language	Adopt the proposal, 2-0 (Johnson abstain)	Public Resources Code 26020 is amended.

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
28	1730/ Franchise Tax Board	Political Reform Audit Fee	No vote recorded.	
29	1730/ Franchise Tax Board	Mandate: Substandard Housing	Suspend the Substandard Housing Mandate, 3-0.	
30	1730/ Franchise Tax Board	District Office Service Reductions	Augment the FTB budget by \$44,000 to implement district office service reductions, 2-0 (Ducheny not voting)	
31	1730/ Franchise Tax Board	Fees for Franchise Tax Board Services	Did not adopt proposal.	
32	1730/ Franchise Tax Board	Tax Amnesty	Adopt the May Revision Finance Letter, 3-0.	
33	1730/ Franchise Tax Board	Voluntary Compliance Initiative	Adopt the revised VCI revenue estimate (+\$100 million prior year adjustment), 3-0.	
34	1730/ Franchise Tax Board	Taskforce on Abusive Tax Shelters	1. Adopt the May Revision Finance Letter, 3-0. 2. Adopt the April Finance Letter, 3-0.	Added in hearing the April Finance Letter issue (\$400,000)
35	1730/ Franchise Tax Board	California Child Support Automation System Augmentation	Adopt the May Revision Finance Letter, 2-0 (Johnson abstain).	
36	1730/ Franchise Tax Board	Withholding Income for Independent Contractors	Adopt the proposed trailer bill, 2-1 (Johnson no)	FTB/DOF: What revenue can we score for this issue? Please provide to LAO/staff for review.
37	1730/ Franchise Tax Board	Litigation Costs for Hyatt Case	Adopt the May Revision Finance Letter, 3-0.	
38	1760/ Department of General Services	Reversion of Funding for One Local Seismic Project	Reject the Finance Letter, 2-1 (Johnson no)	
39	1760/ Department of General Services	Statewide Procurement Training and Certification Program	No action on this issue.	
40	1760/ Department of General Services	Legal Fees for Services Provided by a Private Law	Approve as budgeted, 3-0.	

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
		Firm		
41	1760/ Department of General Services	Ongoing Capitol Security Costs	Approve May Revision Finance Letter, 3-0.	
42	1760/ Department of General Services	Capitol Security and Enhancement Projects	Approve augmentation, 3-0.	
43	1760/ Department of General Services	Transfer from the State Emergency Telephone Number Account	FINAL ACTION: Do not adopt staff recommendation, 3-0	<ol style="list-style-type: none"> 1. Adopt the \$15 million transfer to the General Fund 2-1 (Johnson no) 2. Rescind transfer, 3-0
44	1760/ Department of General Services	Loan from the State Emergency Telephone Number Account	FINAL ACTION: Do not adopt staff recommendation, 3-0	<ol style="list-style-type: none"> 1. Adopt the \$15 million loan to the General Fund, (Johnson no) 2. Rescind loan, 3-0
45	1760/ Department of General Services	Loan from the Public School Planning, Design, and Construction Review Revolving Fund	Extend the loan from the Public School Planning, Design, and Construction Review Revolving Fund for one year And Adopt budget bill language to implement, 2-0 (Johnson abstain)	BBL: 1760-402—Notwithstanding Provision 1 of Item 1760-011-0328, Budget Act of 2002, the \$35,000,000 loan authorized shall be fully repaid to the Public School Planning, Design, and Construction Review Revolving Fund no later than October 1, 2005. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of transfer. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through reduction in service or increased fees.
46	1760/ Department of General Services	Loan from the Disability Access Account	Extend the \$5 million loan from the Disability Access Account for one year and associated BBL, 3-0.	BBL: 1760-401—Notwithstanding Provision 1 of Item 1760-011-0006, Budget Act of 2002, \$5,000,000 of the \$10,000,000 loan authorized shall be repaid to the Disability Access Account no later than October 1, 2005. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of transfer. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through reduction in service or increased fees.
47	1880/ State Personnel Board	Augmentation of Reimbursable Resources	Adopt the May Revision Finance Letter, 3-0.	
48	1880/ State Personnel Board	Budget Change Proposal: General Fund Reduction	Reject the Budget Change Proposal, 2-1 (Johnson no)	Positions/dollars restored
49	8620/ Fair Political Practices Commission	Funding Reduction BCP	Restore \$309,000 to the FPPC budget, 3-0.	
50	8620/ Fair Political	Three Percent	Reject the May	SUBCOMMITTEE REQUEST: Information

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
	Practices Commission	General Fund Reduction	Revision Finance Letter, 2-1 (Johnson no)	on which departments are taking the 3 percent reduction.
51	8640/ Political Reform Act of 1974.	Political Reform Audit Fund, Corresponding Budget Line Item	Restore \$1,422 to the PRA item. (Increase Item 8640-001-0001 by \$1.4 million), 3-0.	
52	8855/ Bureau of State Audits	Transfer a Portion of Excess Reserve Funds in the State Audit Fund	1. Approve the BSA budget as budgeted (no vote) 2. Reject transfer \$1,105,000 from the State Audit Fund to the General Fund (no vote).	
53	8910/ Office of Administrative Law	LAO Option – Eliminate the Office of Administrative Law, a savings of \$1.8 million in General Fund	Reduce the OAL budget by \$100,000, 3-0	
54	8910/ Office of Administrative Law	Determinations and Compliance Workload	Reject the May Revision Finance Letter, 3-0	
55	9100/ Tax Relief	Elimination of the Substandard Housing Program	Eliminate the substandard housing subvention. (Approve as budgeted), 3-0	
56	9210/ Local Government Financing	Eliminate Citizens' Option for Public Safety (COPS) Grant Program	No vote	
57	9210/ Local Government Financing	Suspend the Juvenile Justice Grants Program for one year Pending Evaluation Results	No vote	
58	9210/ Local Government Financing	Special Supplemental Subvention Elimination	Adopt the proposed trailer bill, 3-0	
59	9210/ Local Government Financing	Reimbursement for Booking Fees	Motion to put issue in conference, 2-1, (Johnson no)	Fund the Booking subventions at \$1000 by in-lieuing the continuous appropriation and putting \$1000 in the budget.
60	9210/ Local Government Financing	MANDATE: Open Meetings Act	Suspend the Open Meetings Act mandate, 2-0	

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
			(Ducheny not voting)	
61	9210/ Local Government Financing	MANDATE: Brown Act Reform	Suspend the Brown Act mandate, 2-0 (Ducheny not voting)	
62	9901/ Contract Savings for Control Section 5.50	Erosion of Ongoing Savings Related to Control Section 5.50 of the 2003-04 Budget Act	No action taken	DOF reported this was "informational."
63	9916/Reform of Real Property Asset Management	Statewide Reform of Real Property Assets and Increased Revenue from the Sale of Surplus Property	<p>1. Reduce the \$2.8 million budget item request by \$2.7 million to \$100,000 and budget bill language, 3-0.</p> <p>2. Adopt the May Revision Revenue Estimate, 3-0.</p> <p>3. Refer the TBL to the policy committee, 2-0 (Johnson abstain)</p>	
64	Control Section 4.10	\$150 million Reduction	<p>1. Adopt the revenue estimate, 3-0.</p> <p>2. Adopt the Administration's proposed budget bill language, MOTION FAILED, 1-2 (Ducheny, Dunn no)</p> <p>2. Adopt the intent language recommended by staff, 2-1 (Johnson no)</p>	<p>The following budget bill language would replace the budget bill language offered by the Administration. The budget bill is budget bill intent language:</p> <p><i>It is the intent of the Legislature to adjust General Fund appropriations in order to generate savings for the state.</i></p>
65	Control Section 4.30/ Lease Revenue Payment Adjustments	Amendment to reduce ambiguity in Control Section 4.30	Adopt the budget bill amendment, 3-0.	
66	Control Section 4.35 (Proposed)	Identification and Transfer of Administration	1. Put this issue in conference by identifying a \$1000	1. Intent of the Subcommittee is to allow time for Finance to attempt to identify an amount to be appropriated

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	ACTION	COMMENT
		Positions	appropriation, 3-0. 2. Adopt the May Revision Finance Letter, 3-0.	from the General Fund.
67	Control Section 4.45 (Proposed)	Transfer of Appropriation Authority for Governor's Budget Printing	Adopt the May Revision Finance Letter – MOTION FAILED, 1-2 (Ducheny, Dunn no)	
68	Control Section 4.60 (Revised)	Revised Rental Rates Control Section	Adopt the Revised Control Section Language in the May Revision, 3-0.	
69	Control Section 12.00 / State Appropriations Limit	Updated Estimate	Reduce the SAL estimate by \$1000, 3-0.	
70	Control Section 33.50 (Proposed)	"Strategic Sourcing" Procurement Reform	Adopt the May Revision Finance Letter with revised budget bill "intent" language, 3-0	The Administration's budget bill language is replaced by: <i>It is the intent of the Legislature to realize General Fund savings by creating efficiencies in statewide procurement.</i>
71	Control Section 34.50 (Proposed)	Punitive Damages: Split-Award Tort Reform	1. Approved the CS 34.50 BBL and scored the \$450 million, 3-0 2. Adopted the staff intent language, 3-0 3. Referred the TBL to committee, 3-0	
72	Mandates	Conforming action for mandates recommended for repeal	Reflect all mandates recommended for repeal as "suspended" in the budget bill, 3-0	

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Ross Johnson
Denise Moreno Ducheny



Wednesday, May 19, 2004
1:30 p.m.
Room 3191

PART 2 AGENDA

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Proposed Consent Calendar (Pages 3-5)

- 0110 Senate
- 0120 Assembly
- 0130 Joint Expenses – Legislature
- 0500 Governor’s Office
- 9620 Payment of Interest on General Fund Loans
- 9625 Interest Payments to the Federal Government
- 9650 Adjustment for Health and Dental Benefits for Annuitants
- 9840 Augmentation for Contingencies and Emergencies

CONTROL SECTIONS

- 3.60 Contribution to Public Employee Retirement Benefits
- 4.60 Rental Rates for State Buildings

ISSUES PROPOSED FOR CONSENT

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
	0110/ Senate	State Appropriations Limit (SAL) Adjustment	Adopt a technical budget adjustment to increase this item by \$87,000.	EXPENSE: \$87 General Fund	Approve budget as adjusted by SAL		
	0120/ Assembly	SAL Adjustment	Adopt a technical budget adjustment to increase this item by \$119,000	EXPENSE: \$119 General Fund	Approve budget as adjusted by SAL		
	0130/ Joint Expenses – Legislature	SAL Adjustment	Adopt a technical correction to increase the Legislative Analyst budget by \$174,000, payable from the Assembly and Senate.	EXPENSE: \$174 General Fund	Approve budget as adjusted by SAL		
	0500/ Governor's Office	(none)	(none)	(\$)	Approve as budgeted		
	0860/ Board of Equalization	Torrance Field Office Closure: Savings Clarification	The Administration reported at the April 28 hearing that of the total \$370,000 savings generated by closing the BOE's Torrance Field office, \$296,000 was General Fund. The Administration has provided updated information that the actual General Fund share is \$240,000.	SAVINGS \$240 General Fund	Adopt the revised General Fund savings allocation		
	1760/ Department of General Services	Withdrawal of Asset Enhancement Consultant Services BCP Proposal	On March 24, 2004, the Subcommittee adopted a BCP requesting a decrease of \$3.0 million and 1.9 personnel years for selling surplus property identified by a Youth and Adult Correctional Agency. The Administration now requests to withdraw that proposal because (1) a working group that was to initiate this sale not convened and (2) a comprehensive effort to reform the State's Asset	SAVINGS: \$3,000 General Fund	Adopt the May Revision Finance Letter		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			Management practices is proposed in a separate letter (the Reform of Real Property Asset Management Proposal, item 9916).				
	1760/ Department of General Services	eGovernment Initiatives	<p>The Administration requests a decrease of \$2,426,000 and 4.8 personnel years to eliminate budget authority for the eGovernment Initiatives program within DGS. A related proposal would move the funding for a portion of these activities to the Department of Consumer Affairs.</p> <p>Staff Comment. Staff has identified no concerns with this issue. The corresponding transfer in the DPA budget has been recommended for approval.</p>	SAVINGS: \$2,426 General Fund	Adopt May Revision Finance Letter		
	1760/ Department of General Services	School Facilities Program Workload Enhancements	<p>The Administration requests an increase of \$777,000 and the addition of 10.0 three-year limited-term positions to staff the School Facilities Program for additional workload due to voter approval of Proposition 55, the Kindergarten-University Public Education Facilities Bond Act of 2004.</p> <p>Staff has identified no concerns with this proposal.</p>	SAVINGS: \$777 General Fund	Adopt May Revision Finance Letter		
	9620/ Payment of Interest on General Fund Loans	(none)	(none)	(\$0)	Approve as budgeted		
	9625/ Interest Payments to the Federal Government	(none)	(none)	(\$0)	Approve as budgeted		
	9650/ Health and Dental Benefits for Retired Annuitants	Adjustment for Health and Dental Benefits for Annuitants	<p>The Administration requests that the Health and Dental Benefits for Annuitants budget item be decreased by \$1.6 million to reflect lower estimated costs for dental premiums. The Governor's Budget had projected the State's cost for the 2004-05 dental premium to increase by 5 percent. The new rates are not expected to increase more than two percent.</p> <p>Staff Comment. Health and Dental providers and PERS have recently negotiated health insurance premiums for the</p>	SAVINGS: \$1,600 General Fund	Adopt the May Revision Finance Letter		

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			2005 calendar year. The \$1.6 million downward adjustment for reflects those negotiations.				
	9840/ Augmentation for Contingencies and Emergencies	(none)	(none)	(\$0)	Approve as budgeted		
	Control Section 3.60 Contribution to Public Employee Retirement Benefits	(none)	(none)	(\$0)	Adopt as budgeted		
	Control Section 4.60 (Amended)	Rental Rates for State Buildings	The Administration requests that Control Section 4.60, Rental Rates, be amended to include the ability to adjust any item of appropriation to fund costs associated with debt service, rent, or operations and maintenance of any space occupied by a state entity. Staff has identified no concerns with this proposal.	(\$0)	Adopt the May Revision Finance Letter proposal		

VOTE: _____

ISSUES PROPOSED FOR DISCUSSION

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
1	0650/Office of Planning and Research	LAO Option – Eliminate the Office of Planning and Research, a savings of approximately \$4.0 million General Fund.	<p>Subsequent to the March 10, 2004, hearing on this issue, the LAO clarified that approximately \$4.0 million of the OPR's \$4.8 million total annual program spending could potentially be eliminated. Only two programs would be preserved: the GoServ volunteer program (based on the anticipated loss of \$50 million federal funds if the GoServ were eliminated) and IT support for the Governor's office. The LAO concluded that all of the OPR's \$4.8 million in annual funding is General Fund fungible.</p> <p>It is not evident that the OPR activities suggested for elimination or consolidation would receive the same level of service if provided by other agencies.</p>	SAVINGS: \$4,000 General Fund	Reject the LAO recommendation	TBL	
2	0840/ State Controller's Office	Unclaimed Property Program Fees	<p>The Administration requests that the SCO's main General Fund support item be increased by \$5,102,000 and the proposed Unclaimed Property Fund item be eliminated (\$5,102,000 reduction).</p> <p>The Administration reports that the SCO has provided information demonstrating that savings from not paying interest on approved unclaimed property claims (a change implemented in the 2003-04 fiscal year) will be sufficient to cover program costs beginning in 2005-06. With this new information, the Administration seeks to withdraw their April 1 Finance Letter recommending a six percent fee and that \$329,000 General Fund be provided for a workload increase. The ongoing costs of \$13.4 million in direct and</p>	SAVINGS: \$13,400 General Fund EXPENSE: \$329	1. Approve the Administration's Issue #107 for the funding and staffing related to the expanded Unclaimed Property Program workload (\$329,000). 2. Reduce the		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>support costs associated with the program would be paid in funded in the budget year from a General Fund appropriation.</p> <p>LAO Recommendation. The LAO proposes that the state assess a fee to cover Unclaimed Property Program costs. The LAO estimates that the fee would be set to collect about \$6.7 million in revenues in 2004-05 and \$13.4 million in future years (with equivalent General Fund benefits). The fee per transaction necessary to generate funding for the program is 7.5 percent.</p> <p>Staff Comment. It is appropriate to charge a fee to property claimants when a service is provided by the state. The alternative is for all taxpayers to pay the cost of running the program. Unclaimed property program revenues spent on program expenses are funds that would otherwise become revenues to the state's General Fund.</p>		SCO's General Fund appropriation by \$6.7 million in the budget year (1/2 year cost) to account for the funding provided by the Unclaimed Property Fees Account.		
3	0840/ State Controller's Office	Medi-Cal Non-Institutional Providers Audits Program	<p>An April 21st Subcommittee issue involved the transfer of the Medi-Cal Provider Audits Program to the Department of Health Services, with an associated net savings of \$541,000 (\$270,500 General Fund) and 5.5 positions.</p> <p>The Administration has submitted a revised request that Item 0840-001-0001 be amended by \$1,858,000 (\$929,000 General Fund and \$929,000 Reimbursements) and that 20.0 positions be retained to enable the SCO to continue to conduct Medi-Cal provider audits.</p> <p>Under the revised proposal the Controller will conduct the audits at the reduced funding and staffing level.</p>	<p>EXPENSE \$929 General Fund, \$929 reimbursements.</p> <p>SAVINGS; \$270 General Fund, \$270 reimbursements</p>	Adopt the May Revision Finance Letter		
4	0840/ State Controller's Office	Performance Audits	<p>The SCO has outlined a broad proposal to close the budget gap through activities such as using performance audits to cut waste and make more efficient use of tax dollars more.</p>	(\$0)	Reject the Performance Audits	BBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>The following budget bill language for the SCO's main General Fund item would enable the SCO to conduct performance audits without a specific General Fund appropriation and would remove prior restrictions on the SCO's ability to conduct independent audits. Two positions will be redirected to implement the performance audits.</p> <p><i>The funds appropriated to the Controller in this act may not be expended for any performance review or performance audit until after the Controller has provided the Joint Legislative Budget Committee with a 14-day notification of his/her intent to perform such audit as well as the scope of the audit to be performed. Within 30 days of completion of any such performance audit, the Controller shall provide to the Joint Legislative Budget Committee a copy of a report detailing the Controller's findings and recommendations.</i></p> <p>Revenues identified through these audits would be subject to legislative approval to implementing the proposed savings activities. Formal estimates have been withheld pending legislative approval of the proposed subjects for audit.</p> <p>Staff Comment. The Subcommittee may wish to request testimony on—in light of this request for new auditing authority—the SCO's decision to reduce audit positions in their Control Section 4.10 plan and the effects those reductions have had on their auditing capabilities.</p>		proposal.		
5	0840/ State Controller's Office	General Fund Reduction	<p>Through a budget letter directive the Department of Finance directed each agency and state organization without agency representation to prepare a three percent ongoing expenditure reduction plan.</p> <p>The Administration is proposing to reduce the SCO's General Fund Operating Expenses and Equipment by</p>	SAVINGS: \$122 General Fund	Adopt May Revision Finance Letter		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
6	0840/ State Controller's Office	Human Resource Management System 21st Century Project Procurement Phase	<p>\$122,000.</p> <p>The Administration requests that the SCO's main General Fund support item be amended by:</p> <ol style="list-style-type: none"> 1. Increasing Reimbursements by \$1,462,000, 2. Adding Control Section 25.25 to appropriate up to \$2,520,000 in special funds, 3. Adding 11.2 one-year limited-term positions be provided for the workload associated with the selection of a software vendor and a systems integrator through two separate procurements, the completion of a business case/benefits study, and the completion of a Special Project Report. <p>These changes will provide a total of \$3.982 million to the SCO. The project will replace the SCO's employment history, payroll, leave accounting, and position control systems.</p> <p>The SCO estimates gross project costs of \$132.1 million and proposes to finance these costs over ten fiscal years. Potential statewide savings associated with this proposal will be identified prior to July 2005.</p> <p>Draft trailer bill and Control Section language to implement these proposals are attached (Attachments A and B).</p>	<p>EXPENSE: \$3,982</p> <p>\$2,520 Special Funds, \$1,462 Reimburse- ments.</p>	Adopt May Revision Finance Letter	BBL, TBL	
7	0845/ Department of Insurance	Funding Reserve for Fraud Automobile and Urban Grant Programs	<p>On May 5, 2004, the Subcommittee requested that the Department of Insurance explore alternatives to spending the balance of approximately \$5 million available for Fraud Automobile and Urban Grant Programs. This additional reserve funding was caused by the early repayment of a General Fund Loan to the Insurance Fund.</p> <p>The Department of Insurance reports that it intends to submit FY 05-06 BCPs with a detailed plans to reduce the Local Assistance fund balances. The Fraud Division will</p>	\$5,000 Insurance Fund	Approve the DOI budget as budgeted. (No Loan or new expenditure)		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>work with local DA's to distribute funds for fraud activities at the local level.</p> <p>Staff Comment. The Legislature could opt to re-issue this portion of the Insurance Fund loan to the General Fund for a one-year period.</p>				
8	0845/ Department of Insurance	Earthquake Grants and Loans Program: Statutory Authority	<p>On March 24, the Subcommittee adopted a Governor's Budget proposal to transfer funding in the Earthquake Grants and Loans Program to the General Fund. Subsequent to that hearing it was learned that the authority for the program exists only in uncodified statute. Consequently, re-funding of the program would have to occur through legislation reestablishing the program.</p> <p>This is a "clean-up" action will allow for conformance with the Assembly's treatment of the Earthquake Grants and Loans Program proposal.</p>	(\$0)	Adopt the Administration's Earthquake Grants and Loans Program proposal without amendment.		
9	0860/ Board of Equalization	Salary Savings Correction	<p>The Administration requests that the BOE's main General Fund support item be amended to increase the BOE's budget by \$8,300,000 (\$5,395,000 General Fund and \$2,905,000 Reimbursements) in order to reduce the BOE's required salary savings from 310 positions to 150 positions, an increase of 160 positions.</p> <p>Without this salary savings correction, the BOE indicates it would need to layoff 105 positions with an associated revenue loss of \$29.7 million (\$19.3 million General Fund and \$10.4 million local revenue).</p> <p>This action will allow the BOE to fill 55 collector positions, which is estimated to generate an additional \$8.4 million in the budget year (\$5.5 million General Fund and \$2.9 million local revenue) and \$18.9 million (\$12.3 million General Fund and \$6.6 million local revenue) in 2005-06. The cost associated with the 105 positions is \$5.6 million and the</p>	<p>EXPENSE: \$8,300</p> <p>(\$5,395 General Fund And \$2,905 Reimburse- ments)</p> <p>SAVINGS: \$8400</p>	Adopt the May Revision Finance Letter		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>cost associated with the 55 collector positions is \$2.7 million.</p> <p>Staff Comment. This salary savings correction would greatly reduce the BOE's Control Section 4.10 reduction.</p> <p>The Subcommittee may wish to request testimony from the BOE on where other non-revenue-producing positions may be reduced so that the BOE may adhere to their Control Section 4.10 reduction plan.</p> <p>The Subcommittee may also wish to request testimony on why the 4.10 plan included revenue-producing positions in the first place.</p>				
10	0860/ Board of Equalization	Cigarette and Tobacco Twice Monthly Payments	<p>The Administration requests the BOE's budget be augmented by \$53,000 and .5 position on a limited-term basis through December 31, 2006. This funding and position are sought to implement the provisions of Chapter 867, Statutes of 2003 (AB 1666), which allows cigarette and tobacco product distributors to elect to file excise tax returns either on a monthly or twice-monthly basis (a potential tax benefit for tobacco distributors).</p> <p>Staff Comment. At the April 28 hearing on this issue, the Subcommittee asked that BOE report back on whether this one-half of a position could be absorbed.</p>	EXPENSE \$53 (\$6 General Fund, \$47 other funds)	Adopt the Finance Letter, revised for the correct General Fund share.		
11	0860/ Board of Equalization	Board Staff Reduction	<p>The LAO has provided a recommendation that the Legislature reduce the budget authority for staff support positions for Board members of the BOE and reset their budget authority to the 2002-03 level. This reduction would potentially result in savings of \$700,000 General Fund and \$300,000 special fund reimbursements, as well as a reduction of 14 positions. The LAO asserts that tasks for the Board have not changed appreciably since 2002-03 and that it is reasonable that the Board itself absorb losses</p>	SAVINGS: \$1,000 (\$700 General Fund, \$300 reimburse ments)	Reject the LAO Option		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			to staff support. The Subcommittee held this issue open on April 28, 2004.				
12	0860/ Board of Equalization	Alternative Cigarette Tax Stamp	<p>In conformance with Chapter 881, Statutes of 2002, the Administration requests to augment BOE's budget to provide funding to replace the current cigarette tax stamps and meter impressions with a stamp or meter impression that can be read by a scanning or similar device in order to decrease tax evasion.</p> <p>Implementation of the new tax stamp is to take place January 1, 2005. The full-year cost of the program will be \$9.8 million. The BOE estimates increased revenue of \$28.2 million (\$5.6 million General Fund) annually from both excise and sales taxes as a result of decreased tax evasion. Budget year revenues will one-half those amounts.</p> <p>Related budget bill language for a special project report on the electronic mechanism to implement Chapter 881, Statutes of 2002, is as follows:</p> <p><i>Of the amount appropriated in this item, the \$4,904,000 allocated for the Alternative Cigarette Stamp Tax contract shall not be expended until the Department of Finance approves the Special Project Report for the Alternative Cigarette Tax Stamp Project.</i></p>	<p>EXPENSE: \$4,904 (\$564 General Fund, \$4340 other funds)</p> <p>SAVINGS: \$14,100</p>	Adopt the May Revision Finance Letter	BBL	
13	0860/ Board of Equalization	450 N Street Exterior Curtainwall Repairs	<p>The Administration requests that the BOE's main support budget item be amended to increase the BOE's budget by \$1,207,000 in order to begin the process of repairing the exterior curtainwall and precast panels on BOE headquarters office building located at 450 N Street, Sacramento.</p> <p>The neoprene gaskets that hold the glass inside the</p>	<p>EXPENSE: \$1,207 (\$718 General Fund, \$345 reimburse- ments, \$144</p>	Adopt the May Revision Finance Letter		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>aluminum frames of the 25-story building have deteriorated and are allowing excessive water intrusion into the building. Damage to ceilings, equipment, and furnishings continues to increase. The risk of toxic mold growth and “sick building” syndrome is reportedly increasing over time.</p> <p>This request will fund a study, preliminary plans, and working drawings. The study will determine the most cost-effective method of repair, and funding will be requested in 2005-06.</p> <p>Staff Comment. The Subcommittee may wish to request the Administration report on the potential for litigation on this issue, the cost estimate for working drawings, and the cost of doing a short term fix (e.g. a wet seal) while a claim against the gasket manufacturer is pursued.</p>	other funds)			
14	0860/ Board of Equalization	Closure of a Tax Loophole: The 90-day Rule for Vehicles, Vessels, and Aircraft	<p>Under existing law, Californians who purchase a vehicle, vessel, or aircraft outside the state and bring it into the state generally must pay the sales and use tax (less a credit for any sales tax paid to the state where the purchase occurred). However, the transaction is exempt from California tax if the purchaser takes title and uses the vehicle, vessel, or aircraft outside the state for at least 90 days. Dealers and purchasers of expensive items, such as yachts and motor homes have exploited this exemption to avoid the sales and use tax (SUT). The most well publicized example is that some Californians purchase yachts from California brokers, but take delivery offshore, berth them in Mexico for 90 days, and then bring them back to California tax-free.</p> <p>AB 694 (Levine) would restrict this loophole by establishing a rebuttable presumption that the vehicle, vessel, or aircraft is subject to the SUT if it was purchased by a California</p>	SAVINGS: Up to \$34,500	Adopt the provisions of AB 694 (Levine) as trailer bill to capture up to \$34.5 million in savings in the budget year	TBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>resident and registered in California during the first year of ownership or was stored for more than half the time within the state during the first year after purchase.</p> <p>The Board of Equalization estimates that AB 694 would increase General Fund revenues by \$34.5 million annually by closing this loophole. In addition, the board estimates a gain of \$20.1 million annually to local sales and use tax revenues</p> <p>Staff Comment. The Subcommittee may wish to request the BOE report on the support requirements and timing of implementation for the provisions of AB 694.</p> <p>See Attachment C for the provisions of AB 694.</p>				
15	0860/ Board of Equalization	Chapter 890, Statutes of 2003 (Tobacco Licensing Act)	<p>Chapter 890, Statutes of 2003, (AB 71) mandated that the BOE administer a statewide program to license businesses that distribute cigarettes and tobacco products. The new program prohibits manufacturers, importers, distributors, and wholesalers from selling cigarettes and tobacco products to an unlicensed distributor, wholesaler, or retailer, and imposes fines and penalties for violation of the law.</p> <p>The Administration requests positions and funding to be paid for out of the Cigarette and Tobacco Compliance Fund. That fund was established to improve voluntary compliance by reducing smuggling and counterfeiting and receives income through the licensing tobacco businesses.</p> <ul style="list-style-type: none"> \$5,598,000 (Cigarette and Tobacco Products Compliance Fund) and 40.6 personnel years in 2003-04 	<p>EXPENSE: \$8,161 (Cigarette and Tobacco Products Compliance Fund)</p> <p>SAVINGS: Up to \$58,000 - \$87,000 (various funds)</p>	Approve as budgeted		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<ul style="list-style-type: none"> \$8,161,000 (Cigarette and Tobacco Products Compliance Fund) and 80.7 personnel years in 2004-05 \$8,044,000 (Cigarette and Tobacco Products Compliance Fund) and \$80.7 personnel years ongoing <p>The BOE estimates that revenues of \$58 to \$87 million annually will be generated once fully trained staff are operating.</p>				
16	0860/ Board of Equalization	Special Taxing Districts Reimbursement Cap	<p>Chapter 890, Statutes of 1998 (Sweeney) required the BOE in certain circumstances to cap the reimbursements it receives from special taxing districts, in order to make tax assessments more financially feasible for these districts.</p> <p>The LAO recommended that the Legislature make the special taxing districts self-supporting by ending the caps on reimbursements the BOE may receive for administrative costs. This action is estimated to reduce the General Fund appropriation of this item by \$1.5 million annually. Reimbursements from special taxing districts would be increased by an equivalent amount.</p> <p>Staff Comment. At the May 5 hearing this issue was held open pending resolution of the final savings amount. The final amount is \$1.5 million.</p>	SAVINGS: \$1,500 General Fund	Adopt the LAO proposal.	TBL	
17	0860/ Board of Equalization	Out of State Field Offices	<p>The BOE operates three out of state offices, Chicago, New York, Houston, and one office in Sacramento for out of state services.</p> <p>This issue was discussed previously at the April 28 hearing.</p> <p>Staff Comment. The following supplemental report language may be adopted by the Legislature to initiate a review of the BOE's out of state facilities needs.</p>	(\$0)	Adopt the Supplemental Report Language		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p><i>The Board of Equalization (BOE) shall provide to the Chair of the Joint Legislative Budget Committee and the chairs of the fiscal committees of the Legislature by December 1, 2004, a report containing the following information: (1) unit costs of providing taxpayer services and audit and collection activities at the BOE's out of state offices; (2) net annual budgetary benefits of closing the four BOE out of state offices; (3) estimated impact on all BOE-collected tax revenues from out of state office closures identified in (2) above; (4) net annual benefits of reducing or eliminating all out-of-state offices. Data provided shall include one-time and ongoing budgetary and revenue impacts.</i></p>				
18	0890/ Secretary of State	April Finance Letter for Help America Vote Act (HAVA)	<p>The federal Help America Vote Act of 2002 (HAVA) is expected to provide approximately \$260 million in federal funds for changes to election equipment and processes in California. Because federal spending guidelines have not yet been released, the budgeting of HAVA funds was not a part of the budget process. Consequently, the spending authority for these funds must be provided through a mid-year mechanism.</p> <p>In an April Finance Letter the Secretary of State (SOS) provided a spending plan for anticipated federal funds and requested spending authority. After reviewing that Finance Letter, the LAO and legislative staff reiterated concerns that the SOS should provide a more detailed spending plan before spending authority be granted.</p> <p>The budget bill language for Items 0890-001-0890 and 0890-101-0890 (Attachment D) is expected to ensure an appropriate level of oversight for the Administration and Legislature. The key elements of the language are:</p> <ul style="list-style-type: none"> • A detailed spending plan including: proposed 	REVENUE: \$260,000 Federal Funds	Reject the April Finance Letter. Adopt the Proposed Budget Bill Language	BBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>expenditures by function and activity, information on hiring practices, a timeline on meeting federal requirements, and the estimated costs that may exceed appropriations.</p> <ul style="list-style-type: none"> A provision that plan approval be subject to 30-day review by the JLBC and the committee that reviews elections issues. <p>Future budgeting of federal HAVA funds will be a part of the normal budget development process.</p>				
19	0950/ State Treasurer's Office	Mandate: County Treasury Oversight Committees	<p>This mandate provides reimbursements to locals for the costs of providing certain information to the State Treasurer, including the preparation and submittal of annual investment policies. This mandate was suspended in 2003-04.</p> <p>The April 21 Subcommittee action was to hold open and allow the relevant parties to explore alternatives through trailer bill language. No alternatives have been identified.</p>	(\$0)	Approve as budgeted (i.e. suspend)		
20	0950/ State Treasurer's Office	Mandate: Investment Reports—Cities and Counties	<p>This mandate provides reimbursement to local agencies who prepare and provide information related to their annual investment policies and quarterly investment reports. This mandate was suspended in 2003-04.</p> <p>The April 21 Subcommittee action was to hold open and allow the relevant parties to explore alternatives through trailer bill language. No alternatives have been identified.</p>	(\$0)	Approve as budgeted (i.e. suspend)		
21	0950/ State Treasurer's Office	Delete budget bill language related to mandates.	<p>Contingent upon suspension of the aforementioned mandates, delete Provisions 1 and 2 of Item 0950-295-0001 regarding the Treasurer's mandates. These provisions are standard wording that controls the expenditure of funds and allows augmentations in the case of deficiencies. The provisions are not applicable to these mandates if they are suspended.</p>	(\$0)	Delete Provisions 1 and 2 of Item 0950-295-0001		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			The Assembly has previously taken this action.				
22	0954/ Scholarshare Investment Board	Prior Year Budget Adjustment	<p>The Administration requests that the 2003-04 General Fund reserve be adjusted to add \$50.0 million from prior year funds previously encumbered for earned but unclaimed Governor's Scholars awards.</p> <p>The Scholarshare Investment Board will retain \$6.0 million for expected claims from students in the budget year. Enabling trailer bill language (Attachment E) would continue the authority to provide awards to students who have already successfully earned an award (i.e. when the students enroll at eligible higher educational institutions).</p> <p>The effect of this requested action is reflected in the prior year adjustments to the General Fund reserve reported in the May Revision.</p>	<p>SAVINGS: \$50,000 General Fund</p> <p>(Prior Year)</p>	Adopt the May Revision Finance Letter	TBL	
23	0956/ California Debt Investment and Advisory Commission	California Debt Investment and Advisory Commission Budget and Loan	<p>The California Debt and Investment Advisory Commission (CDIAC) was created in 1981 to assist state departments and local governments in effectively issuing, monitoring, and managing public debt.</p> <p>This California Debt and Investment Advisory Commission Fund has provided important General Fund relief in recent years due to the availability of funds for loan from that fund.</p> <p>It has been determined that \$750,000 could be loaned from this account for two years. However, this amount would provide relatively little General Fund relief and may not be absolutely necessary to bridge the structural budget gap.</p>	<p>SAVINGS: \$750 General Fund</p>	Approve the California Debt Investment and Advisory Commission Budget. Do not adopt the loan proposal.		
24	0959/ California Debt Limit Allocation Committee	California Debt Limit Allocation Committee Budget and Loan from the California Debt Limit Allocation	<p>The California Debt Limit Allocation Committee was created through a proclamation signed by the Governor on July 19, 1984, in response to the Federal Tax Reform Act of 1984.</p> <p>Staff Comment. This California Debt Limit Allocation</p>	<p>SAVINGS: \$3500 General Fund</p>	Approve the California Debt Limit Allocation Committee budget and	BBL	

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
		Committee Fund	<p>Committee Fund has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$3.5 million could prudently be loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment.</p> <p>See Attachment F for budget bill language.</p>		budget bill language for \$3.5 million loan.		
25	0968/ California Tax Credit Allocation Committee	California Tax Credit Allocation Committee Budget and Loan from the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account	<p>The California Tax Credit Allocation Committee (CTCAC) was established to provide federal low-income housing tax credits to foster development of affordable rental housing. For 2003, the program provides tax credits of \$1.75 per capita. The CTCAC's activities are funded from fees paid by applicants for tax credits and tax deductions.</p> <p>Staff Comment. The Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$35 million could prudently be loaned from this account for two years (repayment by October 1, 2006) under specified conditions for repayment.</p> <p>See Attachment G for budget bill language.</p>	SAVINGS: \$35,000	Approve the California Tax Credit Allocation Committee budget and budget bill language for \$35 million loan.	BBL	
26	0968/ California Tax Credit Allocation Committee	Loan from the Tax Credit Allocation Fee Account	<p>Staff Comment. This Tax Credit Allocation Fee Account has provided important General Fund relief in recent years due to the availability of funds for loan from this fund. In consultation with the State Treasurer's Office it was determined that \$31 million could prudently be loaned from the Tax Credit Allocation Fee Account for two years (repayment by October 1, 2006) under specified conditions for repayment.</p> <p>See Attachment H for budget bill language.</p>	SAVINGS: \$31,000	Approve budget bill language for \$31 million loan	BBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
27	0985/ California School Finance Authority	Charter School Facilities Workload	<p>The Administration requests \$231,000 and 1.0 two-year limited term position to staff the Charter School Facilities Program. Voter approval of Proposition 55 in March 2004 created a workload necessitating staff and contract resources. One-hundred thirty-one thousand dollars of the total expense will be ongoing.</p> <p>The following budget bill language would be included to facilitate this request:</p> <p><i>Of the amount appropriated in this item, \$100,000 is for the one-time support of external contract consultants who are qualified to provide technical assistance and training in the development of financing programs for charter schools.</i></p>	<p>EXPENSE: \$231</p> <p>Charter School Facilities Account</p>	Adopt the May Revision Finance Letter	BBL	
28	1730/ Franchise Tax Board	Political Reform Audit Fee	<p>The Administration requests to change the funding source for the Political Reform Audit (PRA) Program from the General Fund to the new Political Reform Audit Fee Fund. As proposed, the PRA Program will be funded by \$1,442,000 in fees collected from candidates for elected political offices at the state level, as well as lobbyists, lobbying firms, lobbying employers, and certain political committees. The proposed fees will be used to defray the cost of the mandated audits.</p> <p>In the April 28 hearing on this issue, the Subcommittee held this issue open. A number of problems with the bill were voiced, including the likelihood for litigation by affected political committees, individuals, and lobbying agencies.</p>	<p>SAVINGS: \$1,442 General Fund</p> <p>(by establishing the Political Reform Audit Fee Fund, otherwise this is an EXPENSE)</p>	Reject the Finance Letter	TBL	
29	1730/ Franchise Tax Board	Mandate: Substandard Housing	<p>Revenue and Taxation Code Sections 17274 and 24436.5 provide that if a taxpayer derived rental income from substandard housing, no deduction for interest, taxes, depreciation, or amortization paid in conjunction with substandard housing is allowed.</p>	(\$0)	Suspend the Substandard Housing Mandate	TBL	

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>The Administration and LAO have recommended this mandate be suspend.</p> <p>At the April 28 hearing on this issue, the Subcommittee requested the policy committee be consulted on impacts of suspending this mandate. The policy committee reported that, understanding that the provisions of the Revenue and Taxation section are still being performed (notwithstanding the currently suspended mandate), there are no known concerns with suspending it for another year.</p>				
30	1730/ Franchise Tax Board	District Office Service Reductions	<p>LAO Issue. The FTB operates 16 field offices throughout the state in order to serve the public. The public access counters at the field offices are the most expensive option available for taxpayer assistance. The FTB has recently taken action to close public access counters at all district offices except for six offices. In the wake of these service reductions, the need for current number of field offices is in question.</p> <p>Subsequent to the April 28 hearing, the FTB reported that expenditures of \$44, 000 in 2004-05, \$821,000 in 2005-06 would lead to \$520,000 in ongoing savings.</p>	EXPENSE: \$44 General Fund	Augment the FTB budget by \$44,000 to implement district office service reductions		
31	1730/ Franchise Tax Board	Fees for Franchise Tax Board Services	<p>The LAO has provided an option that the Legislature adopt language that would allow the FTB charge fees for the services identified below and generate a General Fund savings of approximately \$3.9 million ongoing. These fee proposals are not inconsistent with the fees already charged for similar services by the Internal Revenue Service. Specifically, the LAO recommends the following services be assessed fees installment agreements, tax practitioner hotline, refund stop payment, transcript preparation or computation, lien release or subordination, and rush services.</p> <p>The FTB reported in the earlier hearing that the tax</p>	SAVINGS: \$3,883 General Fund	Adopt the LAO recommendations for fees, less the tax practitioner hotline proposal.		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>practitioner hotline fee proposal may discourage tax compliance by businesses or overburden the other free tax consultation service line.</p> <p>Staff Comment. The Department of Finance has recently reported that the IT requirements to conduct the tax amnesty may overtax their system capabilities and hinder them from absorbing the costs associated with the LAO fee proposals. The Subcommittee may wish to request testimony from the FTB on the obstacles and cost to implementing the LAO fee proposal.</p> <p>The Subcommittee may also wish to request testimony on the revenues to be generated by these proposals in the budget year.</p>				
32	1730/ Franchise Tax Board	Tax Amnesty	<p>The Administration requests that the FTB's budget be increased by \$10,183,000 and 72 positions (all temporary help with the exception of one limited-term position) to administer a personal income and corporate tax amnesty program. The Franchise Tax Board estimates this program would result in additional General Fund revenues of \$185.0 million in 2004-05, a reduction in revenues of \$15.0 million in 2005-06, and revenue gains of \$10.0 million in 2006-07 and \$20.0 million in 2007-08.</p> <p>The amnesty period, would be from February 1, 2005, to March 31, 2005. It would apply to tax years prior to 2003. At the conclusion of the amnesty period, penalties and interest would be increased.</p> <p>This proposal essentially mirrors the provisions of AB 2203 (Chu), discussed in the April 28 Subcommittee hearing.</p> <p>LAO Comment. There are two primary goals in any amnesty: (1) raise additional revenues that would otherwise</p>	SAVINGS (Adjusted): \$174,900 General Fund	Adopt the May Revision Finance Letter	TBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>not materialize, and (2) get additional residents into the tax system and retain them as compliant taxpayers. Although it appears that the proposal would result in some increase in penalties, it is not clear that the Finance Letter proposes anything in particular regarding the second goal--such as targeted auditing, an education campaign, tracking of cases or types of cases, etc. In contrast, during the last amnesty, from 1984-85, the Finance Letter notes that FTB significantly increased the visibility of its enforcement program, added additional enforcement tools, used private collection agencies, publicized property seizures and criminal prosecutions, and used other approaches to address the second goal.</p> <p>Staff Comment. The Subcommittee may wish to request testimony regarding the LAO comments. Specifically, the Subcommittee may wish to request testimony on the benefits and costs for a media and marketing campaign.</p>				
33	1730/ Franchise Tax Board	Voluntary Compliance Initiative	<p>As of May 3, 2004, California's latest tax amnesty program, called the Voluntary Compliance Initiative (VCI), generated over \$1.325 billion in revenues from collecting past unpaid tax debts. In the Governor's May Revision \$1.225 billion was scored as VCI revenues. Due to the timing for release the May Revision revenue estimates, \$100 million was not scored.</p> <p>Staff Comment. Request testimony on whether and how to score this additional revenue.</p>	SAVINGS: \$100,000 General Fund (Prior year adjustment)	Adopt the revised VCI revenue estimate (+\$100 million prior year adjustment).		
34	1730/ Franchise Tax Board	Taskforce on Abusive Tax Shelters	<p>The Administration requests that the FTB's General Fund appropriation be increased by \$4,310,000 to provide funding for contracts with tax shelter experts and to backfill 42 audit positions that are being redirected by the FTB to work on abusive tax shelter cases. This augmentation would result in an estimated \$28.0 million General Fund</p>	SAVINGS: \$23,700 (net) General Fund	Adopt the May Revision Finance Letter as a replacement to the April		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>revenue increase in 2004-05 and \$390.0 million through 2008-09.</p> <p>The Subcommittee's May 5, 2004, hearing the FTB reported on an unprecedented growth in illegal tax shelters in recent years. The Subcommittee action was to approve a \$400,000 appropriation for combating an abusive tax shelter. This proposal will replace the earlier April Finance Letter.</p>		Finance letter on the same issue.		
35	1730/ Franchise Tax Board	California Child Support Automation System Augmentation	<p>The Administration requests that the FTB funding be increased by \$17,473,000 (\$5,991,000 General Fund and \$11,482,000 Reimbursements) to provide funding for nine positions and for vendor payments in order to continue the CCSAS project Child Support Enforcement component development phase. The vendor payment schedule has been revised to reflect the current anticipated payment dates. Project deliverables have been coming in sooner and better than expected, so the State is incurring these costs earlier than expected. This augmentation does not reflect an increase in total contract cost.</p> <p>LAO Recommendation. The CCSAS project is jointly managed by FTB and the Department of Child Support Services (DCSS). Between the two departments, the Legislature has approved 184 state staff (113 for FTB and 71 for DCSS) to support the project. It appears that both departments are performing similar, if not duplicative, tasks on the project. For this reason, the LAO recommends that the Legislature reduce the request by nine positions and the associated dollars of \$740,000. The remaining funding increase reflects \$16.2 million in contract costs and \$490,000 in wide area network costs.</p>	EXPENSE: \$17,473 (\$5,991 General Fund, \$11,482 reimburse- ments)	Adopt the May Revision Finance Letter, reduced by \$740,000 and nine positions.		
36	1730/ Franchise Tax Board	Withholding Income for Independent	At the April 28 hearing, the Subcommittee heard an LAO issue relating to closing the "tax gap" (the amount of taxed owed versus the amount of tax actually paid), by	(\$0)	Adopt the proposed trailer bill.	TBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
		Contractors	<p>adding filing and enforcement measures for independent contractors and self-employed individuals.</p> <p>Currently, the Employment Development Department must withhold revenues for tax purposes on most state programs. The Assembly Budget Committee has proposed language that would add filing and enforcement measures to the Employment Development Department's independent contractor reporting program. The trailer bill to make that effective is in Attachment I.</p> <p>The provisions are included to assert penalties for failure to withhold, allow Franchise Tax Board access to the information, and permit the Employment Development Department to develop forms and procedures.</p> <p>Staff Comment. The Subcommittee may wish to request comment on the timing and costs related with implementing this proposal.</p>				
37	1730/ Franchise Tax Board	Litigation Costs for Hyatt Case	<p>The Administration requests that the FTBs General Fund support item be increased by \$1,334,000 and two limited-term positions to provide funding to defend a lawsuit filed by a taxpayer in the State of Nevada. These funds will pay for Nevada counsel, analytical support, and various related expenses. The State's potential liability in this case is approximately \$200.0 million. The Department of Justice (DOJ) notified the FTB that they will no longer be representing the FTB in this case and granted the FTB permission to retain private counsel. The case is scheduled for trial in Nevada in August 2006 and the estimated cost to the State to defend itself over the next three years is estimated to be \$3.8 million required.</p> <p>Through 2003-04, the DOJ budget has been augmented by nearly \$4.4 million for litigation expenses related to this</p>	EXPENSE: \$1,334 General Fund	Adopt the May Revision Finance Letter		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>case.</p> <p>LAO Comment. The Finance Letter indicates that major actions in the case explain the discrepancy between earlier amounts (of \$703,000 in 2002-03 and \$265,000 in 2003-04) and the \$1.3 million.</p> <p>Staff Comment. The Subcommittee may wish to request testimony on the basis for the subsequent funding requirements.</p>				
38	1760/ Department of General Services	Reversion of Funding for One Local Seismic Project	<p>The Administration has proposed an April Finance Letter to revert up to \$500,000 in funding authorized by Proposition 122, the Earthquake Safety and Public Building Bond Fund of 1990. A local seismic grant to retrofit an Oakland Police and Administration facility was reappropriated last year. The budget bill language to effect a reversion of the balance in the budget year is as follows:</p> <p><i>1760-495—Reversion, Department of General Services. As of June 30, 2004, the unencumbered balances of the appropriation provided for in the following citation shall revert to the balance of the fund from which it was made:</i></p> <p><i>0768—Earthquake Safety and Public Buildings Rehabilitation Fund of 1990</i></p> <p><i>Item 1760-101-0768, Budget Act of 1994 (Ch. 139, Stats. 1994), as reappropriated by Item 1760-192, Budget Act of 2003 (Ch. 157, Stats. 2003)</i></p> <p><i>(1) 4029-Alameda, Oakland Police and Administration Retrofit – Oakland..... 500,000</i></p>	SAVINGS: Up to \$500 General Fund	Adopt the Finance Letter	BBL	
39	1760/ Department of General Services	Statewide Procurement Training and Certification Program	<p>This was held open from the May 5 hearing. The recommendation at the time was to reduce the DGS budget by \$2 million unless an SRL report on the Statewide Procurement Training and Certification Program was provided. The report has been received.</p>	SAVINGS: \$2,000	No action on this issue.		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
40	1760/ Department of General Services	Legal Fees for Services Provided by a Private Law Firm	The DGS budget contains funding for litigation related to the Williams case, a suit filed against the prior Governor and Superintendent for Public Instruction concerning the material condition of certain schools in California. Representation is provided by the Attorney General's Office for the Superintendent and O'Melveny and Myers (a private firm) for the Governor's office. A DGS budget item includes \$3 million in General Fund payments to that firm in 2004-05.	EXPENSE: \$3,000 General Fund	Approve as budgeted		
41	1760/ Department of General Services	Ongoing Capitol Security Costs	The Administration has identified ongoing security costs of \$3 million for the State Capitol. This activity would be funded from the service revolving fund.	EXPENSE: \$3,000 Service Revolving Fund	Approve May Revision Finance Letter		
42	1760/ Department of General Services	Capitol Security and Enhancement Projects	Funding for capitol security improvements and enhancements in the budget year only. Projects include alarm replacement, closed circuit televisions, security barriers, and a visitor pavilion.	EXPENSE: \$4,000 General Fund	Approve augmentation.		
43	1760/ Department of General Services	Transfer from the State Emergency Telephone Number Account	The State Emergency Telephone Number Account has been utilized on two previous occasions to provide support to the General Fund during times of fiscal crisis. In 1993-1994, a transfer of \$15 million was made to the General Fund. In 2001-02, pursuant to Control Section 25.10 of 2001-02, the SCO transferred \$63 million from the State Emergency Telephone Account to the General Fund. Staff Comment. Based on available revenues, a prudent transfer of \$15 million from the State Emergency Telephone Number to the General Fund may be made.	SAVINGS: \$15,000 General Fund	Adopt the \$15 million transfer to the General Fund	BBL	
44	1760/ Department of General Services	Loan from the State Emergency Telephone Number Account	At the March 24 hearing, the Subcommittee considered a \$14 million loan from the to the General Fund from the State Emergency Telephone Number Account. The loan would be scheduled for repayment by October 1, 2006. Combined with the \$15 million transfer, the State Emergency Telephone Number Account will have a	SAVINGS: \$14,000 General Fund	Adopt a \$14 million loan from the State Emergency Telephone Number	BBL	

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>prudent reserve of \$15 million (approximately 10 percent of expenditures in the budget year) for unforeseen expenses or reduced revenues.</p> <p>To provide additional security against unforeseen fund needs, the following budget bill language should be adopted in a new item 1760-011-0022</p> <p><i>The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account as the time of the transfer. Principal and interest on the loan shall be repaid in full by no later than October 1, 2006. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through reduction in service or increased fees.</i></p>		Account		
45	1760/ Department of General Services	Loan from the Public School Planning, Design, and Construction Review Revolving Fund	<p>At the March 24, 2004, hearing the Subcommittee considered extending for one year a \$35 million loan from this account to the General Fund. The currently scheduled repayment date is October 1, 2004. No significant programmatic impacts have been identified with delaying repayment for one year.</p> <p>To provide additional security against unforeseen fund needs, the following budget bill language should be adopted in a new item 1760-011-0328.</p> <p><i>The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account as the time of the transfer. Principal and interest on the loan shall be repaid in full by no later than October 1, 2005. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are</i></p>	SAVINGS: \$35,000 General Fund	Extend the loan from the Public School Planning, Design, and Construction Review Revolving Fund for one year	BBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<i>not adversely affected by the loan through reduction in service or increased fees.</i>				
46	1760/ Department of General Services	Loan from the Disability Access Account	<p>At the March 24, 2004, hearing the Subcommittee considered extending for one year a \$10 million loan from this account to the General Fund. The currently scheduled repayment date is October 1, 2004. No significant programmatic impacts have been identified with delaying repayment for one year.</p> <p>To provide additional security against unforeseen fund needs, the following budget bill language should be adopted in a new item 1760-011-0006.</p> <p><i>The amount transferred in this item is a loan to the General Fund. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. Principal and interest on the loan shall be repaid in full no later than October 1, 2005. It is the intent of the Legislature that repayment be made so as to ensure that the programs supported by this fund are not adversely affected by the loan through reduction in service or increased fees.</i></p>	SAVINGS: \$10,000 General Fund	Extend the \$10 million loan from the Disability Access Account for one year	BBL	
47	1880/ State Personnel Board	Augmentation of Reimbursable Resources	The Administration requests that the State Personnel Board's main item be amended by increasing reimbursements by \$549,000. This proposal will add 5.5 positions to address workload issues in various programs operated by the State Personnel Board.	EXPENSE: \$549 Reimburse- ments	Adopt the May Revision Finance Letter		
48	1880/ State Personnel Board	Budget Change Proposal: General Fund Reduction	<p>The Administration proposes a \$600,000 General Fund reduction to staffing and operating expenses related to merit appeals, examination services, bilingual services, and information technology services.</p> <p>At the May 5th hearing on this issue, the Subcommittee opted to hold this issue open, pending a recommendation from the California Performance Review (CPR) and the</p>	SAVINGS: \$600 General Fund	Approve the Budget Change Proposal		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>updated General Fund shortfall information presented in the May Revise. The CPR has provided no recommendations on this issue.</p> <p>Staff Comment. Considered alongside the “Augmentation of Reimbursable Resources” issue above, this reduction appears consistent with a broadened perspective on staffing the SPB.</p>				
49	8620/ Fair Political Practices Commission	Funding Reduction BCP	<p>The Governor’s Budget includes a \$809,000 reduction to the FPPC’s non-statutory funding. This proposal would result in position reductions to legal council (1.5 positions) and political reform consultants (1-2 positions), elimination of the public outreach program, reduced local law enforcement activities, and other administrative reductions.</p> <p>Staff Comment. The Governor’s Budget proposed reduction appears inconsistent with state entities of similar size. As an alternative to a \$809,000 reduction the Subcommittee may wish adopt a \$500,00 reduction. The FPPC has indicated that the lower reduction is supportable and will enable them to meet their statutory and constitutional obligations.</p>	EXPENSE: \$309 General Fund	Restore \$309,000 to the FPPC budget		
50	8620/ Fair Political Practices Commission	Three Percent General Fund Reduction	<p>Through a budget letter directive the Department of Finance directed each agency and state organization without agency representation to prepare a three-percent ongoing expenditure reduction plan.</p> <p>The Administration is proposing to reduce Item 8620-001-0001 by \$171,000 General Fund to reflect the elimination of one position, a time base reduction of one counsel position, and reduced operating expense.</p> <p>Staff Comment: The Subcommittee may wish to request testimony on the impact of this proposal on</p>	SAVINGS: \$171 General Fund	Adopt the May Revision Finance Letter		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>the FPPC's constitutional obligations. The budget letter requiring state entities to prepare three percent reduction plans stipulates that Constitutionally required functions are not automatically exempted from this budget exercise—to the extent that a reduced level of funding can be supported.</p> <p>The Subcommittee may further wish to request the Department of Finance report on the rationale and number of departments that are recommended for three percent reductions.</p>				
51	8640/ Political Reform Act of 1974.	Political Reform Audit Fund, Corresponding Budget Line Item	<p>This budget item requires the Department of Finance, in preparing the state budget to include an item for the support costs of the Act that includes the additional amounts to be appropriated to other state agencies to carry out their duties under the Act.</p> <p>Staff Comment. Consistent with the recommendation to deny the Political Reform Audit Fee proposal, this item must be augmented by \$1,300,000 to show the restored General Fund commitment to the Franchise Tax Board for PRA services.</p>	EXPENSE: \$1,300 General Fund	Restore \$1,300 to the PRA item. (Increase Item 8640-001-0001 by \$1.3 million)		
52	8855/ Bureau of State Audits	Transfer a Portion of Excess Reserve Funds in the State Audit Fund	<p>The Bureau of State Audits (BSA) provides audits of the programs and fiscal operations of state government. Through financial, performance, and investigative audits, as well as other special studies, the State Auditor provides the Legislature, Governor, Milton Marks Commission on California State Government (“Little Hoover Commission”), and the citizens of California with objective information about the state’s financial condition and the performance of state agencies and programs. The BSA was created by the enactment of Chapter 12, Statutes of 1993 (SB 37).</p> <p>General statewide practice for special funds is to maintain a total reserve of approximately five percent. For 2004-</p>	SAVINGS: \$1,105 General Fund	Approve the BSA budget (as budgeted) and transfer \$1,105,000 from the State Audit Fund to the General Fund.		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>05, a five percent reserve in the State Audit Fund would be \$620,000.</p> <p>Staff Comment. The BSA has never tapped their reserve close to or in excess of the proposed five percent level (\$620,000). If that were to happen, legislative processes exist to provide funding for unanticipated expenses (e.g. the deficiency process). In recent years the BSA has actually reverted several hundred thousand dollars each year because it could not be spent.</p>				
53	8910/ Office of Administrative Law	LAO Option – Eliminate the Office of Administrative Law, a savings of \$1.8 million in General Fund	<p>As part of the LAO’s “Additional Options” list for General Fund expenditure reductions, the LAO provides an option that the Subcommittee eliminate the OAL.</p> <p>It is not evident that the OAL activities suggested for elimination or consolidation would achieve the same level of service if provided by other agencies.</p>	SAVINGS: \$1800 General Fund	Reject the LAO Option		
54	8910/ Office of Administrative Law	Determinations and Compliance Workload	<p>The Administration requests that Item the OAL’s General Fund appropriation be increased by \$605,000 and 7.0 positions, on a two-year limited term basis, to address increased Determinations and Regulations Compliance workload. This augmentation will provide the department with the resources to implement the provisions of the Executive Order S-02-03.</p> <p>Staff Comment. This proposal stems from an executive order seeking to address inconsistencies by state agencies and departments in adopting formal regulations and other state rules. While the concept appears laudable, workload is uncertain. The LAO has not reviewed the OAL’s documents to determine if any additional actions are necessary. Any identifiable workload will have been created by an executive order, not a program approved by the Legislature.</p>	EXPENSE: \$605 General Fund	Reject the May Revision Finance Letter.		
55	9100/ Tax Relief	Elimination of the	A related issue, the mandate requiring locals to report to	SAVINGS:	Eliminate the		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
		Substandard Housing Program	the state the amount withheld from a taxpayer who owns substandard housing, was addressed by the Subcommittee on April 28. (This mandate falls under the Franchise Tax Board budget.) The FTB reported that in the last three years the mandate has been suspended, they have not encountered difficulty in gaining compliance from locals.	\$44 General Fund	substandard housing subvention.		
56	9210/ Local Government Financing	Eliminate Citizens' Option for Public Safety (COPS) Grant Program	As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO notes that the COPS program provides grants to local law enforcement mostly for personnel and equipment. Given that COPS funding represents less than 1 percent of local law enforcement expenditures, its impact on public safety, if any, is likely to be relatively small. Anticipated savings from eliminating this program is \$100 million General Fund. This issue was heard and left open at the May 5, 2004 Subcommittee hearing.	SAVINGS: \$100,000 General Fund	Reject the LAO Option		
57	9210/ Local Government Financing	Suspend the Juvenile Justice Grants Program for one year Pending Evaluation Results	As part of the LAO's "Additional Options" list for General Fund expenditure reductions, the LAO notes that the Juvenile Justice grants provide funds to address service gaps in county juvenile justice systems. This option would suspend funding for one year pending evaluations currently underway. Suspension would not stop the programs because grant recipients receive funding one year in advance of projected expenditures. Anticipated savings from this proposal is \$100 million General Fund. This issue was heard and left open at the May 5, 2004 Subcommittee hearing.	SAVINGS: \$100,000 General Fund	Reject the LAO Option		
58	9210/ Local Government Financing	Special Supplemental Subvention Elimination	The Administration reports that the Special Supplemental Subvention for redevelopment agencies was vetoed in the current year and was not proposed for funding in the budget year. However, Government Code Section 16100 provides for a continuous appropriation from the State General Fund for the subvention. Accordingly, the State	(\$0)	Adopt the proposed trailer bill	TBL	

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>Controller's Office has paid \$357,242 in claims in the current year. The following trailer bill language will be introduced to eliminate the statutory authority for the subvention.</p> <p><i>Section 1. Eliminate Chapter 1.5 of Part 1 of Division 4 of Title 2 of the Government Code.</i></p> <p><i>Section 2. This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are: In order to implement the Budget Act of 2004, it is necessary that this act take effect immediately.</i></p>				
59	9210/ Local Government Financing	Reimbursement for Booking Fees	<p>The Governor's Budget proposes to eliminate booking fee subventions to cities in 2004-05, along with counties' authority to charge booking fees to cities. Current law continuously appropriates \$38.2 million annually for these subventions. The Administration seeks passage of AB 1749 (Assembly Committee on Budget) to repeal the counties authority to charge and the continuous appropriation.</p> <p>LAO Recommendation. County authority to impose booking fees gives local agencies incentives to use county booking and detention services wisely and efficiently. Eliminating this incentive likely would result in significant increases to county costs, without any identifiable gain to public safety. Accordingly, the LAO recommends the Legislature maintain county authority to impose booking fees.</p> <p>Staff Comment. The questions raised in the May 5, 2004, hearing as to who may be the true beneficiaries of booking</p>	EXPENSE: \$1 General Fund	Fund the Booking subventions at \$1000	TBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			fee subventions, as well as the important public policy goals behind their existence, suggests that the booking fees issue merits further consideration.				
60	9210/ Local Government Financing	MANDATE: Open Meetings Act	<p>This mandate requires local agencies and legislative bodies to post a single agenda containing a brief description of items to be heard, and specifying the time and location of the meeting.</p> <p>This mandate is proposed for deferral in the budget year.</p> <p>At the May 5, 2004, Subcommittee hearing on this issue, the Subcommittee requested the LAO and DOF report back on the costs associated with this mandate and the policy implications of deferring the open meetings act mandate.</p>	(\$0)	Defer the Open Meetings Act mandate (i.e. approve as budgeted)		
61	9210/ Local Government Financing	MANDATE: Brown Act Reform	<p>This mandate requires agenda postings by local advisory bodies and the disclosure of matters discussed in executive sessions</p> <p>This mandate is proposed for deferral in the budget year.</p> <p>At the May 5, 2004, Subcommittee hearing on this issue, the Subcommittee requested the LAO and DOF report back on the costs associated with this mandate and the policy implications of repealing or deferring the Brown Act mandate.</p>	(\$0)	Defer the Brown Act mandate (i.e. approve as budgeted)		
62	9901/ Contract Savings for Control Section 5.50	Erosion of Ongoing Savings Related to Control Section 5.50 of the 2003-04 Budget Act	The Budget Act of 2003 required that the Department of General Services renegotiate contracts using entrepreneurial practices with the goal of achieving ongoing savings beginning in current year. The Administration now acknowledges that these savings were not attainable due to overlapping savings generated through other reductions (e.g. Control Section 4.10).	<p>EXPENSE: \$100,000</p> <p>(\$50,000 General Fund, \$25,000 special funds, \$25,000 nongovernmental cost</p>	Adopt May Revise Finance Letter		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
63	9916/Reform of Real Property Asset Management	Statewide Reform of Real Property Assets and Increased Revenue from the Sale of Surplus Property	<p>The Administration has expressed concern with the current asset augmentation structures and processes. With the dual goals of improving the state's management of real property assets and increasing revenue from the sale of property, the Administration requests trailer bill language to broaden the specifications of when and how state property may be sold and consolidate asset management in the Public Works Board. This trailer bill includes provisions to eliminate requirements that the state offer surplus property to local governments prior to public sale and that the state sell surplus property to local governments for less than market value under certain circumstances</p> <p>The Administration also requests \$2.8 million to support the real property asset management proposal. Support activities will include data entry of the state property inventory, administrative actions for the Public Works Board, and costs for disposing of high-value surplus property to be identified later.</p> <p>The following budget bill language would give the Department of Finance authority to allocate these funds in order to implement asset property reforms:</p> <p><i>The funds appropriated in this item shall be allocated by the Department of Finance to state agencies for activities associated with the implementation of statewide real property asset management reforms.</i></p> <p>The Governor recently issued an executive order (S-10-04) to implement most of the information gathering and programmatic review activities identified in this proposal.</p> <p>Staff Comment.</p>	funds) \$50,000 General Fund	<ol style="list-style-type: none"> 1. Reject the \$2.8 million budget item and budget language, 2. Adopt the May Revision Revenue Estimate, 3. Refer the TBL to the policy committee 	BBL, TBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>The \$2.8 million request for resources to complete the previously described activities has not been substantiated with workload data or a formal support request.</p> <p>The expansion of authority for the Administration to sell off state properties raises concerns that important capital assets may be lost. The State plays a valuable role in asset protection that the private sector would otherwise fail. Additionally, any review for disposable capital assets should consider the state costs if the property is sold prematurely. Selling properties without considering the long-term needs of the state can result in significant expense if the property must be re-purchased.</p> <p>Notwithstanding these concerns, it appears that the \$50 million figure may be reachable after revisions to the trailer bill and budget bill are made. Staff recommends the trailer bill be referred to the policy committee.</p>				
64	Control Section 4.10	\$150 million Reduction	<p>The Department of Finance requests to include an adjustment to proposed expenditures to reflect one-time reductions totaling \$150 million in the budget year. Control Section 4.10 (see Attachment K) would be added to authorize the Director of Finance, in consultation with Agency Secretaries where applicable, to reduce General Fund appropriations by that amount.</p> <p>The same level of reduction, mostly confined to personal services expenses, was attempted in the current year. It was not successful.</p> <p>LAO Comment. The current year reductions, as well as those proposed would reflect Administration's—not the Legislature's—priorities. Any unallocated reduction authority given to the administration will expose legislative priorities to reductions.. In order to protect its own priorities,</p>	SAVINGS \$150,000 General Fund	<p>Adopt the revenue estimate and reject the Administration's proposed budget bill language.</p> <p>Adopt the intent language recommended by staff.</p>	BBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>the Legislature would need to identify specific lower priority reductions during the budget process—rather than relying on unallocated reductions. While the full programmatic impact of the Control Section 4.10 reductions may not be known for some time, it is likely that many of the reductions will have been made to programs of particular interest to the Legislature.</p> <p>Staff Comment. While the prospect of reducing state expenses to generate \$150 million in one-time savings appears feasible, the budget bill language raises many concerns. Staff recommends the budget bill language be rejected and the following added:</p> <p><i>It is the intent of the Legislature to adjust General Fund appropriations in order to generate savings for the state.</i></p>				
65	Control Section 4.30/ Lease Revenue Payment Adjustments	Amendment to reduce ambiguity in Control Section 4.30	<p>Legislative Counsel has recommended that subsection (c) be revised to add the word “any” to clarify that the Legislature be provided sufficient notification regarding Lease Revenue Payment Adjustments. Without this clarification, the notification requirements to the Legislature could potentially be limited.</p> <p><i>Within 30 days of making any adjustments...</i></p>	(\$0)	Adopt the budget bill amendment.	BBL	
66	Control Section 4.35 (Proposed)	Identification and Transfer of Administration Positions	<p>Control Section 4.35 is proposed to require the Department of Finance to identify positions loaned to the Office of the Governor from other departments, transfer the positions to the Office of the Governor (where the individuals are currently working) and any General Fund associated with the positions. The Department of Finance would then make the appropriate Special Fund and General Fund adjustments to the budgets of the loaning departments for those positions.</p> <p>The Department of Finance has indicated that there are approximately 100 such positions that would be impacted.</p>	(\$0)	Adopt the May Revision Finance Letter and appropriate the amount necessary to pay for the positions that will be paid for out of General Fund.	BBL	

AGENDA #2: State Administration and General Government

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>As an alternative to several BCPs deleting the positions from other departments and increasing them in the Governor's Office, this Control Section allows Finance to correct the problem through a statewide action.</p> <p>Budget bill language (see Attachment L) would allow the Department of Finance to provide an augmentation to the Office of the Governor for the positions transferred from departments where the positions are currently paid for by special funds.</p> <p>Staff Comment. By correcting the actual fund assignments a General Fund commitment will be created. This is because many of the Governor's staff are currently special funded and when transferred to the Governor's office they will be funded from the General Fund. In order to preclude a deficiency request (which are specifically for <i>unanticipated</i> expenses), the Subcommittee may wish to request testimony on an estimate of the amount of General Fund needed to pay for these positions in the budget year and then appropriate that amount.</p>				
67	Control Section 4.45 (Proposed)	Transfer of Appropriation Authority for Governor's Budget Printing	<p>The Department of General Services (DGS) budget currently includes spending authority to pay for the printing of the Governor's Budget. The proposed Control Section 4.45 will allow the transfer of appropriation authority from DGS to the Department of Finance to pay for the costs associated with producing the Governor's Budget through electronic or other media.</p> <p>Staff Comment. The Administration has generated small savings by not providing printed versions of the 2003-04 Governor's Budget outside of the Department of Finance. It is unclear that those savings outweigh the decentralized printing costs and efficiency losses caused by this change.</p>	(\$0)	Reject the May Revision Finance Letter	BBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
68	Control Section 4.60 (Revised)	Revised Rental Rates Control Section	<p>The Administration requests to revise Control Section 4.60, Rental Rates, to include the ability to adjust any item of appropriation to fund costs associated with debt service, rent, or operations and maintenance of any space occupied by a state entity. The effect of this proposal can be found in Attachment M.</p> <p>This budget bill language is expected to facilitate the discovery of alternatives to the current rental rate system by assembling a report on the current system. The Department of Finance has included a reporting requirement so that the Legislature will have an opportunity to review these findings.</p>	(\$0)	Adopt the Revised Control Section Language.	BBL	
69	Control Section 12.00 / State Appropriations Limit	Updated Estimate	<p>Pursuant to Article XIII B of the California Constitution, the 2004-05 is estimated to be \$64.588 billion. The revised limit is the result of applying the growth factor of 4.60 percent. The revised 2004-05 limit is \$611 million above the \$63.977 billion estimated in January.</p> <p>Because state revenues are still subject to updating, it is necessary that SAL be finalized in conference. Accordingly, this item should be reduced by \$1000.</p>	\$64,558,000	Reduce the SAL estimate by \$1000.		
70	Control Section 33.50 (Proposed)	“Strategic Sourcing” Procurement Reform	<p>The Administration proposes budget bill language to allow the Director of the Department of Finance to reduce departmental budgets to the extent that savings are achieved through a “strategic sourcing.” Strategic sourcing would establish a performance based contract with a private sector entity that will improve the state’s capacity to buy in bulk. The Budget bill language is as follows:</p> <p><i>The Director of Finance shall provide to the Legislature an implementation timeline for this Section which should include, but is not limited to a report of proposed savings resulting from Strategic Sourcing. This report is due at</i></p>	SAVINGS: \$96,000 General Fund	Adopt the May Revision Finance Letter	BBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p><i>least 30 days prior to the implementation of this Section. Notwithstanding any other provision of law, the Director of Finance is authorized to reduce amounts in items of appropriation for the 2004-05 fiscal year to the extent that savings are achieved through Strategic Sourcing.</i></p> <p>The proposed control section is similar to the current year Control Section 5.50 which proposed savings of \$100 million (see issue above), resulting from renegotiating existing contracts and leases. These savings were not achieved.</p> <p>LAO Comment. The proposed control section does allow DOF to reduce department appropriations if any savings are achieved. For that reason, we see no harm in adopting the new control section. Assuming no savings from the control section, however, would be a more realistic projection and eliminate the likelihood of a future hole in the budget.</p> <p>Staff Comment. Staff understands that a performance based contract will be used to generate these savings. Given the state's relative inexperience with such contracts, it is uncertain that such an arrangement will facilitate the state meeting its \$96 million revenue target.</p>				
71	Control Section 34.50 (Proposed)	Punitive Damages: Split-Award Tort Reform	<p>The Administration requests to establish Control Section 34.50 to allow funding received into the new Public Benefit Trust Fund to offset 2004-05 General Fund expenditures. The intent of this section is to authorize the Department of Finance to reimburse programs funded by the General Fund with moneys in the Public Benefit Trust Fund, under specified circumstances. The budget bill language is as follows:</p> <p><i>Control Section 34.50 Public Benefit Trust Fund</i></p>	SAVINGS: \$450,000 General Fund	1. Adopt the budget bill language proposed by staff and score the May Revision Finance Letter savings.	BBL, TBL	

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p><i>Sec. 34.50 (a) Notwithstanding any other provision of law, the Department of Finance is authorized to reimburse 2004-05 General Fund expenditures from the balance in the Public Benefit Trust Fund. The total reimbursement will be up to the amount available in the Public Benefit Trust Fund.</i></p> <p><i>(b) This reimbursement will result in overall General Fund savings. It is not the intent of the Section to provide additional expenditure authority to State programs.</i></p> <p>Trailer bill language to create the Public Benefit Trust Fund and amend existing law related to punitive damages is also proposed. This language would provide that 75 percent of punitive damage awards would be deposited into the Public Benefit Trust Fund and appropriated annually for purposes consistent with the nature of the award. The proposed trailer bill language is found in Attachment N.</p> <p>This proposal raises a number of practical and public policy concerns.</p> <ul style="list-style-type: none"> • Most punitive damage cases, after awards are made, are negotiated down to a lesser amount and classified something other than punitive. • The \$6.4 billion calculation of punitive awards over ten years is heavily skewed by outlier data. Most notably, \$4.2 billion of the \$6.4 billion is based on one case. • The budget bill language limits the number of times punitive damages may be applied in a case dealing with product liability, potentially undermining both state revenue and a plaintiff's right to trial. • Many punitive damage cases involve confidential awards. It's unclear how the state would take from such cases. 		<p>2. Submit the trailer bill to policy committee(s) for further consideration.</p>		

Issue #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (IN 000s)	STAFF RECO.	BBL/ TBL	VOTE
			<p>Staff Comment. The Subcommittee may wish to request the Administration respond to these concerns.</p> <p>Notwithstanding these obstacles to implementation, other states have been appropriating punitive damage awards, and it is conceivable that statutes can be rewritten to facilitate revenue collections by the state. Staff recommends the following intent language to enable these processes: <i>It is the intent of the Legislature to review proposals and address the issue of apportioning some portion of punitive damage awards to the state.</i></p>				
72	Mandates	Conforming action for mandates recommended for repeal	<p>Due to uncertainties about the timing of budget enactment, it is recommended that the Subcommittee vote to reflect in the budget bill all mandates recommended for repeal as "suspended." This is necessary because in previous years when lags between when the mandates policy bill was enacted and the budget was enacted. In some cases, mandates that were actually repealed have actually been funded in the budget.</p> <p>The Assembly has adopted this action.</p>	(\$0)	Reflect all mandates recommended for repeal as "suspended" in the budget bill.		

ATTACHMENT A

TRAILER BILL LANGUAGE HUMAN RESOURCE MANAGEMENT SYSTEM—21ST CENTURY PROJECT

SEC. 1. (a) The Legislature hereby finds and declares that it is essential for the State to replace the current automated human resource/payroll systems operated by the Controller to ensure that State employees continue to be paid accurately and on time and that the State may take advantage of new capabilities and improved business practices. To achieve this replacement of the current systems, the Controller is authorized to procure, modify, and implement a new human resource management system that meets the needs of a modern State government. This replacement effort is called the 21st Century Project.

(b) Notwithstanding any other provision of law, beginning with the 2004-05 fiscal year, the State Controller is hereby authorized to assess special and non-governmental cost funds in sufficient amounts to pay for the authorized 21st Century Project costs that are attributable to such funds. Assessments in support of the expenditures for the 21st Century Project shall be made quarterly, and the total amount assessed from these funds annually may not exceed the total expenditures incurred by the State Controller for the 21st Century Project that are attributable to such funds in that fiscal year. Appropriations will be made in the annual Budget Act.

(c) To the extent permitted by law, beginning with the 2004-05 fiscal year, the Controller shall establish agreements with various agencies/departments for the collection of federal funds from those agencies/departments in sufficient amounts to pay for the authorized 21st Century Project costs that are attributable to federal funds. The total amount collected from those agencies/departments annually may not exceed the total expenditures incurred by the State Controller for the 21st Century Project that are attributable to federal funds in that fiscal year. Appropriations will be made in the annual Budget Act.

(d) This section shall be operative through June 30, 2011.

(e) This act is an urgency statute necessary for the immediate preservation of the public peace, health or safety within the meaning of Article IV of the Constitution and shall go into immediate effect.

ATTACHMENT B

Proposed Control Section 25.25

SEC. 25.25. Notwithstanding any other provision of law, up to two million, five hundred twenty thousand dollars (\$2,520,000) is hereby appropriated from various special and nongovernmental cost funds to the State Controller for payment of costs to support the replacement of the existing automated human resource/payroll systems (the 21st Century Project). The Controller shall assess these funds in sufficient amounts to pay for the authorized 21st Century Project costs that are attributable to such funds pursuant to legislation enacted during the 2003-2004 legislative session. Assessments in support of the expenditures for the 21st Century Project shall be made quarterly, and the total amount assessed from these funds in 2004-05 may not exceed the total expenditures incurred by the State Controller for the 21st Century Project that are attributable to such funds in the 2004-05 fiscal year.

ATTACHMENT C

Trailer Bill for Closure of an Improper Tax Loopholes: The 90-day Rule for Vehicles, Vessels, and Aircraft

SECTION 1. Section 6248 of the Revenue and Taxation Code is amended to read:

6248. (a) On and after the effective date of this section there shall be a rebuttable presumption that any vehicle, vessel, or aircraft bought outside of this state, was acquired for storage, use, or other consumption in this state and is subject to use tax if any of the following occur:

- (1) The vehicle, vessel, or aircraft was purchased by a California resident as defined in Section 516 of the Vehicle Code.
- (2) In the case of a vehicle, the vehicle was subject to registration under Chapter 1 (commencing with Section 4000) of Division 3 of the Vehicle Code during the first 12 months of ownership.
- (3) In the case of a vessel or aircraft, the vessel or aircraft was subject to property tax in this state during the first 12 months of ownership.
- (4) The vehicle, vessel, or aircraft was used or stored in this state more than one-half of the time during the first 12 months of ownership.

(b) This presumption may be controverted by documentary evidence that the vehicle, vessel, or aircraft was purchased for use outside of this state during the first 12 months of ownership that shall include, but not be limited to, evidence of registration of that vehicle, vessel, or aircraft with the proper authority outside of this state.

(c) This section does not apply to any vehicle, vessel, or aircraft used in interstate or foreign commerce pursuant to regulations prescribed by the board.

(d) *The amendments made to this section by the act adding this subdivision do not apply to any vehicle, vessel, or aircraft purchased on or before the operative date of the act adding this subdivision, or to any vehicle, vessel, or aircraft that is the subject of a binding purchase contract entered into on or before the operative date of the act adding this subdivision.*

(e) (1) Notwithstanding subdivision (a), aircraft brought into this state for the purpose of repair, retrofit, or modification shall not be deemed to be acquired for storage, use, or other consumption in this state.

(2) This subdivision does not apply if, during the period following the time the aircraft was brought into this state and ending when the repair, retrofit, or modification of the aircraft is complete, more than 25 hours of airtime are logged on the aircraft by the registered owner of that aircraft or by an agent operating that aircraft on behalf of the registered owner. The calculation of airtime logged on the aircraft does not include airtime following the completion of the repair, retrofit, or modification of the aircraft that is logged for the sole purpose of returning or delivering the aircraft to a point outside of this state.

(3) This subdivision applies to aircraft brought into this state, for the purpose of repair, retrofit, or modification, on or after the operative date of the act adding this subdivision.

ATTACHMENT D

0890-001-0890

Provisions.

1. Of the amounts appropriated in this Item, \$1,700,000 shall be used for operational costs associated with implementation of the Help America Vote Act.
2. Prior to the expenditure of any other funds in this item, the Secretary of State shall submit a spending plan to the Department of Finance for approval. The spending plan may set out proposed expenditures in whole or in part depending on the guidelines issued by the Federal Election Assistance Committee. The spending plan shall include, at a minimum, (1) a detailed description and schedule of proposed expenditures by function and activity, (2) a description and detail of any proposed hiring of state employees or the use of consulting contracts, (3) a timeline for the meeting of federal requirements, and (4) any estimated costs to meet federal requirements which exceed the appropriated funds. It is the intent of the Legislature that the spending plan provide more specific details as to the effective use of the funds than have been previously provided and that the public policy goals behind the spending plan be made explicit. No approval of a spending plan by the Department of Finance shall be effective sooner than 30 days following transmittal of the plan to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers election issues, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may determine.
3. No funds in this item shall be spent on a statewide voter database prior to the Department of Finance's approval of a Feasibility Study Report for the project.
4. Upon notification and approval of a spending plan pursuant to Provision 2, the Department of Finance may authorize the transfer of amounts from this item to Item 0890-0101-0890 in order to realign the budget in a manner that is consistent with the approved plan.

0890-101-0890

Provisions

1. Prior to the expenditure of any funds in this item, the Secretary of State shall submit a spending plan to the Department of Finance for approval. The spending plan may set out proposed expenditures in whole or in part depending on the guidelines issued by the Federal Election Assistance Committee. The spending plan shall include, at a minimum, (1) a detailed description and schedule of proposed expenditures by function and activity, (2) a description and detail of any proposed hiring of state employees or the use of consulting contracts, (3) a timeline for the meeting of federal requirements, and (4) any estimated costs to meet federal requirements which exceed the appropriated funds. It is the intent of the Legislature that the spending plan provide more specific details as to the effective use of the funds than have been previously provided and that the public policy goals behind the spending plan be made explicit. No approval of a spending plan by the Department of Finance shall be effective sooner than 30 days following transmittal of the plan to the Chairperson of the Joint Legislative Budget Committee and the chairperson of the committee in each house that considers election issues, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may determine.
2. Upon notification and approval of a spending plan pursuant to Provision 1, the Department of Finance may authorize the transfer of amounts from this item to Item

0890-001-0890 in order to realign the budget in a manner that is consistent with the approved plan.

ATTACHMENT E

Transfer Unclaimed Scholarshare Funds to the General Fund

SEC. XX Section 69995 of the Education Code is amended to read:

69995. (a) It is the intent of the Legislature in enacting this article to encourage high school pupils to study hard and master the California academic content standards adopted by the State Board of Education and to excel in mathematics and the sciences.

(b) The Scholarshare Investment Board, known hereafter as "the board," unless otherwise specified, shall administer the programs authorized by this article, including the adoption of rules and regulations as provided by subdivision (d) of Section 69981, and in so doing shall cooperate with the State Department of Education, the Treasurer's office, the Controller, the college board, private test publishing companies, and other entities necessary to ensure the accurate and timely identification and reporting of award recipients, granting of awards, and administration of these programs. The State Department of Education shall ensure that the contract with the test publisher selected pursuant to Section 60642 reflects the reporting requirements of this article and that the publisher meets those requirements.

(c) The definitions in Section 69980 apply to this article.

(d) To be eligible for an award pursuant to the programs authorized by this article, a pupil shall meet all of the following eligibility criteria:

(1) The pupil took the achievement test authorized by Section 60640 in grade 9, 10, or 11.

(2) The pupil was enrolled at a California public school for at least 12 consecutive months immediately preceding, or was in attendance for at least 110 days of the school year in which the test is administered and at least 110 days of the school year immediately preceding, the administration of the achievement test specified in paragraph (1), as evidenced by his or her school records obtained pursuant to administration of the program authorized by this article.

(3) The pupil took both of the following:

(A) The nationally normed reading and mathematics portions of the achievement test, as specified by the State Board of Education and authorized by Section 60640.

(B) The English/language arts and mathematics portions of the achievement test authorized by Section 60640 that are augmented and aligned, pursuant to Section 60643, with the California academic content standards, unless otherwise exempted by action of the State Board of Education.

(e) (1) Awards made pursuant to this article shall be an entitlement to pupils identified as qualifying for an award pursuant to this article. The State Department of Education shall annually provide the board with an estimate of the number of pupils with qualifying scores by October 15. Within 30 days of receipt of the estimate, the board shall deposit a single amount equal to the sum of the

amounts of the awards earned by qualifying pupils, as specified in subdivision (f), into a single account separate and apart from all participant accounts within the Golden State Scholarshare Trust in the names of those pupils.

(2) Notwithstanding subdivision (1), and subsections (b) and (c) (1) of Section 69996 or any other provision of law or regulation, the board shall authorize the transfer of \$50 million deposited for awards earned but unclaimed for the 2000-01, 2001-02 and 2002-03 fiscal years to the General Fund. These funds shall be transferred from the single accounts established, in each of the years previously stated, within the Golden State Scholarshare Trust, no later than 30 days after the enactment of the Budget Act of 2004. To the extent that there are insufficient funds available within the remaining single accounts, the General Fund shall be liable for any funds required to establish participant accounts for students who claim their 2000-01, 2001-02, or 2002-03 awards, consistent with Section 69996. After the funds are transferred to the General Fund and if there are insufficient funds remaining in the single accounts to establish the separate participant accounts, the Controller shall transfer funds from the General Fund to the Golden State Scholarshare Trust upon notification by the board that funds are needed to meet the General Fund's liability. The board shall promulgate regulations that are consistent with this paragraph pursuant to the authorization provided under Section 69999.

(f) (1) (A) For the 2003-04 fiscal year, only awards earned by pupils enrolled in the 12th grade during the 2003-04 academic year shall be deposited as described in subdivision (e). This paragraph applies to awards for recipients who qualify for awards pursuant to this article if the awards were not deposited by the board before July 1, 2003.

(B) Notwithstanding subparagraph (A) or any other provision of law, for the 2003-04 fiscal year only, the transfer of funds for the purpose of making deposits as described in subdivision (e) may be delayed for one additional year or until the pupil is enrolled in an institution of higher education if authorized in legislation enacted during the 2003-04 Regular Session.

(2) For the 2004-05 fiscal year, only awards earned by pupils enrolled in the 12th grade during the 2004-05 academic year shall be deposited as described in subdivision (e). If a pupil also earned an award in a prior year, the board shall calculate an amount equal to the award earned, plus an amount equal to the interest that would have been earned had the recipient's award funds been annually deposited on October 15 of the recipient's junior year of high school enrollment. This paragraph applies only to awards earned by recipients who qualify for awards pursuant to this article if the awards were not deposited by the board before July 1, 2003.

(3) For the 2005-06 fiscal year, and each year thereafter, awards earned by pupils enrolled in the 12th grade during the 2005-06 academic year and each respective academic year shall be deposited as described in subdivision (e). If a pupil also earned an award in a prior year, the board shall calculate an amount equal to the award earned, plus an amount equal to the interest that would have been earned had the recipient's award funds been annually deposited on October 15 of the recipient's sophomore or junior years of high school enrollment, or both sophomore and junior years of high school enrollment. This paragraph applies only to recipients who qualify for awards pursuant to this article if the awards were not deposited by the board before July 1, 2003.

(g) Scholarship assets may not be commingled for investment purposes with participant accounts. Notwithstanding Section 69991, all assets of the

scholarship account, while part of the Golden State Scholarshare Trust, are owned by the state until used to pay the qualified higher education expenses of the beneficiary.

(h) The entity contracted for the assessment authorized by Section 60640 shall annually, on or before January 15, provide the board a digital report that contains a final list of pupils identified as qualifying for an award pursuant to this article. To ensure that this digital report is accurate and is prepared on a timely basis, all corrections to and revisions of the data that are used to prepare the digital report shall be submitted to the State Department of Education on or before November 15 of the preceding year.

(i) Deposits made to the scholarship account shall be invested according to the guidelines established by the board pursuant to the requirements of state and federal law. The deposits shall be invested through a guaranteed funding agreement with an interest rate to be declared annually by the investment manager, or through another investment determined by the board to be equally or more secure. For purposes of this section, a guaranteed funding agreement is an approved investment vehicle for state-owned scholarship funds.

(j) This article does not prevent any pupil from seeking private or other funding sources to supplement the amount of any funds awarded pursuant to this article.

(k) Award recipients shall be informed that the programs authorized by this article do not guarantee in any way that higher education expenses will be equal to projections and estimates provided by the board, nor that the claimant will be guaranteed any of the following:

(1) Admission to an institution of higher education.

(2) If admitted, a determination that the award recipient is a resident for tuition purposes by the institution of higher education.

(3) Continued attendance at the institution of higher education following admission.

(4) Graduation from the institution of higher education.

(5) Savings sufficient to fully cover all qualified education expenses of attending an institution of higher education.

(l) Notwithstanding any other provision of state law, any funds awarded pursuant to this article shall augment and not supplant student financial aid from other public sources, inclusive of calculating eligibility for student financial aid.

(m) Notwithstanding any other provision of law, the awards and earnings claimed by a recipient pursuant to this article shall be exempt from state income tax liability.

(n) To the extent allowed under federal law, any funds awarded pursuant to this article may not be considered in the federal needs analysis for student financial aid, as they are an asset of the state until used for the payment of qualified higher education expenses.

ATTACHEMENT F

Proposed Budget Bill Language for the California Debt Limit Allocation Committee Fund (Fund 0169) Loan

The transfer made by this item is a loan to the General Fund that shall be fully repaid by October 1, 2006. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. The State Controller shall, within 15 working days of receipt of written notification from the Department of Finance, transfer from the General Fund to the California Debt Limit Allocation Committee Fund the full amount of the loan or increments thereof as requested by the Department of Finance. It is the intent of the Legislature that repayment is made so as to ensure that current and newly authorized programs supported by this fund are fully and timely implemented as approved by the voting members of California Debt Limit Allocation Committee Fund. It is also the intent of the Legislature that repayment is made to ensure compliance with federal and state statutes or requirements. Accordingly, the Department of Finance shall, within 30 days of receipt of written notification documenting the need of the loan repayment from the California Debt and Limit Allocation Committee, provide written notification to the State Controller notifying the State Controller of the amount to be transferred from the General Fund to the California Debt Limit Allocation Committee Fund.

ATTACHMENT G

Proposed Budget Bill Language for the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account (Fund 0448) Loan

The transfer made by this item is a loan to the General Fund that shall be fully repaid by October 1, 2006. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. The State Controller shall, within 15 working days of receipt of written notification from the Department of Finance, transfer from the General Fund to the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account the full amount of the loan or increments thereof as requested by the Department of Finance. It is the intent of the Legislature that repayment is made so as to ensure that current and newly authorized programs supported by this account are fully and timely implemented as approved by the voting members of the California Tax Credit Allocation Committee. It is also the intent of the Legislature that repayment is made to ensure compliance with federal and state statutes or requirements. Accordingly, the Department of Finance shall, within 30 days of receipt of written notification documenting the need of the loan repayment from the California Tax Credit Allocation Committee, provide written notification to the State Controller notifying the State Controller of the amount to be transferred from the General Fund to the Occupancy Compliance Monitoring Account, Tax Credit Allocation Fee Account.

ATTACHMENT H

Proposed Budget Bill Language for the Tax Credit Allocation Fee Account (Fund 0457) Loan

The transfer made by this item is a loan to the General Fund that shall be fully repaid by October 1, 2006. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. The State Controller shall, within 15 working days of receipt of written notification from the Department of Finance, transfer from the General Fund to the Tax Credit Allocation Fee Account the full amount of the loan or increments thereof as requested by the Department of Finance. It is the intent of the Legislature that repayment is made so as to ensure that current and newly authorized programs supported by this account are fully and timely implemented as approved by the voting members of the California Tax Credit Allocation Committee. It is also the intent of the Legislature that repayment is made to ensure compliance with federal and state statutes or requirements. Accordingly, the Department of Finance shall, within 30 days of receipt of written notification documenting the need of the loan repayment from the California Tax Credit Allocation Committee, provide written notification to the State Controller notifying the State Controller of the amount to be transferred from the General Fund to the Tax Credit Allocation Fee Account.

ATTACHMENT I

Trailer Bill for Contractor Payment Language

SEC. 1. Section 1088.9 is added to the Unemployment Insurance Code to read:

1088.9. (a) Effective January 1, 2005, any service-recipient required to report payments made to a service-provider pursuant to Section 1088.8 shall deduct and withhold a tax of 2 percent on payments made in any year to the service-provider.

(b) Any service-recipient failing to withhold from any payments any amounts required by subdivision (a) to be withheld is liable for the amount required to be withheld, unless it is shown that the failure to withhold is due to reasonable cause.

(c) The Franchise Tax Board shall be allowed access to the information filed with the department pursuant to this section.

(d) The Employment Development Department shall develop and publish forms and procedures for reporting and remitting payments made and taxes withheld under this section.

(e) For purposes of this section, the terms "service-provider" and "service recipient" have the same meanings as applicable for purposes of Section 1088.8.

ATTACHEMENT J

Control Section 4.05

SEC 4.05. (a) In reviewing the amount proposed for Items 9800-001-0001, 9800-001-0494, and 9800-001-0988, the Legislature has determined that there should be a 5% reduction in the level of funding for employee compensation for those state employees who received time off in lieu of a portion of pay such as has been provided in a Personal Leave Program. In addition, there shall be no increase in the level of funding for salary and benefit increases that are to take effect after June 30, 2004. These reductions were made to the amounts appropriated in Items 9800-001-0001, 9800-001-0494, and 9800-001-0988 because the State is facing an extreme fiscal crisis, and it would be fiscally imprudent to commit state funds for employee compensation as provided in the memoranda of understanding for these bargaining units.

(b) The Department of Personnel Administration shall issue pay letters or take any other actions necessary to implement the 5% reduction in the level of funding for employee compensation referenced in section (a) above. The State Controller similarly shall take any and all actions necessary to implement the 5% reduction in the level of funding for employee compensation and take no action to implement any increase to salary or benefits that is to take effect after June 30, 2004. No director of a department or any executive officer of a board, bureau, or commission shall take any action to increase the level of compensation for employees above the compensation levels described in subdivision (a) above. The prohibitions of this provision are intended to apply to general employee compensation policies, and do not preclude the promotion or reclassification of employees or the granting of merit salary adjustments for employees.

ATTACHMENT K

Control Section 4.10

SEC. 4.10. (a) Notwithstanding any other provision, the Director of Finance in consultation with Agency Secretaries and other Cabinet members shall reduce General Fund appropriations for 2004-05 by a total of \$150,000,000 (one hundred fifty million dollars). Each Agency Secretary shall recommend to the Director of Finance amounts to be reduced from the appropriations to departments within the Agency. The Director of Finance may provide the Agency Secretaries with target reduction amounts, in which case, the Agency Secretaries shall provide the Director of Finance with a list of recommended reductions that is no less than the target amount for that Agency. For departments not reporting to an Agency Secretary, the Director of Finance shall determine the amount of the reductions.

(b) The Director of Finance shall not reduce the amounts appropriated for higher education; the courts; the Legislature; Constitutional Officers; debt service including, but not limited to, Tobacco Settlement Revenue Shortfall, payment of interest on General Fund loans, and interest payments to the Federal Government; Health and Dental Benefits for Annuitants, Equity Claims before the Victim Compensation and Government Claims Board, Augmentation for Contingencies or Emergencies, and Capitol Outlay Planning and Studies Fund pursuant to this section.

ATTACHEMENT L

Control Section 4.35

Sec. 4.35. (a) The Department of Finance shall identify all positions loaned to the Office of the Governor from other departments and agencies and shall transfer those positions and associated General Fund authority from the appropriate department or agency to the Office of the Governor.

(b) For loaned positions not funded by the General Fund, the Director of Finance shall reduce the funding authority associated with those positions in the appropriate departments, and transfer the position authority to the Office of the Governor.

(c) Notwithstanding any other provision of law, the Director of Finance may augment the amount available for expenditure by the Office of the Governor to pay the costs associated with the transfer of loaned positions that were not funded by the General Fund.

(d) Upon conclusion of the 2004-05 fiscal year, the Director of Finance shall furnish the chairpersons of the committees in each house of the Legislature that consider appropriations and the Budget, and the Chairperson of the Joint Legislative Budget Committee, with a report on all transfers and augmentations for that fiscal year.

ATTACHMENT M

Control Section 4.60 Revisions

SEC. 4.60. ~~Notwithstanding any other provision of law, the Department of Finance shall adjust any item of appropriation in this act, as appropriate, to fund the rent for state office buildings.~~ *(a) The Legislature finds and declares that it is in the best interest of the State, in managing state office buildings and in leasing private space, to use procedures that recognize the value of these assets to the State and the people served by the State's programs. Additionally, costs incurred by State entities for rent, operations and maintenance, debt service, and overhead charges should be assessed to state entities in an equitable manner.*

(b) On or before August 1, 2004, the Department of Finance shall report to the fiscal committees of both houses of the Legislature regarding the feasibility of assessing a surcharge on state departments that allocates overhead costs currently incurred by the Department of General Services, some of which are recovered through building rental rates, to all state entities receiving a benefit from these costs. This report shall also include recommendations regarding the feasibility of using a portfolio methodology to establish state office building rental rates, including the re-allocation of lease revenue debt service payments and operations and maintenance costs associated with state office buildings.

(c) Not sooner than 30 days after the transmittal of this report, the Director of Finance is authorized to adjust any item of appropriation in this act to effectuate the recommendations or findings included in the report. In addition, the Director of Finance is authorized to transfer between items of appropriation in order to reallocate debt service, if such changes are determined to be consistent with the State's legal obligation to bond holders."

ATTACHMENT N

Punitive Damages Proposal – Trailer Bill

Attachment B

The people of the State of California do enact as follows:

SECTION 1. Section 3297 is added to the Civil Code to read:

3297. (a) The Legislature hereby finds and declares, as follows:

(1) Exemplary damages have long been held to be an appropriate form of punishment and deterrence.

(2) Exemplary damage awards are not intended to compensate the injured party.

(3) As exemplary damages are sought to punish a wrongdoer and protect the general public, any award arising from such should be allocated to benefit the general public.

(b) The award of exemplary damages shall be paid as follows:

(1) Twenty-five percent to the plaintiff or plaintiffs, upon which the plaintiff or plaintiff's attorney's fee can be calculated.

(2) The remainder of seventy-five percent is to be deposited into the "Public Benefit Trust Fund", which is hereby created to be administered by the State Controller. Amounts deposited into the "Public Benefit Trust Fund" shall be available for annual appropriation in the Budget Act and shall be used for purposes consistent with the nature of the award.

(c) Exemplary damages paid to the State of California shall not be considered part of the underlying award for the purposes of calculating contingency fees.

(d) In a tort case in which the cause of action arises from product liability, there shall be no limitation regarding the amount which may be awarded as punitive damages. Only one award of punitive damages may be recovered in a court in this state from a defendant for any act or omission if the cause of action arises from product liability, regardless of the number of causes of action which may arise from such act or omission.

(e) Exemplary damages awarded against a small business may not exceed 2 percent of the average gross receipts for state income tax purposes for the five fiscal years of the business immediately preceding the filing of the complaint. For purposes of the subdivision "small business" means a small business as defined in Section 11342.610 of the Government Code.

SUBCOMMITTEE NO. 4

Agenda

Joseph Dunn, Chair
Ross Johnson
Denise Moreno Ducheny



Agenda: Part 3

Wednesday, May 19, 2004
1:30 p.m.
Room 3191

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0510	State and Consumer Services Agency	
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ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
Consent Issues							
01	0510/ State and Consumer Services Agency	Eliminate General Fund support for the Consumer Services Agency (LAO option)	The LAO provides an option of eliminating General Fund support of \$0.7 million for the Agency, which would reduce the Agency budget by 53 percent. This issue was kept open at the March 10, hearing for further consideration.	\$700 General Fund savings	Approve as budgeted (reject the LAO option)		
02	0520/ Business, Transportation and Housing Agency	Technology, Trade, and Commerce Agency (TTCA) closure costs	An April 1 Finance Letter requests \$575,000, General Fund, for costs associated with the closure the TTCA that will be incurred in 2004-05. These costs include unemployment insurance, worker's compensation, and costs related to labor dispute resolutions. The Administration indicates these costs cannot be finalized at this time and requests provisional language granting the Director of Finance the authority to augment this appropriation not sooner than 30 days after providing written notification to the Legislature.	\$575 Cost to the General Fund	Approve the request		
03	1110/ Board of Vocational Nurse and Psychiatric Technician Examiners	Position increase for licensing workload	May Revision Finance Letter #5 requests 2 positions (1.9 personnel years) , \$256,000, and temporary help staff for the Vocational Nursing Program. Additionally, 1.0 positions (0.9 personnel years) and \$54,000 are requested for the Psychiatric Technician Program. The workload of the Board has increased over recent years while vacant positions have been eliminated. The Board indicates this staffing request is necessary to process applications and examinations in a timely manner.	\$310 Special Fund expenditure	Approve the request.		
04	1110/ Board of Accountancy	Position increase for licensing workload	May Revision Finance Letter #3 requests 4 positions (3.8 personnel years) and \$208,000 for the Licensure Program. The workload of the Board has increased over recent years while vacant positions have been eliminated. The Board indicates this staffing request is necessary to process license applications for certified public accountants in a timely manner.	\$208 Special Fund expenditure	Approve the request.		
05	1110/ Board of Barbering and Cosmetology	Position increase for licensing workload	May Revision Finance Letter #1 requests 14 positions (13.3 personnel years) and \$893,000 for license and examination workload. The workload of the Board has increased over recent years while vacant positions have been eliminated. The Board indicates this staffing request is necessary to process applications and issue and renew licenses in a timely manner.	\$893 Special Fund expenditure	Approve the request.		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
06	1110/ Board of Registered Nursing	Position increase for licensing workload and approval of new nursing school programs	May Revision Finance Letter #4 requests 14.7 positions (14.0 personnel years) and \$955,000 for license workload and approval of new nursing school programs. The workload of the Board has increased over recent years while vacant positions have been eliminated. The Board indicates this staffing request is necessary to process license applications and issue and open new nursing school programs in a timely manner.	\$955 Special Fund expenditure	Approve the request.		
07	1110/ Contractors State License Board	Construction Management Education Account Grants	May Revision Finance Letter #2 requests expenditure authority to issue \$239,000 in Construction Management Education Account grants to postsecondary education institutions offering programs in construction management. In both 2004-05 and 2005-06. Grant funds are obtained exclusively through voluntary contributions from the construction industry. The intent of the program is to reduce the shortage of qualified workers in the industry.	\$239 Special Fund expenditure	Approve the request.		
08	1111/ Bureau of Naturopathic Medicine	Funding to establish the Bureau of Naturopathic Medicine (created by Chapter 485, Statutes of 2003)	May Revision Finance Letter #1 requests expenditure authority of \$93,000 to implement Chapter 485, Statutes of 2003 (SB 907), which created the Bureau of Naturopathic Medicine. One position is proposed for staffing the Bureau and would be redirected from existing Department of Consumer Affairs (DCA) staff. Licensure fee revenue will support the Bureau, however in the budget year partial funding of \$45,000 is proposed to be redirected from other DCA resources.	\$93 Special Fund expenditure	Approve the request.		
09	1110/1111/ Department of Consumer Affairs (DCA) Various Boards and Commissions	Augmentation for the Attorney General services rate increase	May Revision Finance Letter #2 requests an augmentation of \$3.597 million to fund an hourly rate increase for Attorney General services to maintain the existing level of enforcement activities to DCA's Boards and Bureaus. Attorney General Fees for attorney services increased from \$112 to \$132 per hour effective April 1, 2004.	\$3,597 Special Fund expenditure	Approve the request.		
10	1700/ Department of Fair Employment and Housing	Eliminate two positions for General Fund saving	May Revision Finance Letter #4 requests a reduction of 2.0 positions (a public affairs position and a legal secretary) and \$225,000 General Fund. Lease savings from the relocations of the headquarters office is included in this request. This reduction request is one of the 3 percent reductions proposed by the Administration to generate General Fund savings.	\$225 General Fund Savings (permanent)	Approve the request.		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
11	2120/ Alcoholic Beverage Control Appeals Board	Temporary help staffing increase	May Revision Finance Letter #1 requests an increase of \$22,000 (special fund) to fund 0.8 personnel-years of a temporary help graduate assistant to perform clerical duties. The Appeals Board lost this position as part of its Control Section 4.10 reductions. The Board indicates this staffing request is necessary to process appeals in a timely manner.	\$22 special fund expenditure	Approve the request		
12	2180/ Department of Corporations	Settlement payments and the outstanding loan to the General Fund	A May Revision Finance Letter indicates the department has received \$2 million in settlement payments, which were not previously anticipated. The Administration request to use this money to benefit the General Fund through a \$500,000 transfer and as a \$1.5 million repayment of an outstanding \$20 million loan to the General Fund.	\$2,000 General Fund benefit though a transfer and loan repayment.	Approve the request		
13	2660/ Caltrans	Technical update to GARVEE bond debt service	May Revision Finance Letter #12 requests an update to the level of Grant Anticipate Revenue Vehicle (GARVEE bond) debt service proposed in the Governor's Budget. This is a technical adjustment that reduces the debt service appropriation due to a favorable bond rating and lower-than-anticipated interest rates.	\$20,764 in federal fund bond debt savings	Approve the request		
14	2660/ Caltrans	San Francisco-Oakland Bay Bridge State Operations budget bill language	<p>The May Revision requests provisional language to permit increased expenditures for seismic retrofit activities of state-owned toll bridges with 30-day notification to the Legislature. These expenditures are funded by the Toll Bridge Seismic Retrofit Account (TBSRA), which is primarily bond revenue backed by future tolls.</p> <p>The Legislature approved legislation that continuously appropriates TBSRA funds, so this provisional language provides no new budget authority beyond what the legislature has already approved.</p>	Language only	Approve the request	BBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
15	2740/ Department of Motor Vehicles	Report of reversion	<p>The May Revision reports that \$10.882 million from the Smog Impact Fee Refund Account will be transferred back to the General Fund at the end of the fiscal year 2003-04 pursuant to Chapter 32, Statutes of 2000.</p> <p>Between October 15, 1990, and October 19, 1999, most vehicles previously registered in another state or country were assessed a \$300 smog impact fee to register for the first time in California. In 1995, the State was sued over the legality of the smog impact fee, and the fee was found to be unconstitutional. As a result, legislation was passed authorizing repayment of the fees plus interest. That legislation, Chapter 32, Statutes of 2000, transferred \$665,261,000 from the General Fund into the Smog Impact Fee Refund Account, a special deposit fund, for the purpose of making these refunds. In addition, Chapter 32, Statutes of 2000, provides that any unencumbered balance remaining in the account on or after June 30, 2004, shall revert to the General Fund.</p> <p>No action is required on this issue.</p>	\$10,882 transfer to the General Fund	No vote required – informational only		
16	2780 Stephen P. Teale Data Center (TDC)	Workload increase for Mainframe Central Processing Unit processing capacity	<p>May Revision Finance Letter #2 requests an increase of \$3,512,000 to provide additional mainframe processing capacity and hardware connectivity components for the TDC. The TDC provides mainframe computer systems capacity for its government organization customers, most of which are State agencies. This proposal, to provide expanded capacity of 369 Million Instructions Per Second and additional hardware connectivity components, is anticipated to be sufficient to meet the capacity needs for fiscal year 2004-05.</p>	\$3,512 expenditure Teale Revolving Fund	Approve the request		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
17	2780 Stephen P. Teale Data Center	Workload increase for Enterprise Storage Management Services	May Revision Finance Letter #3 requests an increase of \$507,000 to: (1) replace 4.6 Terabytes (TB – trillions of characters) of mainframe storage, (2) replace 6.1 TB of mid-range storage, and (3) add 2.88 TB of mainframe storage for workload growth. Without the additional storage capacity, TDC customer departments’ 2004-05 business needs will not be met. Further, insufficient storage capacity leads to increased risk to the State, because it would limit the capacity to install new security patches, new applications, or enhancements to existing systems. Failure to replace the older storage capacity units would result in incompatibility of storage devices with operating system environments and higher maintenance charges, if maintenance support is even available.	\$507 expenditure Teale Revolving Fund	Approve the request		
18	2780 Stephen P. Teale Data Center	Workload increase for mid-range system replacement	May Revision Finance Letter #4 requests an increase of \$1,346,000 to replace 53 UNIX processors and 17 Windows processors (a total of 70 midrange processors). The existing servers that would be replaced cannot be further upgraded. Aging computer systems become increasingly difficult to service and support and, in some cases, replacement parts are no longer manufactured or available. Replacing older, slower processors one-for-one with newer, faster processors precludes the need to procure additional software licenses for additional processors, resulting in significant overall cost savings for maintaining the UNIX environment. Further, if the existing, aging midrange processors are not replaced, because their operating system versions will no longer be supported by vendors (e.g., new security patches will not be provided), those systems would become increasingly vulnerable to security breaches and system failures.	\$1,346 expenditure Teale Revolving Fund	Approve the request		
19	8260/ California Arts Council	Eliminate General Fund Support (LAO Recommendation)	General Fund support for the Arts Council was reduced from \$19.375 million in 2002-03 to \$1.075 million in 2003-04. The Administration requests continued General Fund support of \$1.075 million. The LAO recommends General Fund support for the Arts Commission be eliminated. The issue was heard at the March 10 hearing and kept open.	\$1,075 General Fund cost	Approve as budgeted (reject the LAO option)		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
20	8380/ Department of Personnel Administration	Elimination of five positions to generate General Fund savings	<p>May Revision Finance Letter #1 request the elimination of 5 positions and a General Fund reduction of \$259,000? The reductions include:</p> <ul style="list-style-type: none"> • One position that supported the Rural Health Care Equity Program that will sunset on January 1, 2005. • One position that provided support to the Labor Relations Program. • Two positions that provided general classification, pay and human resources support to departments. • One legal secretary position from the Legal Division. <p>This proposed reduction is made to generate savings for the General Fund.</p>	\$259 General Fund savings	Approve the request		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
Discussion Issues							
01	0520/ Film Commission (Business, Transportation and Housing Agency)	Film California First Fund transfer to the General Fund	The May Revision requests that the \$1.089 million Film California First Fund balance be transferred to the General Fund. The Film California First Program was established in 2000-01 to subsidize filming-related fees paid to the federal and local governments; however, the program was discontinued in the current year and no funding is proposed for 2004-05. This was also a LAO recommendation and was heard at the April 14 hearing. The issue was left open pending the May Revision. In the May Revision, the Administration is also requesting \$600,000 General Fund for a new online permit system (see issue directly below).	\$1,089 transfer to the General Fund	Approve the request		
02	0520/ Film Commission (Business, Transportation and Housing Agency)	Film Commission Online Film Permit Issuance System	<p>May Revision Finance Letter #2 requests \$600,000 General Fund (one-time) to develop an online film permitting system for the California Film Commission to streamline the permit operations and to enhance customer service. No staff savings are associated with this proposal.</p> <p>The LAO recommends adding budget bill language making the requested 2004-05 General Fund augmentation a loan to be repaid over a few years through permit charges.</p> <p>The immediate need for this system in the current General Fund environment is unclear. Permits are currently processed without an automated system. Additionally, if this system would provide a benefit to the industry, industry may be willing to accept a fee to fund the project. See also the fee issue directly below.</p>	\$600 cost to the General Fund (one-time)	Deny the request.		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
03	0520/ Film Commission (Business, Transportation and Housing Agency)	Film Commission fees	<p>The LAO recommends that the Film Commission use existing statutory authority to institute film permit fees (for filming on State property) and eliminate the \$832,000 General Fund support for the program. This issue was held open at the April 14 hearing.</p> <p>The Film Commission has provided a suggested criteria for fees that would only charge fees for features and television filming if all of the following are meet:</p> <ol style="list-style-type: none"> 1. The production crew exceeds 50 people. 2. The number of shoot days is 2 or more. 3. The film company is for profit. <p>The Commission is unable to determine at this time how may productions would meet this criteria and how much money fees would produce.</p> <p>To collect this information, the subcommittee could add provision 1 to item 0520-001-0001: <i>The Business, Transportation and Housing Agency shall report to the budget committees of each house of the Legislature and the LAO by April 1, 2005, with a cost-recovery fee plan for film permits issued to for-profit production companies. The plan shall include, but not necessarily be limited to, fee levels for individual permits and projections for total fee revenue.</i></p>	none	<p>Deny the LAO recommendation eliminate General Fund support for the Film Commission in 2004-05.</p> <p>Approve budget bill language to require a report on film permit fees to recover costs.</p>	BBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
04	1110 Athletic Commission (Department of Consumer Affairs)	Eliminate General Fund support and backfill with special fund. Also increase gate fees that are deposited into the special fund.	<p>The Governor's Budget proposes to (1) reactivate the Athletic Commission Fund in which support revenue would be deposited; (2) eliminate the Commission's current General Fund expenditure authority and replace it with special fund expenditure authority; (3) increase gate fees from the existing 5 percent to 6 percent to provide sufficient special fund revenues to support its necessary expenditure authority; and (4) obtain a \$200,00 Control Section 14.00 special fund loan to provide necessary "state-up" funding for the commission.</p> <p>The Commission requests authority for \$709,000 in expenditures and projects that 2003-04 gate fee revenue at the existing 5 percent fee level will be \$756,000. The department indicates that while projected revenues exceeds costs with the existing fee level, gate fee revenue can fluctuate year-to-year and an operating reserve (not to exceed six months of expenditures) is requested.</p> <p>Another option would be to increase the amount and/or length of the Control Section 14.00 special fund loan and deny the gate fee increase. The following provisional language is suggested for Item 1110-001-0492: <i>2. Notwithstanding Section 14.00 of this act, the Director of Finance may authorize a loan of up to \$320,000 from the Vehicle Inspection and Repair Fund to the State Athletic Commission. This loan shall be repaid by 2006-07.</i></p>	\$709 General Fund savings	<p>Deny the gate fee increase.</p> <p>Approve the elimination of General Fund support and trailer bill language that allows the conversion to special fund.</p> <p>Approve provisional language that allows a longer-term loan.</p>	BBL	
05	1111/ Office of Privacy Protection (Department of Consumer Affairs)	General Fund reduction and partial funding realignment	<p>May Revision Finance Letter #4 requests a reduction of 1.0 position and \$120,000, General Fund, from the Office of Privacy Protection. Additionally, an increase in reimbursement authority of \$35,000 in contributions from the DCA boards and bureaus is also requested, for an overall net reduction of \$85,000 for the Office. This cut would reduce community presentations and increase response times to consumer questions. The Administration believes they would still be able to provide an acceptable level of service.</p>	\$120 General Fund Savings (permanent)	<p>Deny the elimination of one position.</p> <p>Approve increased reimbursements (\$35,000 General Fund savings) and the associated trailer bill.</p>	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
06	2150/ Department of Financial Institutions	California Financial Information Privacy Act (SB 1) staffing	<p>In the Governor’s Budget, the Administration requests \$1,881,000 and 17.0 positions to address the increased workload related to the provisions within Senate Bill 1 (Chapter 241, Statutes of 2003), which restricts financial institutions from sharing non-public personal information.</p> <p>The LAO recommends funding workload for complaint investigation and “red flag” audits only, which would require \$679,000 and 6.0 positions.</p> <p>Additional staffing alternatives are presented on attachment A.</p> <p>Provisional language has been developed to require a workload report.</p> <p>Provisions:</p> <ol style="list-style-type: none"> <i>The Department of Financial Institutions shall report to the budget committees of each house of the Legislature and the LAO by January 10, 2006, on (a) the level of non-compliance found with Chapter 241, Statutes of 2003, (b) any changes to state or federal law, or court decisions, that affect Chapter 241 workload, and (c) any staffing changes requested based on the level of compliance or changes in law.</i> 	\$1,881 special fund expenditure	<p>Approve the LAO-recommended level of funding and staffing.</p> <p>Approve the provisional language requiring a workload report.</p>		
07	2180/ Department of Corporations	California Financial Information Privacy Act (SB 1) staffing	<p>In the Governor’s Budget, the Administration requests \$1,945,000 and 22.0 positions (including one limited-term position) to address the increased workload related to the provisions within Chapter 241, Statutes of 2003 (SB 1), which restricts financial institutions from sharing non-public personal information.</p> <p>The LAO recommends funding workload for complaint investigation and “red flag” audits only, which would require \$932,000 and 10.0 positions.</p> <p>Additional staffing alternatives are presented on attachment A.</p> <p>Provisional language has been developed to require a</p>	\$1,945 special fund expenditure	<p>Approve the LAO-recommended level of funding and staffing.</p> <p>Approve the provisional language requiring a workload report.</p>		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
			<p>workload report.</p> <p><i>Provisions:</i></p> <p>1. <i>The Department of Corporations shall report to the budget committees of each house of the Legislature and the LAO by January 10, 2006, on (a) the level of non-compliance found with Chapter 241, Statutes of 2003, (b) any changes to state or federal law, or court decisions, that affect Chapter 241 workload, and (c) any staffing changes requested based on the level of compliance or changes in law.</i></p>				
08	2240 Department of Housing and Community Development (HCD)	Mandate for Regional Housing Plan	<p>The Governor’s Budget proposes to defer the mandate on regional housing needs assessments. The LAO indicates this mandate results in approximately \$4 million in annual General Fund obligations with \$1 million of this claimed by the Councils of Governments (COGs) and the remainder claimed by cities and counties.</p> <p>At the request of the subcommittee, the LAO has developed language to clarify and narrow the requirements of this mandate to reduce the cost. Additionally, the language is declaratory of existing fee authority that local governments could use to increase fees if desired. This language and additional background is provided on Attachment B.</p>		<p>Approve the administration’s request to defer the mandate in 2004-05.</p> <p>Approve the LAO trailer bill language lower mandate costs.</p>	TBL	
09	2240 Department of Housing and Community Development (HCD)	Emergency Housing Assistance Program Funding	<p>The Governor’s Budget requests a \$1.3 million reduction (from \$5.3 million to \$4 million) in the Emergency Housing Assistance Program (EHAP). EHAP provides funds for homeless shelter programs through minimum county allocations of \$10,000. The LAO presents an option of further reducing 2004-05 funding to \$2 million, which was the historical funding level for the program.</p>	\$1,300 General Fund Reduction	Approve the Governor’s Budget (funding level of \$4 million)		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
10	2240 Department of Housing and Community Development (HCD)	Enterprise Zone (EZ) Funding	The Governor's Budget requests increased reimbursement authority of \$668,000 and 6.0 positions (5.7 personnel years) to implement the provisions of Chapter 593, Statutes of 2003, which transferred the responsibility for the EZ Program from the Technology Trade and Commerce Agency to the department. It is proposed that EZs will reimburse the state for the cost of processing program extension requests and other related activities. Associated trailer bill language would allow the local governments administering the EZs to assess and collect a fee, as determined by HCD, for issuance of tax-credit certificates.	\$668 reimbursement authority to collect from local governments	Approve as budgeted. Approve the trailer bill language that provides local government will new fee authority.	TBL	
11	2600 California Transportation Commission (CTC)	Staffing Level	<p>The Governor's Budget proposed to eliminate 3.0 positions originally established to perform workload associated with the Traffic Congestion Relief Program (TCRP) – which would reduce total positions to 10.0. A Finance Letter indicates that subsequent to the release of the Governor's Budget, the CTC reported that these positions have absorbed other workload and that the TCRP workload has been significantly less than anticipated. The Administration is revising its proposal to retain these three positions as one-year limited term and zero-base the CTC's staffing for the 2005-06 budget.</p> <p>The CTC lost 4.8 positions due to June 30, 2003, vacancies. One of these positions was the Assistant Executive Director for Legislation.</p> <p>This issue was heard on April 14 and held open with the direction to staff to look for an internal consensus on the appropriate CTC staffing level.</p>	\$314 special fund expenditure	Approve the Finance Letter request to restore 3 TCRP-related positions. Additionally restore the Legislative positions and associated funding (\$106,000 State Highway Account and Public Transportation Account)		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
12	2600 California Transportation Commission	Grant Anticipation Revenue Vehicles (GARVEE bonds) language	<p>The Governor's Budget proposed an \$800 million GARVEE budget bill appropriation for the Department of Transportation. Statute continuously appropriates GARVEE proceeds, so the budget bill appropriation would have the effect of capping 2004-05 GARVEE allocations at \$800 million.</p> <p>The May Revision proposes to eliminate the budget bill appropriation and add a language-only item for both Caltrans and the California Transportation Commission (CTC). The following language is proposed for the CTC:</p> <p><i>Before allocating funds to projects in fiscal year 2004-05 that would result in the issuance of notes pursuant to Section 14553 of the Government Code that exceed \$800.0 million, the California Transportation Commission shall consult with the Business, Transportation and Housing Agency, the Department of Transportation and the Department of Finance pursuant to the requirements of Government Code Section 14553.8 to consider and determine the appropriateness of the mechanism authorized by Section 14553 in comparison to other funding mechanisms, and to determine and report to the Governor and the Legislature the effect of such issuances on future federal funding commitments.</i></p> <p>Staff recommends the following sentence be added to the proposed provision: <i>No allocations made pursuant to this provision shall occur sooner than 60 days after the written report is provided to the Legislature.</i></p> <p>See also a related GARVEE item in the Caltrans section below.</p>		Approve the requested language with the additional language recommended by staff.		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
13	2640/ Special Transportation Programs	Augmentation due to a higher revenue projections	<p>A May Revision Finance Letter requests an augmentation of \$15.941 million (from \$101.424 million to \$117.365 million) for Special Transportation Programs (STP). STP supports allocations to local transit agencies for operations and other purposes.</p> <p>Funding for STP was \$98 million and \$105 million in 2002-03 and 2003-04 respectively – so this request would augment funding by over 10 percent relative to the past two years.</p> <p>The Administration also projects “PTA spillover” revenue in 2004-05 of \$140 million, half of which would go to the STP under current statute. The Administration proposes trailer bill language to use the PTA spillover revenue to instead repay loans to the Traffic Congestion Relief Fund. This issue is discussed further in the Caltrans section.</p>	\$15,941 special fund augmentation	Approve the request.		
14	2660/ Caltrans	Grant Anticipation Revenue Vehicles (GARVEE bonds) appropriation and language	<p>The Governor’s Budget proposed an \$800 million GARVEE budget bill appropriation. Statute continuously appropriates GARVEE proceeds so the budget bill appropriation would have the effect of capping 2004-05 GARVEE allocations at \$800 million.</p> <p>The May Revision proposes to eliminate the budget bill appropriation and add a language-only item that would require the California Transportation Commission to consult with the Business, Transportation, and Housing Agency, the Department of Transportation, and the Department of Finance on the appropriateness of the mechanism in comparison to other funding mechanisms, and to determine and report to the Governor and the Legislature the effect of such issuances on future federal funding commitments.</p> <p>Staff recommends the GARVEE appropriation (Item 2660-301-6801) be retained and the following provisional language added: Provisions: 4. Notwithstanding Provision 3 of this item, The California Transportation Commission may allocate funds to projects</p>	\$800,000 GARVEE bond allocation	<p>Deny the Administration’s request to delete the GARVEE appropriation item because it is appropriate to review GARVEE allocation levels during the budget process.</p> <p>Approve the staff alternative to add Provision 4 to the item that requires a report is the GARVEE allocation exceeds \$800 million.</p>		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
			<p>that would result in the issuance of notes that exceed \$800,000,000, pursuant to the authority provided in Section 14553 of the Government Code, provided the California Transportation Commission consults with the Business, Transportation and Housing Agency, the Department of Transportation and the Department of Finance pursuant to the requirements of Section 14553.8 of the Government Code to consider and determine the appropriateness of the mechanism authorized by Section 14553 in comparison to other funding mechanisms, and determines and reports to the Governor and the Legislature the effect of such issuances on future federal funding commitments. No allocations made pursuant to this provision shall occur sooner than 60 days after the written report is provided to the Legislature.</p> <p>Since the issuance of GARVEE notes is new for California this year and current statute provides authority for several billion dollars more in additional GARVEE allocations, this item would provide a mechanism for consideration of the appropriate GARVEE allocation relative to other funding alternatives.</p>				
15	2660/ Caltrans	Cash management of locally-subvented federal funds - General Fund relief	<p>The Governor's midyear plan included a proposal to accelerate the receipt of \$800 million in federal reimbursements by utilizing cash management of locally-subvented federal Obligation Authority (OA). With this additional \$800 million in federal reimbursement to the State Highway Account, which was not anticipated in the 2004 STIP Fund Estimate, the Administration proposes the following:</p> <ul style="list-style-type: none"> • Reimburse the General Fund for debt service on current transportation general-obligation bonds (\$406 million). • Loan \$200 million to the General Fund for up to 3 years (Proposition 2 loan). • Retain \$194 million to support highway project allocations. <p>The May Revision withdrew the request to transfer a total of \$606 million to the General Fund because the reimbursement estimate has been reduced to \$200 million. The Administration intends to continue the conversion to cash management to benefit the State Highway Account.</p>	\$606,000 transfer to the General Fund	Reject the General Fund transfer (as is now requested in the May Finance Letter).	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
16	2660/ Caltrans	Cash management of locally-subvented federal funds - associated staffing.	April 1 Finance Letter # 1 requested 17.0 positions (2-year limited term) and \$1.480 million to implement the cash management proposal. While the proposal will no longer aid the General Fund (See issue above) the Administration still anticipates a State Highway Account benefit of \$200 million.	\$1,480 State Highway Account expenditure	Approve the request.	no	
17	2660/ Caltrans	Maintenance Program – stormwater positions	Budget Change Proposal #3 requests \$8.214 million to provide permanent funding and authority for 81 positions (77 personnel years) of the 154 positions established in 2002-03 as two-year limited term. The position request is less than the 154 positions established in 2002-03 to reflect the number of positions that were abolished due to vacancies on June 30, 2003. This issue was held open at the April 14 hearing due to concerns this staffing would be insufficient and the expectation of a May Finance Letter. See the issue directly below that adds an additional 64 maintenance positions.	\$8,214 State Highway Account expenditure	Approve the request.		
18	2660/ Caltrans	Maintenance Program – restore positions for preventative maintenance workload	May Revision Finance Letter #6 requests \$6.778 million and 64 positions (64 personnel years). These positions would perform preventative maintenance work on highways and rest areas. To further address the sufficiency of preventative maintenance, see the issue directly below.	\$6,778 State Highway Account expenditure	Approve the request.		
19	2660/ Caltrans	Maintenance Program – long term maintenance plan	At the April 14 hearing, the Chair formally requested that Caltrans develop and share with the committee a long-range maintenance plan. The Assembly subcommittee approved placeholder trailer-bill language to require the development of a long-range maintenance plan with performance measures. The subcommittee could adopt placeholder language and direct staff to work with the LAO and Assembly Consultants to develop language to ensure that the appropriate level of preventative maintenance is being performed on the state's highways.	none	Approve placeholder language and direct staff to work on language to ensure adequate preventative maintenance work on the state's highways.	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
20	2660/ Caltrans	Traffic Congestion Relief Program (TCRP) Projects	<p>The Governor’s Budget proposed trailer bill language to delete the statutory designation of TCRP projects, which would have required the projects to look for alternative project funding in the State Transportation Improvement Program (STIP), local measure money, or other funding mechanisms. The Governor’s Budget also proposed a \$189 million transfer from the Traffic Congestion Relief Fund to the General Fund in 2003-04.</p> <p>The May Revision withdraws these proposals, and instead proposes language (both trailer bill and budget bill) to require the following prior to any new allocations for TCRP projects:</p> <p><i>The Business, Transportation and Housing Agency (BTHA), in cooperation with the California Transportation Commission (CTC), shall conduct a review of the Traffic Congestion Relief Program projects based on the following criteria: 1) economic impact, including job creation, 2) impact on goods movement, and 3) leveraging of local, federal and private funds. The criteria shall be applied by the CTC in cooperation with the BTHA to determine which projects will receive funding allocations.</i></p> <p>Staff notes that TCRF funds are continuously appropriated, so no Budget Act appropriation is required to continue expenditures in the budget year on currently-allocated projects or for the CTC to make new allocations.</p> <p>The LAO has raised a concern that the proposal would allow the Administration to prioritize TCRP projects, again without legislative review.</p> <p>Staff recommends the subcommittee reject the budget bill item and proposed trailer bill language and direct staff to develop alternative trailer bill language that would do the following:</p> <ul style="list-style-type: none"> • Cite legislative intent that TCRP allocations made after July 1, 2004, be made in a priority order to (1) maximize economic impact, including job creation, (2) speed the movement of goods, and (3) leverage local, federal and 	\$163,000 Traffic Congestion Relief Fund expenditures for existing allocations – authority for additional expenditures with tribal gaming revenues.	<p>Approve this funding through existing continuous appropriation authority.</p> <p>Delete the capital outlay item and proposed provisional language.</p> <p>Direct staff to develop alternative trailer bill language concerning the prioritization of future TCRP allocations (see description to left)</p> <p>Approve the addition of a TCRF State Operations item with a \$1000 appropriation level. Require Finance to detail TCRF Capital Outlay Support staffing during the conference committee.</p>		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
			<p>private funds.</p> <ul style="list-style-type: none"> • Provide that the Business, Transportation and Housing Agency, in cooperation with the California Transportation Commission shall conduct a review of the TCRP projects and prioritize those projects for new allocations using the above priorities. Require a report to the Legislature by September 1, 2004, explaining the recommended prioritization of TCRP projects. • Specify that no new TCRP allocations shall be made sooner than 60 days after the report is received by the Legislature. <p>TCRF workload Capital Outlay Support staffing: Traffic Congestion Relief staffing was deleted in the Governor's Budget and is not added back with the Capital Outlay Support Finance Letter Request. Finance indicates the staffing need is not finalized at this time. Staff recommends the subcommittee add a TCRF State Operations item with a \$1000 appropriation level. Require Finance to detail TCRF Capital Outlay Support staffing during the conference committee.</p>				

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
21	2660/ Caltrans	Partial repayment from the General Fund of existing transportation loans	<p>The May Revision proposes to repay \$384 million of \$1.383 billion outstanding (excluding interest) from past Traffic Congestion Relief Fund (TCRF) loans to the General Fund.</p> <p>Once in the TCRF, the Administration proposes the following use of these funds:</p> <ul style="list-style-type: none"> ➤ \$163 million to continue funding existing TCRP allocations. ➤ \$184 million for loan repayment to the State Highway Account for capital outlay purposes. (If this repayment were made, \$279 million of the loan would remain outstanding.) ➤ \$36 million for loan repayment to the Public Transportation Account for capital outlay purposes. (If this repayment were made, \$239 million on the loan would remain outstanding.) <p>This repayment would include \$140 million in Public Transportation Account (PTA) "spillover" revenue that would otherwise go to the PTA. Spillover revenues do not exist in most years and materialize according to a statutory trigger that occurs when gasoline sales tax revenues are relatively high and overall taxable sales are relatively low. Spillover revenues are difficult to accurately predict and it is possible less than \$140 million in spillover revenue will materialize.</p> <p>TBL also needs technical correction (incorrect org code).</p> <p>Note: The Administration also withdrew the proposal to transfer additional \$17 million in 2003-04 PTA spillover revenue to the General Fund, because this revenue did not materialize.</p>	<p>\$140,000 transfer from the Retail Sales Tax Account (PTA spillover).</p> <p>\$243,000 transfer from the General Fund.</p>	Approve the loan repayment proposal and direct staff to make any need technical corrections to the trailer bill.	TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
22	Control Section 16.00	Partial repayment from one-time tribal gaming revenues of existing transportation loans	<p>The May Revision requests the approval of Control Section 16.00 that would transfer one-time tribal gaming revenues to the Traffic Congestion Relief Fund (TCRF) and specify that these transfers are loan repayments for past transportation loans to the General Fund.</p> <p>The proposed control section would allow the Director of Finance to allocate this revenue in the following priority order not sooner than 30 days after notification to the Legislature:</p> <ol style="list-style-type: none"> 1. Repayment of outstanding SHA loans from the TCRF, including interest. (\$279 million outstanding plus interest).* 2. Repayment of outstanding PTA loans from the TCRF. (\$239 million outstanding).* 3. Traffic Congestion Relief Program projects that are allocated based on the criteria identified in Item 2660-301-3007, Provision 2. (\$1.000 billion outstanding plus interest).* 4. Advanced repayment of local streets and roads funding due for repayment in 2008-09. (approximately \$95 million outstanding). 5. Advanced repayment of State Transit Assistance loans due for repayment in 2008-09. (approximately \$95 million outstanding). <p>* Outstanding loan amounts assume \$384 million loan repayment in the issue above occurs.</p> <p>The Administration does not quantify the amount of one-time tribal gaming revenue that may be received.</p> <p>Staff recommends the following adjustment to the Control Section:</p> <ul style="list-style-type: none"> • In section (a), change the word “may” to “shall” so the allocation of this revenue would not be permissive • Change section (b) , number 3 to say “Traffic Congestion Relief Program projects for expenditures in 2004-05.” 		Approve the Control Section with language changes recommended by staff.	BBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
23	2660/ Caltrans	Suspension of Proposition 42	<p>The Governor's Budget proposed full suspension of the 2004-05 Proposition 42 gasoline sales tax transfer, which at that time was estimated to be \$1.127 billion. The Governor's Budget proposed a full suspension, with no repayment requirements.</p> <p>The May Revision retains the request to fully suspend Proposition 42 in 2004-05, but now proposes trailer bill language that would make this a loan with repayment including interest due in 2007-08. The new forecast for Proposition 42 revenues is \$1.207 billion - about \$80 million above the prior forecast.</p> <p>Note, the 2003-04 Proposition 42 transfer was partially suspended with a repayment requirement - an estimated \$862 million is due in 2008-09.</p>	\$1,207,000 General Fund savings. However, repayment of this amount is due to transportation in 2007-08.	Approve the May Revision request – suspend Proposition 42 and require repayment in 2007-08.		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
24	2660/ Caltrans	Mid-Year proposal: Transfer 2003-04 and 2004-05 non-Article XIX revenues to the General Fund for General Obligation Bond debt reimbursement.	<p>The Governor's Budget proposes to transfer income from the sale of property, rental income, and miscellaneous revenues (non-Article XIX revenue) to the General Fund. This revenue is estimated at \$60.4 million in 2003-04 and \$47.2 million in 2004-05. Under current statute, this revenue would otherwise be transferred from the State Highway Account to the Public Transportation Account.</p> <p>An April Finance Letter proposed provisional language to specify that this revenue would be reimbursement to the General Fund for General Obligation bond debt service for transportation-related expenditures.</p> <p>The Federal Highway Administration has indicated concerns that this transfer may violate federal title, and therefore require that California refund the federal government a portion of this amount. This revenue at question is derived from the rental and sale of property that was purchased using federal transportation funds.</p> <p>The subcommittee may want to consider additional provisional language as follows: <i>3. The Director of Finance shall not transfer any funds in this item that would result in a loss of federal funds or require the state to provide a refund to the federal government.</i></p>	\$107,600 Transfer to the General Fund	<p>Approve the request, but add provisional language that would prohibit any transfer that would result in a federal penalty.</p> <p>If the subcommittee approves the transfer, both 2003-04 and 2004-05 revenues should be transferred in the 2004 Budget Act to avoid the need for a trailer bill amending the 2003 Budget Act.</p>		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
25	2660/ Caltrans	Capital Outlay Support (COS) Project Delivery Workload Adjustment	<p>May Revision Finance Letter #3 requests \$181.781 million (\$2.515 million one time) and the following:</p> <ul style="list-style-type: none"> ➤ 356 positions (338.2 personnel years); ➤ 257 personnel years equivalents (PYEs) in cash overtime; ➤ 726 PYEs in contract-out consultants. <p>The request is made to support and complete programmed projects for the adopted State Transportation Improvement Program (STIP) and the State Highway Operational Protection Program (SHOPP).</p> <p>Every May the Administration proposes adjustments to staffing and contract work to tie to the anticipated project delivery workload.</p> <p>Caltrans indicates one goal of the request is “stable staff” through the utilization of flexible resources such as contract staff and overtime. Caltrans staff have faced the threat of layoff more frequently than other state staff as transportation workloads depend on multi-year revenue forecasts and long-term State and federal resources can be difficult to predict.</p> <p>The request also included the following:</p> <ul style="list-style-type: none"> ➤ \$2.530 million (one-time) for testing equipment. ➤ \$1.200 million in travel associated with the San Francisco-Oakland Bay Bridge project. ➤ \$845,000 for contracts with other state agencies ➤ \$2.719 million for external contracts related to environmental requirements, printing services, etc. <p>Included in the request is the redirection of \$1.485 from the Administration Program to the COS Program. Subsequent to the release of the Finance Letter, Finance has realized a technical error and withdraws the request in this Finance Letter to eliminate 32 Administrative positions – these positions have already been deleted in 4.10 implementation.</p>	\$181,781 expenditure increase, special funds, federal funds, & bond funds	Approve the requested workload level, but increase state staff resources and decrease contract-out resources such that 50 percent of the workload increase is performed by State staff (both new staff and overtime) and 50 percent is contract out work.		

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26	2660/ Caltrans	Bay Area Toll Bridges – restore toll-collector positions.	May Revision Finance Letter #3 requests the restoration of 7 toll-collector positions (7 personnel years) and an increase of \$318,000 in reimbursement authority. Toll positions are funded through reimbursements from the Bay Area Toll Authority. Over the past two years, 21 toll-related positions have been eliminated due to vacant positions reduction. To avoid traffic delays, existing staff have been working extended hours, but Caltrans indicates this is not sustainable and traffic delays will occur in the future if these positions are not restored.	\$318,000 reimbursement authority (non-General Fund)	Approve the request.		
27	2660/ Caltrans	Traffic Operations – restore positions	May Revision Finance Letter #5 requests the restoration of 18 traffic operations positions (18 personnel years) and an increase of \$1.588 million in State Highway Account authority. The positions are requested for work in the following areas: Speed Zone Surveys, Ramp Metering, and High Occupancy Vehicle Monitoring.	\$1,588 State Highway Account expenditure	Approve the request.		
28	2660/ Caltrans	Additional Appropriation Authority	<p>The May Revision requests that Item 2660-398-0042 and Item 2660-398-0890 be added to provide expenditure authority of \$150.0 million under each item. Delay in the federal transportation reauthorization is the reason for the establishment of these contingency budget items. These items would permit a continuance of resources should reauthorization result in increased federal funds above those reflected in the 2004-05 budget appropriations. The receipt of additional federal funds will also permit the expenditure of additional State Highway Account resources.</p> <p>These items include the requirement of a 30-day notice to the Legislature prior to any expenditures and state the intent that specified activities listed below will receive priority consideration for funding:</p> <ul style="list-style-type: none"> • Performance Measures System information technology project. • California Advanced Transportation Management System information technology project. • Traffic Monitoring Stations analysis and repair. • Freeway Service Patrol expansion. • Matching funds for participation in a public/private 	\$150,000 federal funds and \$150,000 State Highway Account expenditure authority	Approve the additional appropriation authority in the amount requested but approved modified provisional language that would use any additional funds for STIP and SHOPP projects.		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
			<p>partnership to deploy radar and microwave based detection devices on state right-of-ways.</p> <ul style="list-style-type: none"> • Additional capital outlay staffing directly related to allocations from this item. • Financial advisor services. <p>The provisional language in these items will also specify that any information technology projects receiving funding through these items must first have the necessary feasibility study reports approved.</p> <p>The requested use of additional funds would represent a significant increase for Traffic Operations investments and new information technology projects that have not been justified through a Budget Change Proposals. The subcommittee may want to allocate any new funding for STIP and SHOPP allocations. The language could be modified as follows:</p> <p><i>Provision 1:</i> <i>Upon order of the Director of Finance, funds in this item are available for the following State Highway Account Items: 2660-101-0042; 2660-102-0042; 2660-301-0042; 2660-302-0042 for expenditure, upon determination that the State will receive additional federal funds pursuant to the passage of the Safe, Accountable, Flexible, and Efficient Transportation Equity Act of 2003 or other federal transportation acts.</i></p> <p>a) <i>Notwithstanding Control Section 28.50, the allocations may only be authorized not sooner than 30 days after notification in writing is provided to the chairperson of the committee in each house that considers appropriations and the Chairperson of the Joint Legislative Budget committee or his or her designee.</i></p> <p>b) <i>Notwithstanding other provisions of law, expenditure authority in this item may also be transferred to item 2660-001-0042 to support additional capital outlay staffing directly related to projects allocations also funded through this item.</i></p> <p><i>A conforming language item would is suggested for the federal item.</i></p>				

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
29	2720/ California Highway Patrol	Funding for CHP staff	<p>At the April 14 hearing, a representative for CHP Officers testified that the CHP was unable to fill vacant positions due to funding constraints. The subcommittee left this issue open so staff could gather more information.</p> <p>The Administration has adjusted the salary savings rate used for uniformed officers from zero in 2003-04 to 3.7 percent proposed for 2004-05. The salary savings calculation does not reduce authorized positions, but reduces funding below that needed to remain 100 percent staffed at all times. The CHP indicates that in the past they had used savings from officer vacancies to hire cadets for the academy. With the new salary savings proposal, the CHP indicates they will have to hold additional positions vacant prior to hiring new academy cadets. Finance indicates actual salary savings did occur in past years, so this is a more accurate way to budget position costs.</p> <p>The CHP has provided information that suggests they would need another \$4.6 million in expenditure authority (Motor Vehicle Account) in 2004-05 to hire an additional 85 academy cadets.</p>		Approve as budgeted – do not increase the CHP expenditure authority.		
30	2780 Stephen P. Teale Data Center	Reestablishment of ten previously abolished positions	<p>May Revision Finance Letter #1 requests position authority to add 10.0 positions, that had previously been abolished pursuant to Control Section 31.60 of the 2003 Budget Act and Executive Order D-71-03, be reestablished to address security, operational, and technical/administrative requirements of the TDC. No additional funding is requested for these positions because the TDC budget was not adjusted when the position authorization was previously eliminated, therefore, funding for these positions exists in the TDC's budget.</p> <p>The Administration indicates that workload continues to increase, and these positions are required to perform critical functions.</p> <p>One of the anticipated benefits of data center consolidation was position reduction. The subcommittee may want to consider denying this request due to consolidation issues.</p>	None – new positions would be funding within existing budget authority	Deny the Finance Letter		

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
31	2780 Stephen P. Teale Data Center	Teale rates reporting language	<p>Budget subcommittee #3 adopted language requiring a report on rates charged by the Health and Human Services Agency Data Center. Conforming language is included below for the Teale Data Center.</p> <p>Add Provision 3 to Item 2780-001-0683 <i>On or before September 1, 2004, the Teale Data Center, or its successor entity, shall submit to the Department of Finance and the Legislative Analyst's Office, a report detailing the cost factors reflected in the 2004-05 rates. This report shall include: (1) a statement of the department's expenditures and revenues, by function, (2) information detailing the incremental changes to rates between fiscal years, including the reason for, and aggregate amount of, the change, and (3) for each client department the actual amounts charged in 2002-03, 2003-04, and proposed in 2004-05. The Department of Finance shall use this report to review the current methodologies used to set rates and shall provide a report of its findings as part of the 2005-06 Governor's Budget.</i></p> <p>Add the following trailer bill language: <i>Beginning in 2005-06 and each fiscal year thereafter, by August 1, the Teale Data Center, or its successor entity, shall submit to the Department of Finance a proposal that reconciles the current year rates and details any adjustments proposed for budget year rates to be included in the Governor's Budget.</i></p>		Approve the language	BBL/ TBL	

ISSUE #	ORG/ DEPT	ISSUE	DESCRIPTION	DOLLARS (in thousands)	STAFF RECOMMENDTION	BBL/ TBL	VOTE
32	Control Section 15.00 (Data Center Consolidation)	Control Section language to implement data center consolidation	<p>A May Finance letter requests approval of Control Section language that would allow the Director of Finance to realign appropriations for the purpose of implementing data center consolidation. Additionally, the Control Section would allow a transfer of \$3.500 million from the Stephen P. Teale Data Center Revolving Fund to the General Fund.</p> <p>Chapter 225, Statutes of 2003, required the Administration to submit a plan by December 1, 2003, to consolidate the Health and Human Services Agency Data Center and the Teale Data Center. Statute requires the plan to include General Fund savings of \$3.500 million.</p> <p>An "Outline for Consolidation" was received with the control section that the Administration indicates fulfills the statutory requirement. As the title implies, the document is an outline and not a detailed plan.</p>	\$3,500 transfer to the General Fund	Approve the Control Section	BBL	
33	8780/ Little Hoover Commission	Restoration of Control Section 4.10 reductions	<p>A May Revision Finance Letter proposes to restore the Little Hoover Commission's Control Section 4.10 reduction of \$118,000, General Fund. The Administration indicates this funding is needed to review the California Performance Review.</p> <p>The Commission reports that eight of nine staff had volunteered to take time-base reductions to avoid layoffs, however, funds from the Acupuncture Board backfilled the Commission's budget and only two staff members took time-base reductions for fiscal year 2003-04.</p>	\$118 General Fund cost (permanent)	Deny the request		

Attachment A: Financial Information Privacy Act (SB 1) Staffing

Staffing Alternative for the Department of Financial Institution

Options	Description	Positions	Cost
1	Investigate and litigate based on complaints, but do not incorporate SB 1 audits into bi-annual examinations.	6.0	\$679
2	Investigate and litigate based on complaints, and also perform nonroutine, "red flag" SB 1 audit checks triggered by a certain level of complaints against individual licensees.*	6.0	\$679
3	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 25 percent of firms each bi-annual cycle.	8.0	\$907
4	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 50 percent of firms each bi-annual cycle.	12.0	\$1,363
5	BCP Request: Investigate all firms for SB 1 compliance during bi-annual examinations and follow-up on complaints.	17.0	\$1,881

Staffing Alternative for the Department of Corporations

Options	Description	Positions	Cost (1,000s)
1	Investigate and litigate based on complaints, but do not incorporate SB 1 audits into periodic examinations.	8.0	\$782
2	Investigate and litigate based on complaints, and also perform nonroutine, "red flag" SB 1 audit checks triggered by a certain level of complaints against individual licensees.	10.0	\$932
3	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 25 percent of firms each examination cycle.	11.0	\$1,005
4	Investigate and litigate based on complaints, and also perform SB 1 audit checks on 50 percent of firms each examination cycle.	14.0	\$1,272
5	BCP Request: Investigate all firms for SB 1 compliance during examinations and follow-up on complaints	22.0	\$1,945

All of the above options assume the Department of Corporations reviews notification forms as required by SB 1. All of the above include some one-time costs that do not exceed \$260,000 in any alternative.

Attachment B: Housing and Community Development Mandate Issue

LAO Options: Regional Planning Mandate

- The Commission on State Mandates reports that it does not have jurisdiction under current law to revisit the Board of Control's decisions for this mandate. Adopt TBL providing jurisdiction.

Councils of Governments Component

- Under current interpretation of case law on reimbursable mandates, councils of governments (COG) may not be eligible for reimbursements. Adopt TBL to request the Commission on State Mandates to reconsider the adopted Parameters and Guidelines, and the statement of decision as necessary, for COGs.
- Requirements of COGs would not change. Allow COGs to pay for their activities by charging cities and counties a fee to recover their costs. Cities and counties, at their option, would be able to pass on the cost under existing planning fee authority.

Cities and Counties Component

- Make current requirement to include energy conservation information in the housing element optional.
- Develop standards for effort in complying with data collection and analysis efforts for employment, disabled, farmworkers, residential development. Authorize HCD to adopt in regulations these standards.
- Adopt TBL to clarify that reviewing COG allocation data is at the locality's option.
- Adopt TBL to request the Commission on State Mandates to reconsider the adopted Parameters and Guidelines, and the statement of decision as necessary, for cities and counties in light of current case law and TBL additions.

Language

- Uncodified TBL

Notwithstanding any other provision of law, the Commission on State Mandates shall reconsider the Board of Control decisions (3916, 3759, 3760, and 3929) regarding the regional housing needs mandate (Chapter 1143 of the Statutes of 1980) to determine whether the statute is a reimbursable mandate under Section 6 of Article XIII B of the California Constitution in light of federal and state statutes enacted and federal and state court decisions rendered since this statute was enacted, including the existence of fee authority pursuant to Section 65584.1 of the Government Code. The Commission, if necessary, shall revise its Parameters and Guidelines to be consistent with this reconsideration. Any changes by the Commission shall be deemed effective July 1, 2004.

- Add new section for review being optional:

65584.2 Any review or appeal by a locality of the allocation data provided by the department or the council of governments regarding its share of the regional housing need, or submittal of data or information for a proposed allocation, as permitted by this article, is not mandatory and is conducted by a locality at its option.

- **Change to make energy conservation optional:**

Amend Government Code Section 65583

(b) (7) ~~An~~ *At the option of the local government, an analysis of opportunities for energy conservation with respect to residential development.*

- **Add new section for fee authority for COGs to recover costs**

65584.1 Councils of government may charge a fee to local governments to cover the projected reasonable, actual costs of the council in distributing the regional housing need pursuant to this article. Any fee shall not exceed the estimated amount required to implement its obligations under this article. A city or county, or city and county may charge a fee, including, but not limited to, a fee pursuant to Section 65104 to support the work of the planning agency pursuant to this article, and to reimburse it for the cost of any fee charged by the council of government to cover the council's actual costs in distributing the regional housing. The legislative body of the city, county or city and county shall impose any fee pursuant to Section 66016. This section is declaratory of existing law.

- **Add section for language for standards of effort**

65583 (a) (6) An analysis of any special housing needs, such as those of the elderly, persons with disabilities, large families, farmworkers, families with female heads of households, and families and persons in need of emergency shelter. The department shall adopt regulations to implement this paragraph, including parts of this paragraph determined to be a reimbursable state mandate. For any revision of a housing element required pursuant to Section 65588 that is subsequent to the adoption of such regulations, any actions undertaken by the locality beyond those specified in the regulations are at that locality's option and not required by this section.

Attachment C: Caltrans Staffing Summary

Department of Transportation				
Departmentwide Staffing for 2003-04 and 2004-05				
	2003-04	2004-05	2004-05 May Revision	2004-05
	Jan. 10	Jan. 10	Adjustment	Total
Category				
State Staff Positions	21,891.0	21,569.5	462.8	22,032.3
State Staff Personnel Years (PYs)	20,922.8	20,585.2	444.1	21,029.3
¹ Includes:				
Addition of 306.2 PYs for Capital Outlay Support.				
Restoration of 89 PYs eliminated in 2003-04 through Control Section 4.10.				
Addition of 16.1 PYs for cash management of the Local Assistance Program.				
Addition of .8 PYs for operations of LA Traffic Management Center				
2004-05 Capital Outlay Support (COS) Staffing Workload				
	10-Jan	May Revision Adjustment	Total	
Category				
State Staff Positions	10,546.0	388.0	10,934.0	
State Staff Personnel Years (PYs)	10,000.0	370.2	10,370.2	
Contracting Out Personnel Year Equivalents (PYEs) ²	500.0	726.0	1,226.0	
Temp Help PYs	-	-	-	
Cash Overtime PYs ³	303.0	257.0	560.0	
Total PY and PYE 2004-05 Workload	10,803.0	1,353.2	12,156.2	
<p>² The methodology was modified from 2002-03. The old methodology calculated Toll Bridge Seismic Retrofit Account, bond, and reimbursed work at \$151,000 per PYE and Federal and State staff were valued at \$138,000 per PYE. The 2003-04 methodology used a \$168,000 per PYE figure and the 2004-05 used a \$178,000 per PYE figure for work funded from all sources. This change more accurately captures increased costs since it is based on the cost of existing contracts.</p>				
<p>³ The methodology for cash overtime: PYs calculated at \$69,740/PY.</p>				