Senate Budget and Fiscal Review

Subcommittee No. 4 2003 Agendas

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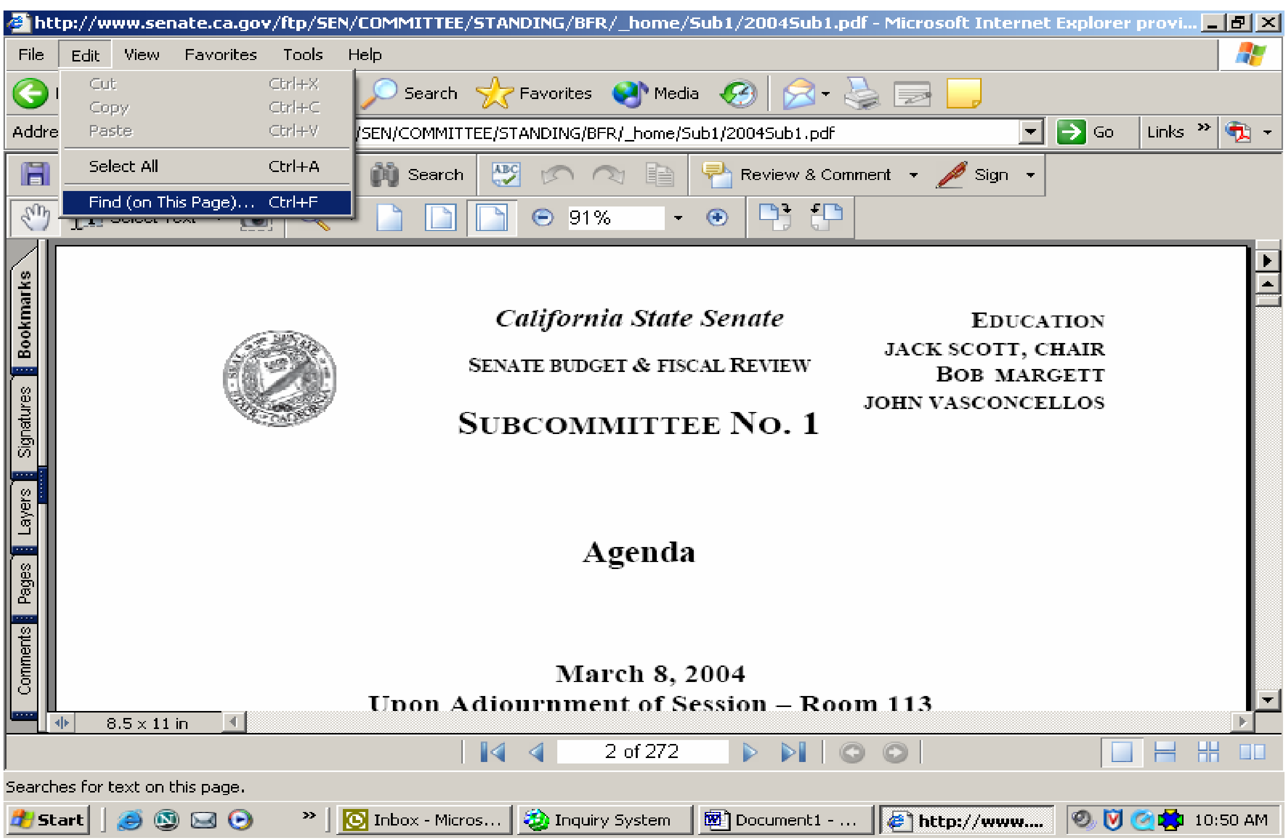

SUBCOMMITTEE 4

COMBINED AGENDAS

2003

Senate Budget and Fiscal Review

Members

Joseph Dunn, Chair
Dick Ackerman
Denise Ducheny

Consultants

Alex MacBain
Judi Smith
Frank Vega

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Thursday, March 6, 2003
Upon Adjournment of Session
Room 3191

The following departments will not be heard.

2180 Department of Corporations
2310 Office of Real Estate Appraisers

Proposed Consent Calendar

Item	Department
0160	Legislative Counsel Bureau
1140	Athletic Commission
1165	Barbering and Cosmetology
1170	Behavioral Science
1250	Committee on Dentistry Auxiliary
1340	Geologists and Geophysicists
1350	Guide Dogs for the Blind
1390	Medical Board of California
1420	Physical Therapy Board
1430	Physician's Assistant Committee
1440	Podiatric Medicine
1450	Psychology
1455	Respiratory Care Board
1460	Speech-Language Pathology
1480	Optometry
1485	Osteopathic Medical Board
1490	Pharmacy, Board of
1500	Professional Engineers/ Land Surveyors
1510	Registered Nursing
1530	Structural Pest Control Board
1550	Veterinary Medical Board
2100	Alcoholic Beverage Control
2120	Alcoholic Beverage Control Appeals Board
2150	Financial Institutions
2320	Real Estate
8530	Pilot Commissioners
8780	Little Hoover
8820	Commission on the Status of Women
8855	Bureau of State Audits

Control Sections:

1.00	Budget Act Citation
1.50	Intent and Format

3.00	Defines Purposes of Appropriations
8.50	Federal Funds Receipts
8.51	Federal Funds Accounts
13.00	Legislative Counsel Bureau
14.00	Special Fund Loans Between Boards
28.50	Agency Reimbursement
29.00	Personnel-Year Estimates
30.00	Continuous Appropriations
31.00	Admin 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

0650 Office of Planning and Research

The Office of Planning and Research (OPR) provides policy research for the Governor on land-use, growth planning issues and California Environmental Quality Act provisions. The budget proposes total expenditures of $54 million, of which $4.2 million is from the General Fund. This budget includes federal funding of $48.3 million for California's AmeriCorps program.

Issues

1. Cesar Chavez Day of Learning Grants. SB 984 (Polanco) of 2000 established Cesar Chavez Day as a state holiday for state employees and authorized school districts to establish a minimum day and provide one hour of instruction on the life of Cesar Chavez. The bill also appropriated annual grants of $5 million to engage school pupils in community service on Cesar Chavez Day. The program serves more than 300 schools statewide.

The December Revision proposed that the $5 million annual appropriation for Cesar Chavez Day of Learning Grants be reduced by $4,750,000 in 2002-03. The Senate rejected this proposal by not adopting the trailer bill language.

The budget further proposes trailer bill language suspending the grants for the 2003-04 through 2005-06 fiscal years.

Does the Subcommittee wish to adopt the trailer bill language?

CONSUMER AFFAIRS

The Department of Consumer Affairs is responsible for promoting consumer protection while supporting a fair and competitive marketplace. The department serves as an umbrella for 18 semi-autonomous boards and 11 bureaus and programs that regulate over 180 professions. The 2003-04 budget for Consumer Affairs, boards, bureaus, and divisions totals $337 million, which is less than one percent higher than the current year funding.

1111 Bureau of Automotive Repair

The budget proposes 3.6 additional personnel years in the current year and 20.2 in the budget year for the implementation of the enhanced Smog Check. The budget proposes to transfer $2.0 million in the current year and $3.3 million in the budget year from the High Polluter Repair or Removal Account to the Vehicle Inspection Repair Fund to repay a loan provided from that fund in the 2001-02 fiscal year. The 2001-02 budget contained a transfer of $50 million from the High Polluter Repair or Removal Account to the General Fund. The 2001-02 mid-year revision also transferred an additional $44 million in 2001-02. This has reduced expenditures for the Consumer Assistance Program that pays qualified consumers who voluntarily choose to retire their high polluter vehicles. The program also pays a portion of the consumer’s repair bill in order to bring a vehicle into compliance with the requirements of the Smog Check Program. Expenditures for this program were $46.4 million in 2000-01 and $31.9 million in 2001-02. The budget proposes to reduce expenditures to $21.1 million in the current year and $20.4 million in the budget year due to the transfer of the funds to the General Fund and the loan repayment.

Issues

1. Enhanced Smog Check Program. AB 2637 (Cardoza), enacted in 2002, provided that the San Francisco Bay Area will be subject to the Enhanced Smog Check Program (Smog Check II) effective January 1, 2004. This is the last major urban area of the state to be included in the Smog Check II program. The bill appropriated $5 million from the Vehicle Inspection and Repair Fund to the Bureau of Automotive Repair (BAR) for implementation of the program.

The budget proposes additional spending of $428,000 and 3.6 PYs in the current year and $2,743,000 and 23.1 PYs in the budget year to implement AB 2637. Positions established for initial inspections (5.3 PYs in 2003-04) would not be permanent positions. In addition, the workload for the Consumer Information Center would increase from 3.0 PYs in 2003-04 to 6.0 PYs on going.

Are these amounts reasonable?

Would there be any savings if the program was delayed?

2. Smog Check II Program – Telephone Referral System for Test-Only Stations. The California Emissions Testing Industries Association (CETIA) developed a 24-hour per day telephone referral system that provides callers the three closest locations to the telephone they dial from in either English or Spanish. The dialer could also select a telephone number other than the one they are calling from if they preferred a location close to another telephone number. The stations were rotated so that each station was mentioned first an equal number of times. There was no requirement that the station owner be a member of the association. The participating test-only stations paid for the cost of the telephone system. A test-only station did not need to be a member of the association to be on the system. The system costs a subscriber $72.50 per month plus long distance charges averaging $3 to $5 per month. This system received about 10,000 calls per month. This system was discontinued in March 2001.

BAR has a web site with information by zip code or city regarding test-only stations. The information is available only in English. The Department of Consumer Affairs (DCA) has an 800 number that provides a list of three randomly selected stations by zip code. From 8 a.m. to 6 p.m. on weekdays, you can talk to an individual in either English or Spanish.

BAR expends about $20,000 per year on the automated telephone system. There is a charge of $400 per month and an additional charge per phone call. There are approximately 156,000 calls per year. In addition, a live operator talks to over 100,000 consumers regarding the test-only stations.

How does the current 800 number work?

What is the total cost of the system?

How many hours of staff support are devoted to the system?

What are the overhead charges to the system?

How many calls are received through the automated system per month?

Are there plans to make the information available in other languages on the web site?

Staff Comment: Ackerman asked that this issue be included in the agenda.

3. Loan from the Vehicle Inspection and Repair Fund. The budget act authorized a loan from the Vehicle Inspection and Repair Fund to the General Fund of $5 million in 2001-02 and $100 million in 2002-03. The budget proposes an additional loan to the General Fund of $5 million in 2003-04. This will leave an ending balance of $22.5 million on June 30, 2004.

The balance is equal to 21.3 percent of budget year expenditures. The Department of Consumer Affairs has stated that the Vehicle Inspection and Repair Fund would be able to loan an additional $9 million to the General Fund in the 2003-04 fiscal year. This would leave a fund balance of $13.5 million or about 13 percent of budget year expenditures.

Should the loan to the General Fund be increased from $5 million to $14 million?

1111 Office of Privacy Protection

The Office of Privacy Protection (OPP) is mandated to "provide information to consumers on effective ways of handling complaints that involve violations of privacy related laws, including identity theft and identity fraud" and to "develop information and educational programs and materials to foster public understanding" of privacy rights. OPP is located in the Department of Consumer Affairs.

OPP was funded at $755,000 (GF) in 2001-02 and $860,000 (GF) in the current year. The current year funding reflects a reduction of $212,000 included in SB 19X that was approved by the Senate on February 24. The proposed budget of $527,000 includes a reduction of $529,000 and 1.4 PYs. This is a reduction from 7.1 PYs to 5.7 PYs or nearly 20 percent.

Issues

1. Identity Theft Detail of the Southern California High Tech Crimes Task Force. The budget proposes the elimination of 1 Senior Investigator and 0.5 Staff Services Analyst position for savings of $99,000 (GF). The investigator investigates identify theft cases and serves as OPP's liaison to the Task Force. This is the only investigator position for OPP. OPP will have to rely on local law enforcement to investigate identity theft cases.

Should the investigator position be eliminated?

2. Consumer Information and Education Programs. The budget proposes a reduction of $414,000 (GF) or 41 percent of OPP's total budget to reduce funding for consumer information and education programs. This budget was reduced by $212,000 in SB 19X. OPP will continue to provide the public with information and assistance by relying on the Internet web site and Public Service Announcements. OPP contends that individual assistance to identity theft victims and others with privacy concerns will be provided through e-mail and a toll-free telephone line.

How many phone calls does the Office of Privacy Protection receive monthly?

Will the public service announcements be as effective as the paid advertisements?

What about consumers who want information without using the Internet either because they do not have access to the Internet or because of privacy concerns?

Consumer Affairs - Loans to the General Fund

The budget proposes a variety of loans from the unexpended balances of special funds to the General Fund. The budget also proposes trailer bill language similar to last year's trailer bill language, as follows:

1) The loan is authorized in the 2003-04 Extraordinary Session or the 2003 Budget Act;

2) The terms and conditions of the loan are set forth in the loan authorization, including an interest rate;
3) The loan is considered part of the balance of the fund or account; and
4) A fee or assessment may not be increased as a result of the loan.

The bill also provides that moneys loaned may not be considered a transfer of resources for purposes of determining the legality of the use of those funds.

The bill requires the Director of Finance to order the repayment of all or a portion of the loan if it is determined that 1) the fund or account from which the loan was made has a need for the money or 2) the need for the moneys in the fund or account that received the loan no longer has a need for the money.

1. Board of Architectural Examiners. The budget proposes a loan of $1 million from the California Board of Architectural Examiners-Landscape Architects Fund to the General Fund. This would leave a fund balance of $525,000, or about 75 percent of the annual expenditures.

Should the fund balance be reduced to $300,000 (11% of expenditures) by increasing the loan to the General Fund by $225,000 to $1,225,000?

The California Board of Architectural Examiners Fund has a balance of $2.3 million or about 83 percent of budget year expenditures.

Should the fund balance be reduced to $500,000 (18% of expenditures) by approving a loan of $1.8 million to the General Fund?

2. Contractors' State License Board. The budget proposes a loan of $5 million from the Contractors' License Fund to the General Fund. The $11 million current year loan would be repaid in September 2003. This proposed loan and the repayment of the current year loan would leave a 2003-04 fund balance of $10.7 million or about 23 percent of the annual expenditures.

Should the fund balance be reduced to $7.7 million (15 percent of expenditures) by increasing the loan to the General Fund by $3 million of $8 million with a repayment date of September 2004?

3. Dental Board. The budget proposes a loan of $5 million from the State Dentistry Fund to the General Fund, in addition to the current year loan of $5 million approved in last year's budget. This proposed loan would leave a 2003-04 fund balance of $1.7 million or about 24 percent of the annual expenditures.

Does the Subcommittee wish to approve the loan?

4. Acupuncture Board. The budget proposes a loan of $1 million from the Acupuncture Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $1.0 million or about 33 percent of budget year expenditures.

Should the fund balance be reduced to $500,000 (16% of expenditures) by increasing the General Fund loan by $500,000 to $1.5 million?

5. Court Reporters Board. The budget proposes a loan of $1 million from the Court Reporters Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $551,000 or about 87 percent of budget year expenditures.

Should the fund balance be reduced to $300,000 (48% of expenditures) by increasing the General Fund loan by $250,000 to $1.25 million?

6. Board of Vocational Nursing and Psychiatric Technicians. The budget proposes a loan of $1 million from the Vocational Nurse Examiners Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $1.8 million or about 42 percent of the annual expenditures.

Should the fund balance be reduced to $700,000 (17% of expenditures) by increasing the General Fund Loan by $1 million to $2 million?

The budget also proposes a loan of $1 million from the Psychiatric Technicians Account Vocational Nurse and Psychiatric Technician Examiners Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $395,000 or about 33 percent of the annual expenditures.

Should this loan be approved as budgeted?

7. Bureau of Security and Investigative Services. The budget proposes a loan of $4 million from the Private Security Services Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of about $2 million or about 28 percent of the annual expenditures.

Should this loan be approved as budgeted?

8. Board of Chiropractic Examiners. The State Board of Chiropractic Examiners Fund has a fund balance of nearly $5 million and budget year expenditures of only $2.3 million.

Should the fund balance be reduced to $974,000 (40 percent of budget year expenditures) by approving a loan to the General Fund of $4 million?

9. Board of Occupational Therapy. The budget proposes a loan of $1 million from the Occupational Therapy Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $913,000 or about 150 percent of the annual expenditures.

Should this loan be approved as budgeted?

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Wednesday, March 12, 2003
1:30 p.m.
Room 2040

Proposed Consent Calendar

Item	Department
0750	Office of the Lieutenant Governor
0845	Department of Insurance
1705	Fair Employment and Housing Commission

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, as well as others. 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, including FTB decisions under the personal income tax and bank and corporation tax laws. The budget includes $321.4 million or 0.4 percent more than the current-year.

The LAO Analysis includes an issue regarding cigarette tax evasion activity. 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 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.
- Unstamped products.

BOE staff has estimated that the current revenue loss due to cigarette tax evasion is between $130 million and $270 million annually.

Issues

1. Administration of the Cigarette and Tobacco Products Tax Program. The budget proposes an augmentation to implement the pilot program in Chapter 881, Statutes of 2002, which requires BOE to replace the current cigarette stamps and meter impressions with encrypted stamps or meter impressions that can b e read by a scanning or similar device. The budget includes $294,000 ($34,000 GF) in the current year for implementation costs and $678,000 ($77,000 GF) in the budget year for on-going costs.

BOE will report to the Subcommittee on the status of this pilot program.

BOE will also report on their estimates of revenue loss due to tax evasion.

2780 Stephen P. Teale Data Center

The budget proposes $93 million in expenditure authority for the Teale Data Center (TDC) in the budget year. TDC provides information technology services to numerous state agencies that reimburse the data center for its operational costs. This is a $2.9 million (3 percent) increase over current year expenditures.

Issues

1. Upgrade of Mainframe Computer Systems. The budget includes expenditure authority to increase funding by $8.1 million to upgrade or purchase additional computer and network equipment.

The LAO recommends a reduction of $6.9 million based on demand for services. The LAO asks that TDC report on what it could do to lower both costs and rates charged to departments in the budget year.

The department should report on usage and rate calculations used for expenditure authority in the budget year.

2. California Home Page. In November 2002, the Legislature approved a modified plan to transfer the Home Page from the Department of General Services (DGS) to TDC. DGS had funding for five positions and an additional $4.2 million annually for contracts with Deloitte & Touche for on going costs of maintaining the Home Page. The California Home Page allows Internet Users to go to one web site and access all state agencies with web sites.

The budget requests $2.1 million and ten positions for continued support of the California Home Page. This request includes $453,000 for four new positions to replace the work provided through contract at DGS.

The LAO contends that these positions have not been justified. TDC indicates that it is difficult to estimate the workload because they do not have workload data from the consulting contract.

TDC should comment on the request for increased expenditure authority.

3. Teale Data Center/Health and Welfare Data Center Reorganization. The LAO contends that combining these two agencies could provide savings.

TDC should comment on any plans for consolidation or reorganization of the data centers.

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The budget year expenditures are proposes at $16.6 million ($12.6 million GF), which is a decrease of 24 percent from the current year.

The December Revision proposed to revert $837,000 and 9 PYs related to vacant positions and an additional 11 positions as part of a five percent reduction. SB 19X, as passed by the Senate, included the proposed reversion.

One-time federal funding from HUD in the current year provided an augmentation of $1.6 million to process housing cases. This partially offset the loss of General Fund support in the current year.

Issues

1. Workload. The budget proposes to reduce the budget by an additional $3.1 million (GF) and 45 PYs. This is a reduction of nearly one-fifth of the staffing of the department. The department has a mandate to investigate cases within 365 days. After 365 days, DFEH loses jurisdiction. The complainants only recourse is to obtain legal representation.

The table below shows the number of cases filed, authorized and filled positions, and average caseload for employment-related issues.

Fiscal Year	Cases Filed for Investigation	Authorized Positions	Filled Positions	Average Caseload	Cases Exceeding 365 Days
1999-00	9,254	127	108	86	14
2000-01	8,865	127	102	87	22
2001-02	9,620	108	95	101	68
2002-03 1/	10,374	103	101	103	65
2003-04 2/	11,183	80	80	140	--

1/ The 2002-03 estimates are based on the first seven months of the year. The actual number of filled positions is lower now because staff is accepting other employment in anticipation of the proposed reduction in staff in the budget year.

2/ The 2003-04 estimates assume the same increase in filings from 2001-02 to 2003-04 (between seven and eight percent).

With an additional reduction in staff of 20 percent, how many cases will exceed the 365-day mandatory deadline?

2. Closure of Field Offices. The Enforcement Division investigates allegations of discrimination in employment, public accommodations, and hate violence. The Division currently has 12 district offices.

The budget proposes to close two district offices (San Bernardino and Ventura). The proposal also includes a reduction in staff from 21 to 13 at the Los Angeles district office.

How will these closures affect services?

A representative from the California Employment Lawyers Association would like to address the subcommittee.

2240 Housing and Community Development

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

The HCD budget is proposed to increase from $446.1 million in the current year to $647.2 million in the budget year. The General Fund support in the current year is $15.1 million and is proposed at $13.4 million in the budget year. In 2001-02, the total budget for HCD was $305.4 million, of which $91.7 million was from the General Fund.

Issues

1. Housing Preservation Research Contract.

The budget proposed to eliminate funding in the current and budget year for a $65,000 (GF) contract to maintain and update the statewide database on assisted housing units at risk of conversion. HCD proposed awarding the contract to the California Housing Partnership Corporation (CHPC) and CHPC has been doing work under the contract since July. The Senate rejected eliminated funding for this contract in the First Extraordinary Session. Eliminating funding for this contract would jeopardize state and local efforts to use bond funds dedicated to preserving at-risk housing developments.

HCD has an alternative funding proposal for this contract. This would spread the cost of the contract amongst various HCD funding sources. This program could thus be funded with a General Fund cost of $6,000 in the budget year.

Does the Subcommittee wish to adopt the alternate funding proposal?

2. Proposition 46 (Housing and Emergency Shelter Trust Fund Act of 2002). This November 2002 bond measure authorized $2.1 billion for various housing programs. Local project bond expenditures will be $285 million in the current year and $455 million in 2003-04.

The overall administrative costs of the bond funds are 3.92%. The LAO asserts that administrative costs should be limited to 5 percent by program. The only program with administrative costs more than 5 percent is the farmworker program, which has administrative costs of 9.9 percent.

The department should comment on why administrative costs for the farmworker program are higher than for other programs.

3. Emergency Housing Assistance Grants. The Emergency Housing and Assistance Program (EHAP) provides capital grants and operating funds for emergency shelters, transitional housing, and services for homeless individuals and families. Proposition 46 included $195 million for this program, but the funds are restricted to capital grants to shelter providers. The funds in the budget are for operating costs, which cannot be funded from Proposition 46 bond funds.

In 2001-02, this program received $13.3 million. In the current year, the December Revision proposed that the grant of $5.3 million be reduced to $4 million. The Senate and Assembly both rejected this proposed reduction. The budget proposes to continue funding in 2003-04 at the $4 million level.

This program could not adequately support programs when it was funded at $13.3 million. There are requests totaling more than the $5.3 million budgeted in the current year. A further reduction in this program will deprive homeless persons.

Does the Subcommittee wish to restore the $1.3 million in funding?

4. Office of Migrant Services Program. The budget proposes to reduce funding of the Office of Migrant Services (OMS) center support by $625,000 to be offset by a rent increase. This reduction is equal to 10.4 percent of state funding in this program.

OMS regulations provide that HCD shall seek funds from private, local, state and federal revenue source. The regulations further provide that HCD may either adjust the schedule of rents to fully fund the operating costs or by reducing any component of operating costs or the availability of units.

The residents currently pay from $7 to $8.50 per day, depending on the number of rooms. The proposed rent increases would amount to an extra $2 per day or $60 per month, an increase of 24-29%.

The budget bill contains the following control language:

"*Notwithstanding any other provision of law, the Department shall revise the rents charged the residents of the migrant centers to reimburse the actual, reasonable, and necessary costs of operation as necessitated by the reductions included in this item. The department may apportion those reductions, and adjust rents, as it deems appropriate."*

Does the subcommittee wish to adjust the GF appropriation or the proposed rent increase?

5. Employee Housing Program. The budget proposes eliminating $721,000 (GF) and increasing regulatory fees on employers that provide housing. The fees would cover the cost of inspections. Fees would be increased from about $125 per employer to $1,000 per employer (800%) to cover the elimination of GF support. Most of the current employee housing is reserved for farmworkers, and the willingness of growers to provide housing has decreased over time. This fee increase requires trailer bill language. At the time this agenda was prepared, there was no trailer bill language available.

Will the increase in fees discourage participation in the program?

Where would employees find comparable housing?

6. Regional Planning Mandate. Local governments are required to zone enough land at appropriate densities to meet all of their housing needs for each income group and to reduce barriers that prevent the identified sites from being developed. Council of Governments (COGs) are required to allocate to each community its share of the regional housing need. The costs to COGs are reimbursable as a state mandate. Cities and counties are compensated for the identification of sites in their housing element to meet the targets assigned to them by COG. In addition, some local governments have received reimbursement for the costs of "review" of the proposed housing need allocations and for the costs of completing some recent additions to the housing element itself.

The state reimbursement for this mandated program ($867,000 GF) was deferred in 2002-03. The budget proposes to appropriate $1,000 so that the mandate continues but the reimbursement is deferred.

The LAO states that the cost of reimbursing for this mandate has been about three times the amount appropriated in the budget act.

Does the subcommittee wish to defer payment of this mandate?

Does the subcommittee wish to fund the annual reimbursable costs of $750,000 for COGs?

Should local governments be exempt from reviewing the regional housing needs allocation? How much would this save?

7. Migrant Services Center Rehabilitation. The Planada facility is a migrant farmworker housing center in Merced County that needs approximately $6 million in renovations. This project was scheduled to be completed with General Fund moneys in the current year, but was deferred due to budget constraints. The budget proposes to also defer the project in the 2003-04 year.

The LAO proposes that part of the $25 million in migrant worker bond funds be used for this renovation.

The department should report on the feasibility of using bond funds or potential federal funds.

8. Funding Switch for Committed, but not Disbursed, Projects. The LAO Analysis included an option to help address the budget shortfall to switch funding from the General Fund to bond funds for a number of projects where the projects have not been completed. The LAO estimates that as much as $300 million currently remains in committed, but not disbursed, housing funding.

The department should comment on the feasibility of changes to the funding source for these projects.

9. Redevelopment Housing Funds. The budget proposes a property tax transfer of $500 million from the low- and moderate-income housing funds of local redevelopment agencies to ERAF in the current year. Redevelopment agencies (unlike cities, counties, and special districts) did not receive any state "bail-out" or property tax transfers from school districts as a result of the enactment of Proposition 13. The Senate rejected this proposal in the First Extraordinary Session.

The budget proposes a transfer of $250 million or the growth in property tax revenues for redevelopment agencies to ERAF in 2003-04. This would reduce General Fund appropriations to K-14 education by the same amount. This transfer is proposed to increase to the full amount of "diverted " redevelopment agency property tax allocation (approximately $1.3 billion) over time.

The LAO Analysis included an option to use Proposition 46 bond funds to replace any low- and moderate-income housing funds transferred to ERAF.

The LAO should comment on this option.

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny

Wednesday, March 19, 2003
Upon Adjournment of the
Committee on Banking, Commerce & International Trade
Room 3191

0250 Judiciary

The California Supreme Court and the Courts of Appeal exercise the judicial power of the state at the appellate level. The Judicial Council of California, including the Administrative Office of the Courts (AOC), administers the state's judicial system. There are 105 Appellate Court justices and 7 Supreme Court justices.

Budget Request. The Judicial budget includes support for the Supreme Court, the Courts of Appeal, the Judicial Council, and the California Habeas Resource Center. The budget proposes total appropriations of $344.8 million for support of these judicial functions in 2003-04. This is a decrease of $484,000, or less than 1 percent, below estimated current-year expenditures. Total General Fund expenditures are proposed at $289.4 million, an increase of $345,000, or 0.1 percent above current-year expenditures. The table below shows that the proposal includes a one-time unallocated reduction of $8.5 million in the current year and a one-time unallocated reduction of $17.7 million in the budget year. Of the total expenditures proposed, $38 million is for the Supreme Court, $172 million is for the operation of the Courts of Appeal, $142 million is for the Judicial Council, and $10.3 million is for the California Habeas Corpus Resource Center. These total do not reflect the unallocated reductions.

Judiciary Program Expenditures

Program	*Expenditures* (dollars in thousands) 2001-02	2002-03	2003-04	Change	*Percent* Change
Supreme Court	$34,009	$36,262	$38,000	$1,738	4.8%
Courts of Appeal	153,625	166,797	171,978	5,181	3.1%
Judicial Council	142,958	140,547	142,205	1,658	1.2%
CHRC	9,241	10,222	10,361	139	1.4%
Unallocated Reduction	0	-8,500	-17,700		
TOTALS, Programs	**$339,833**	**$345,328**	**$344,844**	**-$484**	**-0.1%**
Authorized Positions	**1,363**	**1,543**	**1,546**	**3**	**0.2%**

Budget Issues

Unallocated Reductions.

Previous Reductions. The Budget Act of 2002 previously included a total of $6.7 million in one-time reductions. Of that amount, $1 million was related to workload reductions for the Court Appointed Counsel Program in the Supreme Court, $2.9 million was related to maintaining vacant positions in the courts of appeal, and $2.8 million was for an unallocated reduction of 0.5 percent across the programs within the judiciary budget. The AOC indicates that it is achieving the savings for the unallocated reduction through holding positions vacant, delaying employee promotions and reclassifications, restricting travel, reducing temporary help, deferring contracts, and reducing the number of Judicial Council and Advisory Committee hearings.

Mid-Year Reduction. As part of the mid-year revision, the budget assumes a one-time unallocated reduction of $8.5 million, or 2.9 percent of the total General Fund for the Judiciary. This amount has been approved by the Legislature. The AOC indicates that it is achieving these reductions through additional savings to the Court Appointed Counsel program through judicial salary savings, and an additional 1 percent reduction to programs across the judiciary.

Budget Request. The budget proposes a one-time unallocated reduction of $17.7 million, or 4.9 percent of the total General Fund budget. The AOC indicates that it will achieve these reductions by reducing state operations by $13.6 million and local assistance by $4.1 million. The state operations reductions will likely come from the Court Appointed Counsel program, judicial salary savings, and a general 3 percent reduction. The local assistance reductions are likely to come from the portions of the following local assistance programs: the Equal Access Program, the Court Appointed Special Advocate (CASA) program, drug courts, the Model Self-Help program, and the Family Law Information Centers.

What impacts will the proposed local assistance reductions have on access to the courts?

Appellate Court Filing Fee Increase

Budget Request. The administration proposes trailer bill legislation to increase the appellate filing fee from $265 to $630, effective July 1, 2003. This increase would result in $2.1 million in revenues to the General Fund.

Staff Comments. This proposal would more than double the current fee and would make California's appellate filing fee the highest in the country. Staff notes that in some other states, there are other costs, such as transcript costs, that are charged in addition to a filing fee. No such fees are charged in California. Staff also notes that the appellate courts would still have the ability to waive fees in certain cases.

What is the expected impact of this proposal?
Does the Subcommittee wish to adopt the proposed trailer bill language?

Trial Court Facilities Act

Background. Chapter 1082, Statues of 2002 (SB 1732, Escutia), the Trial Court Facilities Act of 2002, provides for transfer of trial court facilities from counties to the state and a funding mechanism for their operation, maintenance, and renovation, and construction of new facilities

According to the council, assumption of responsibility for funding the operation and maintenance of trial court facilities will cost the state about $270 million a year. The LAO notes that this estimate does not take into account cost escalation due to inflation and the construction of new court facilities. In addition, the council estimates the cost of constructing new trial court facilities is up to $2.3 billion over the next five years (not counting cost escalation due to inflation).

Issue. The Trial Court Facilities Act provides for specific court-imposed fees and fines to be imposed in court actions and dedicated to the cost of renovation and construction of court facilities. The LAO notes that these fees and fines, however, are specific dollar amounts and that there is no provision for their escalation to compensate for inflation. Also, some of the fees specified in the act are imposed for a limited time only. In the event revenue generated from these fees and fines is inadequate to meet the demand for trial court facilities (as determined by the Judicial Council), the act requires the state to provide additional funding to make up for any deficiencies. The council estimates over $1 billion will be required from the state over the next five years. The LAO suggests that this will certainly have a significant impact on the General Fund in the form of direct appropriations and debt service on General Fund-backed bonds.
The LAO notes that in the longer run, it was hoped that the fee revenues provided by the act would cover the ongoing trial court facilities costs. However, the LAO indicates that it is likely to be difficult for the fixed fees and fines specified in the act to keep up with rising out-year costs.

Analyst's Recommendation. To assist the Legislature in its long-term capital planning, the LAO recommends that the Legislature adopt supplemental report language directing the Judicial Council to prepare a projection of the long-term funding needs of the court facilities program. If fees and fines, and county MOE payments are insufficient as a permanent funding source, the LAO further recommends that the Legislature direct the council to prepare a long-term estimate of the revenue deficiency and identify specific options for the Legislature to consider to make up the deficit.

Staff Comments. The AOC indicates that all the information that the LAO is asking for will already be provided in the annual statewide infrastructure report so this additional workload is unnecessary.

Does the Subcommittee wish to adopt the LAO proposed Supplemental Report Language?

Management of the Court Construction Program

Background. The Trial Court Facilities Act provides the council with the authority and responsibility to implement the design and construction of court facility projects, except as delegated to others. The council has indicated it wishes to hire staff to do this work rather than delegate it to the Department of General Services (DGS).

Issue. The LAO notes that if the council should undertake this responsibility, it would represent an unprecedented departure from the judicial branch's core function, and raises questions about the cost-effectiveness of the judicial council greatly expanding its staff to manage a program of a type which historically has been managed by the executive branch, and with which the council has no experience. The LAO believes that the Judicial Council may have serious difficulties in: (1) hiring several hundred experienced engineers, architects, and support staff and (2) developing the organization, processes, standards and expertise to manage a major construction program. The LAO notes that DGS has the capability to shift qualified technical staff to the trial court facilities program quickly and without extensive new hiring. Also, much of DGS's professional staff is already geographically dispersed around the state, which would facilitate dealing with court facilities in all of the 58 counties.

Analyst's Recommendation. Given these issues, the LAO believes that the Legislature needs to be informed of how the administration proposes to deal with the management of the courts' construction program. The LAO recommends that the Departments of Finance and General Services, and the Judicial Council, report at budget hearings on how this function could most efficiently be performed.

Staff Comments. The DOF argues that the Legislature has already determined that the courts should manage their own program in SB 1732 (not DGS), and that other departments have the same ability such as the Department of Corrections and the Department of Parks & Recreation.

What additional resources will be necessary for the AOC to implement this function?

Court Facility Guidelines

Analyst's Recommendation. The Judicial Council staff addressed the issue of court facility guidelines and recommended functional space and utilization standards for use in developing trial court facilities. The council used these guidelines to develop its estimates of the current and future court facilities needs. The LAO believes that this is an appropriate approach to estimating facility needs. The LAO recommends, however, that facility guidelines developed by any state agency be reviewed and validated by an outside agency to assure they are cost- effective and consistent with other state standards. Accordingly, the LAO recommends that the Legislature adopt supplemental report language directing DGS to review the court facility guidelines developed by the council to assure that they are reasonable and cost-effective.

Staff Comments. The DOF argues that DGS has already reviewed the facility guidelines as they were part of the task force that developed them. Further, the DOF indicates that all guidelines, when appropriate, are based on the statewide guidelines that the Administration and the Legislature have agreed on in the State Administration Manual (SAM).

Does the Subcommittee wish to adopt Supplemental Report Language?

0450 State Trial Court Funding

The Trial Court Funding item provides state funds for support of the state's local trial courts. Since the passage of Proposition 220 on the June 1998 ballot, which allowed for the unification of the superior and municipal courts in a county, the court systems in all 58 counties have unified. Chapter 850, Statutes of 1997, enacted the Lockyer-Isenberg Trial Court Funding Act of 1997 to provide a stable funding source for the trial courts. Beginning with the 1997-98 fiscal year, consolidation of the costs of operation of the trial courts was implemented at the state level. This implementation capped the counties' general purpose revenue contributions to trial court costs at a revised 1994-95 level. The county contributions become part of the Trial Court Trust Fund, which supports all trial court operations. Fine and penalty revenue collected by each county is retained, and each county makes quarterly payments to the Trial Court Trust Fund equal to the revenue received by the state General Fund in 1994-95.

Budget Request. The proposed total budget for the state's trial courts is $2.2 billion. This amount is a decrease of $5.2 million, or 0.2 percent, from the current year. Total General Fund support would decrease by $301.3 million from $1.1 billion to $791 million. The major factor for the decrease is the proposed $300 million realignment of court security. This issue is discussed further below.

The table below shows proposed expenditures in the trial courts in the current and budget years.

Trial Court Funding -- Program Expenditures

	***Expenditures** (dollars in thousands)*				***Percent***
Program	**2001-02**	**2002-03**	**2003-04**	**Change**	**Change**
Trial Court Operations	$1,792,680	$1,946,370	$2,004,764	$58,394	3.0%
Salaries of Superior Court Judges	204,440	218,624	226,601	7,977	3.6%
Assigned Judges Program	20,062	20,600	20,640	40	0.2%
Court Interpreters	60,500	59,674	68,036	8,362	14.0%
Unallocated Reduction		-36000	-116,000		
TOTALS, Trial Court Funding	**$2,077,682**	**$2,209,268**	**$2,204,041**	**-$5,227**	**-0.2%**

Various Increases in the Budget Proposal

- **Court Staff Retirement**. The budget proposes $20 million from the General Fund to pay for increased court staff retirement costs in 23 court systems.
- **Trial Court Health Benefit Increase**. The budget proposes an increase of $14.3 million to fund increased health benefit costs for trial court employees.
- **Trial Court Interpreter Employment & Labor Relations Act**. The budget proposes $3.9 million from the General Fund to implement Chapter 1047, Statutes of 2002 (SB 371, Escutia), which requires the trial courts to employ spoken language interpreters as court employees rather than independent contractors on or after July 2003.
- **Court Interpreter Workload Growth**. The budget proposes an increase of $4.5 million to address projected workload growth and cost increases in the Court Interpreter Program.

Budget Issues

Unallocated Reductions

Previous Reductions. The Budget Act of 2002 included one-time unallocated reductions for the trial courts totaling $148 million. The AOC indicates that the trial courts are achieving these reductions through cost reduction plans that include holding positions vacant, implementing hiring freezes, reducing temporary help, work furloughs, reducing consultant services expenditures, reduced hours of operation for the clerk's office, and delaying equipment and office supply purchases.

Mid Year Reductions. The budget assumes a one-time unallocated reduction of $36 million, for the current year, or a 4.3 percent reduction from total General Fund support of $1.2 billion. The Judicial Council has approved the following trial court budget reduction plan to address the mid-year reductions:

- Reversion of $6.1 million from the Modernization Fund (affecting pilot programs, technical assistance, and training).
- Reversion of $4.2 million from the Improvement Fund (affecting technology projects, and specialty programs).
- An unallocated reduction of $21.6 million, representing a 1.2 percent reduction to the budgets for individual trial courts.
- Reduction of $4 million related to salary savings for judicial positions.
- Reduction of $180,000 for the Assigned Judges Program. *)*

Budget Request. The budget proposes an unallocated reduction of $116 million for the trial courts in the budget year. The Judicial Council has approved the following plan for achieving the proposed reductions:

- Reversion of $5.1 million from the Modernization Fund (affecting pilot programs, technical assistance, and training).
- Reversion of $12 million from the Improvement Fund (affecting technology projects, and specialty programs).
- An unallocated reduction of $87 million, representing a 5 percent reduction to the budgets for individual trial courts.
- Reduction of $10 million related to salary savings for judicial positions.
- Reduction of $1.9 million from the Assigned Judges Program.

Analyst's Recommendation. The LAO recommends that the AOC report at budget hearings on the potential impact of the budget year unallocated reductions, its plan for allocating the reductions, and action that can be taken to minimize the negative impact on access to the courts.

Staff Comments. Staff notes that there are a number of fee-related proposals and reductions requiring statutory changes in the Trial Court Funding budget, which are discussed below. To the extent that these statutory changes are not are not approved, the unallocated reduction to the trial courts could increase.

What actions are being taken to minimize the negative impact on access to the courts?
Does the Subcommittee wish to approve these reductions?

Negotiated Salary Increases for Court Security Staff

Budget Request. The budget proposes an increase of $32.6 million for ongoing courthouse security costs. This proposal will fund increases in the contractual costs of negotiated salary increases (NSIs) for security personnel for the budget year and for previously unfunded NSIs ($12.6 million), increased retirement contributions ($8.8 million), and increased benefit costs ($10.8 million).

Staff Comments. Staff notes that this proposal does not provide additional security for the courts, but allows the courts to pay for increases in the contracts for current security personnel. The AOC notes that if this proposal is not approved, courts will have to reduce the level of security provided or redirect funds from other court operations. Last year, the Legislature approved an increase of $13.4 million to the budget of the trial courts for this same purpose.

Does the Subcommittee wish to approve this augmentation?

Undesignated Fees

Budget Request. The budget proposes trailer bill language to transfer $31 million in undesignated fee revenue from the counties to the courts, and reduces the General Fund allocation to the Trial Court Trust Fund by the same amount.

Background. Chapter 850, Statutes of 1997 shifted primary fiscal responsibility for support of the trial courts from the counties to the state. Chapter 850 and other recent trial court funding legislation made changes in the distribution and amount of court-related fees. An important part of the financing mechanism for the state's new fiscal responsibility for the trial courts was the requirement that local governments transfer a variety of court-related fees collected by trial courts and local governments to the state's trust fund.

However, Chapter 850 did not designate which entity—the state or local governments—would retain a number of court-related fees. Some of these undesignated court fees include fees paid for trial postponement, change of venue, filing for Writ of Execution, and civil assessment fees.

Bureau of State Audits Report. In response to an issue raised in the LAO in 2001, the Joint Legislative Audit Committee requested that the Bureau of State Audits (BSA) review a sample of superior courts to determine how much revenue is undesignated, which entities collect these revenues, and how the courts distribute them. In February 2002, the BSA reported that the superior courts' accounting and collection procedures impeded a precise and comprehensive calculation of undesignated fee revenues. It recommended that the AOC direct each superior court to identify the entity in its jurisdiction that incurs the cost of providing the service for which the fee is paid and distribute these fees back accordingly.

Judicial Council Survey. In mid 2002, Judicial Council surveyed the trial courts to determine the entity providing the services related to the undesignated fees, and the amount of revenue generated by these fees. Based on the survey results, Judicial Council determined that 20 of the 41 undesignated fees are related to services for which the courts uniformly incur the cost. Of the remaining 21 undesignated fees, 20 are assessed on services provided by either the courts or the county. (The 41st fee is the small claims fee that is being addressed in separate legislation.) Accordingly, the budget proposes to transfer the revenue generated by the 20 undesignated fees, where the courts clearly incur the cost of providing the service, into the Trial Court Trust Fund. In addition, the proposal requires that the revenue generated from the remaining 20 fees be retained by either the county or the court, whomever incurs the cost of providing the service.

Analyst's Issue. The LAO agrees in concept with the proposal to transfer undesignated revenue from the counties to the courts, particularly where the court bears the cost of providing the service. However, the LAO indicates that there is a high level of uncertainty in the estimate of $31 million. To the extent the revenue from the undesignated fees does not materialize, the courts will have to either reduce their budgets or the General Fund will have to backfill the shortfall. The LAO notes two factors related to the uncertainty. First, because a number of courts were unable to report their revenue from undesignated fees, the AOC was forced to estimate the amount generated by those courts. Second, the LOA notes that some courts have informal agreements with counties regarding the use of undesignated fee revenue..

Analyst's Recommendation. The , LAO recommends that Judicial Council report at budget hearings on the potential impact to the courts if the revenue falls short of the estimated $31 million.

Staff Comments. The AOC estimates that the $31 million is funding which currently goes to the county general fund. The total amount collected from these undesignated fees is much higher, but some amount is already shared between the local trial courts and the counties based on locally negotiated agreements. The AOC has indicated that generally fees should be retained by the entity that performs the function.

CSAC opposes the budget proposal and notes that the primary goal of Trial Court Funding was to provide county fiscal relief by (1) shifting the responsibility for support of the trial courts away from counties, and (2) prohibiting any increase in county responsibility by future revenue shifts. CSAC argues that by proposing to shift the revenue from these undesignated fees, the administration appears to be failing to honor the original trial court funding agreement.

Staff notes that the AOC and CSAC are currently negotiating to see if they can come to an agreement over a way to divide these revenues.

Electronic Reporting

Background. Current law requires the use of stenographers to report and transcribe the official record of most court proceedings. The courts currently employ approximately 1,866 court reporters (1,623 are court employees and the remainder are contract employees). Typically, the court reporter is the sole owner of all the equipment necessary to perform his/her duties, including the stenotype machine, computer aided software for transcription, and all the elements involved in producing the transcript. Also, for the most part, the court reporter transcribes the record on his/her own time, outside of the eight hour work day. For these reasons, the transcripts are "owned" by the court reporter and must be purchased by the court. The LAO reports that the average cost per page for a transcription is $2.34 for the first copy and $0.41 for copies. In 2001-02, the state spent approximately $173 million for court reporter salaries, and $25 million to purchase court transcripts.

Budget Request. The budget proposes trailer bill language that would give the courts the authority to use electronic reporting. The proposal assumes savings of $36.5 million in 2003-04, including $31 million from allowing courts the flexibility to use audio electronic reporting in courtrooms, and $5.5 million as a result of transferring ownership of the court record from the stenographic reporter to the courts.

Concerns Raised By The Analyst. While the LAO believes that implementation of electronic reporting could result in savings, the LAO is uncertain as to whether the proposal would result in savings in the budget year due to a lack of details as to how the proposal would be implemented. Specifically, the LAO notes that the proposal includes no details regarding the type and amount of equipment and staff needed to take over production and management of the transcripts, the cost of staff to monitor the electronic reporting equipment, or the cost of transcribing electronic reporting.

Analyst's Recommendation. The LAO recommends that the AOC advise the Legislature regarding the various implementation issues, including the amount of staff needed to implement and monitor the audio equipment, transcribe the tapes, and manage the transcripts.

Staff Comments. Staff notes that the savings do not include administrative costs that the courts will incur to maintain audio equipment, transcribe tapes, and manage transcripts. Staff believes that should the proposal be approved, the full savings estimate would not likely be achieved in the budget year.

The Subcommittee has been contacted by the Court Reporters Association, the California Independent Public Employees Legislative Council (CIPELC), and Service Employees International Union (SEIU) opposing this proposal.

Does the Subcommittee wish to approve the proposed trailer bill language?

Enforcement of the Fee for Verbatim Record Keeping in Civil Matters.

Government Code Section 68086 requires payment of a fee by parties in civil cases when verbatim reporting services are provided by the court, including matters that last one-half day or less. The Legislature approved this statute in order to recoup the costs for verbatim recording.

Rules 890 through 892 of the California Rules of court set forth the guidelines for implementing Government Code Section 68086. Rule 892 (e) exempts matters lasting one hour or less from collection of this fee.

Staff Comments. The Court Reporters Association estimates that this fee is undercollected. Based on the number of courtrooms statewide and the average user fee for court reporters, the association estimates that $40 million in court reporter fees may be undercollected statewide. The AOC estimates that this number is between $4 million and $7 million.

Is the fee payment being imposed and collected? How much is being collected statewide?

Court Security Flexibility Proposal

Budget Request. The budget proposes trailer bill language that seeks to increase cost efficiency in the provision of court security by allowing courts to enter into contracts for court security based upon a competitive bid process. The proposal would allow the courts to contract with local sheriffs departments, local police departments, or the CHP for court security services. The budget assumes General Fund savings of $22 million in 2003-04 because of this increased flexibility.

Analyst's Recommendation. The LAO recommends that the Legislature amend the proposed trailer bill language to (1) require courts to contract for court security on a competitive basis, and (2) allow courts to contract with local law enforcement, the CHP, as well as private security. This would give the state a greater ability to contain court costs, and would likely result in greater savings in the budget year and beyond.

The LAO has noted that court security costs have grown rapidly in the last few years, from $263 million in 1999-00 to a projected $356 million in 2003-04.

Staff Comments. The Subcommittee has received information from the State Sheriffs' Association opposing the trailer bill language. The AOC indicates that it is having discussions with the Sheriffs' Association regarding options for reducing court security expenditures without compromising public safety.

Do other options exist for reducing court security expenditures without compromising public safety?
Does the Subcommittee wish to adopt this reduction and the proposed trailer bill language?

Security Fee Increase

Budget Request. The budget proposes trailer bill language to establish a new court security fee of $20. This new $20 fee will be levied on civil filings as well as criminal fines. The DOF estimates that the court security fee will generate $34 million in 2003-04. This funding would be deposited into the Trial Court Trust Fund. A corresponding amount of the General Fund appropriation into the Trial Court Trust Fund has been reduced.

Issue. The LAO has raised concerns, noting that (1) not all fee payers would be beneficiaries of court security services, (2) the new fee may reduce civil court access for some, and (3) the new fee may put other state and local programs at risk.

*Analyst's Recommendation***.** The LAO recommends that the Judicial Council report at the time of budget hearings on how the court security fee will be implemented, and on the potential impact the increase will likely have on access to the civil courts and other state and local programs.

Staff Comments. The LAO has noted that court security costs have grown rapidly in the last few years, from $263 million in 1999-00 to a projected $356 million in 2003-04. Staff notes that if this fee proposal is not adopted, it would result in an additional reduction of $43 million to the trial courts.

What impacts will this fee have on access to civil courts and on revenues into other state and local programs?
Does the Subcommittee wish to adopt the proposed trailer bill language?

Court Security Realignment

Budget Request. As part of the administration's realignment proposal, the budget proposes to reduce funding from the General Fund to the Trail Court Trust Fund by $300 million, and to transfer $300 million in new revenues dedicated for providing funding for court security.

Analyst's Recommendation. The LAO notes that that this proposal does not constitutes program realignment --Trial Court Funding would remain a state program, and program responsibility and control is not being realigned from one level of government to another. Rather, the proposal would simply substitute a new revenue source (proceeds from a 1 percent increase in sales tax) for the current General Fund support for trial court security. In doing so, the LAO believes that the proposal blurs the lines of responsibility for Trial Court Funding and runs counter to the direction in which the Legislature was moving this program. The LAO recommends that the Legislature reject this aspect of the administration's realignment proposal.

Trial Motion Fee

Budget Request. The budget proposes trailer bill language to increase the fee for all trial court motions (excluding motions for summary judgment) by $10, from $23 to $33. This proposed increase to estimated to produce $1.2 million in additional revenues in the Trial Court Trust Fund. The budget reduces the General Fund appropriation to the Trial Court Trust Fund by a corresponding amount.

Does the Subcommittee wish to adopt this trailer bill language?

Increased Charges for County-Provided Services and Benefits

Last year, the Legislature approved an increase of $14.4 million to pay for increases in the costs of providing for county provided services and benefits, including workers' compensation insurance and benefit adjustments, janitorial services , communications, and auditor/controller services.

Staff Comments. The AOC has estimated statewide cost increases of $6.7 million for these charges. The proposed budget contains no proposal to fund increased charges.

What is the impact of not funding these estimated increases?

0280 Commission on Judicial Performance

The Commission on Judicial Performance investigates and adjudicates complaints against judges. A constitutional amendment, Proposition 221, was passed by the voters and became effective June 3, 1998. Proposition 221 placed all California court commissioners and referees under the commission's discretionary jurisdiction. This jurisdiction was previously vested exclusively in the presiding judges.

Budget Request. The budget proposes total expenditures of $3.1 million from the General Fund, a decrease of $1 million, or 25 percent from current year expenditures. The commission has a total of 27 positions.

Commission Workload. In 2001, 835 complaints about active judges were considered for the first time. The 835 complaints named a total of 781 different judges and covered a wide array of grievances. In 2001, the commission also received 112 complaints about subordinate judicial officers. In 2002, the commission 918 complaints about active judges were considered, and 128 complaints about subordinate judicial officers.

Commission Actions. In 2001, the commission removed one judge from office and issued two public censures, five private admonishments, three public disciplinary actions, and 19 advisory letters. In 2002, the commission issued four public censures, one public admonishment, six private admonishments, five public disciplinary actions, and 17 advisory letters. Additionally, the commission issued one order of removal of a judge that is pending.

Staff Comments. The CJP indicates that the proposed 25 percent reduction would have a significant impact on its mission.

What is the anticipated impact of this reduction on the operations of the commission?

0390 Judges' Retirement System

The Judges' Retirement System (JRS I) provides retirement benefit funding for judges of the Supreme Court, Courts of Appeal, Superior and Municipal Courts. Retirement benefits are based on age, years of service, compensation of active judges, and eligibility as determined by specific sections of the Judge's Retirement Law. The JRS I is funded by the Judge's Retirement Fund, which receives revenue from the General Fund and certain filing fees, as well as employee contributions equal to 8 percent of the judges' salaries.

Chapter 879 of the Statutes of 1994 established the Judges' Retirement System II (JRS II). Unlike its predecessor, JRS II is designed to be fully funded from employer and employee contributions on a prospective basis. The major differences in JRS II include increased retirement age and a cap of 3 percent annually for COLAs for retirement benefits. All judges elevated to the bench on or after November 9, 1994, are required to participate in JRS II. There are currently 1,610 authorized judges and justices in the State of California. The majority of these judges participate in the JRS I plan.

Budget Request. For JRS I, the budget includes $15 million from judges' contributions, $3 million form civil fees, and $113 million from the General Fund. The General Fund portion is made up of $15 million, equivalent to 8 percent of judges' salaries, $600,000 for PERS administrative costs, and the amount necessary to cover JRS I payments (estimated at $98 million). JRS I will pay a projected $121 million in benefits to 1,546 annuitants in the budget year.

Analyst's Recommendation. The LAO recommends that the appropriation to JRS I be reduced by $10 million to help address the General Fund shortfall. The LAO indicates that this action would reduce the reserve from approximately two months' worth of pension payments to one month.

What is the impact of reducing the reserve?

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Wednesday, March 26, 2003
2:00 p.m.
Room 2040

Proposed Consent Calendar

Item	Department
0850	State Lottery Commission
1900	Public Employees' Retirement System
1920	State Teachers' Retirement System
8320	Public Employment Relations Board
8385	California Citizens' Compensation Commission
8910	Office of Administrative

0890 Secretary of State

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

The budget proposes total expenditures of $69.7 million for the SOS in 2003-04, a slight increase from the current year. Expenditures total $27.1 million from the General Fund, $32.9 million from the Business Fees Fund, and $8.8 million from reimbursements.

Issues

1. Vacant Position Funding. The budget proposes to augment the Secretary of State's budget by $200,000 to restore funding eliminated in the current year as part of the effort to eliminate vacant positions in state government.

As part of the statewide process to eliminate 6,000 vacant positions in the current year, DOF eliminated 24 positions and $1.3 million dollars from the SOS's budget pursuant to Control Section 31.60. Of this amount, 19 positions and $1 million were associated with the Business Fees Fund. Pursuant to Control Section 31.70, DOF restored $510,000 to the SOS's budget in the Business Fees Fund (the maximum restoration allowable by the control section). According to DOF, the funding was restored because the positions are associated with a revenue-raising fund.

The budget maintains the $510,000 restoration in the budget year. The budget proposes an additional $200,000 increase without any workload information or specific purpose for the additional funding.

The Business Fees Fund may retain a balance of up to $1 million. Any excess fees or interest is transferred to the General Fund at the end of the fiscal year.

The LAO recommends deleting the $200,000 augmentation because SOS has not provided any workload information supporting the need for the $200,000 augmentation.

The department should comment on the need for this augmentation.

2. Filing Fees on Common Interest Development Associations.

There are estimated to be more than 30,000 common interest development (CID) associations (such as condominium associations) in California. Chapter 1117, Statutes of 2002 (AB 643, Lowenthal), requires all CID associations to biennially file basic information with the SOS's office (such as address and contact information). The intent of Chapter 1117 is to gain a better understanding of the type and number of CID associations in the state.

To cover the Secretary's costs associated with the new filings, Chapter 1117 authorizes a filing fee to be charged to associations of up to $30. The SOS has chosen to impose the maximum $30 fee for the initial filings. At the $30 level, the fee is expected to generate $450,000 in 2003-04.

The Secretary of State proposes setting a filing fee on common interest development associations at $30. Since only minor increased costs have been identified, the LAO recommends that the fee be set at $5 for the budget year through the adoption of budget bill language.

The SOS asserts that $30 is the incremental cost of processing one filing. The budget, however, proposes only $61,000 in expenditures related to the filings. The budget requests these funds for increased mailing costs and one position to maintain a database of filers' information. While the identified costs seem reasonable, the SOS has been unable to identify any other costs associated with Chapter 1117.

The LAO recommends that since only $61,000 in new costs have been identified that the Legislature, through budget bill language, limit the fee in 2003-04 to generate a comparable level of revenues. A fee of $5 would generate an estimated $75,000 and, therefore, provide the SOS with sufficient revenues to cover any other incidental costs above those already identified.

The department should comment on the fee level and anticipated costs of implementing this program.

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 $87.7 million budget is primarily funded by $52.9 million from the Federal Trust Fund and $30.7 million from the General Fund. This budget is about $600,000 more than the current year budget. Additional federal funding of $555 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.

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.

The 2002-03 supplemental report to the budget included language requiring the Military Department to report to the Joint Legislative Budget Committee and the chairs of the legislative budget committees by December 1, 2002, about the following issues:

1) With respect to the existing Santa Ana armory:
    a) The feasibility of relocating the armory to a new site, including how the relocation fits in with the department's long-term capital development plan and the availability of federal construction funds;
    b) Any potential force structure issues raised by this relocation; and
    c) An estimate of the cost of relocating the armory in Orange County, including costs associated with acquiring the site, constructing the new armory, and transition costs.

2) For each of the last three armories constructed, list the costs for site acquisition, transition, and construction. The department shall delineate the construction costs associated with preliminary plans, working drawings, and construction.

The department should report on their findings.

2. Capital Outlay. The 2002-03 budget provided funds for the following proposals:

a) **New Armory in Azusa.** The budget contained $6.1 million (GF) for design and construction of a new armory in Azusa. Working drawings were scheduled to be completed by January 2003 and approval to proceed to bid and contract award for construction by April 2003.
b) **New Armory in Lancaster.**
    1) The budget appropriated $750,000 (Armory Fund) for land acquisition. This acquisition was scheduled to be complete by January 2003.
    2) The budget appropriated $743,000 (GF) for preliminary plans for a new armory building. The estimated future cost for the project is $6.2 million (GF). Preliminary plans are scheduled to be completed by May 2003.

The funding for these armories have approved federal funding. If the state does not provide funding, the federal funding will be lost.

The Department should comment on the status of the armories.

3. 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.

How many other firefighters or other public safety officers are employees of the Military Department?

Are there federal requirements that would require competitive bidding for this contract?

The proposed trailer bill language states that the contract shall not exceed ninety percent of the current actual costs. Could the Military Department retain the same number of employees at ninety percent of current costs?

Would a change from employees of the Military Department to employees of the Orange County Fire Authority effect the pay, benefits, or retirement costs of the firefighters?

The following language has been submitted to Legislative Counsel. It would require the Adjutant General of the California National Guard to enter into a contract with the Orange County Fire Authority to provide fire protection and emergency medical services for the Los Alamitos Joint Forces Training Base (LAJFTB).

SECTION __. In order to reduce the cost otherwise incurred by the State when providing fire protection and emergency medical services, the Adjutant General of the California National Guard shall enter into a contract with the Orange County Fire Authority to provide those services for the Los Alamitos Joint Forces Training Base. The amount of that contract shall not exceed ninety percent (90%) of the current actual costs of providing fire protection and emergency medical services as determined by the Director of the Department of Finance.

SECTION. _______. *The Orange County Fire Authority shall comply with the requirements of Section 53292 of the Government Code with respect to hiring any displaced firefighting employee of the Los Alamitos Joint Forces Training Base.*

Section 53292 of the Government Code reads as follows:

53292. (a) Whenever a special district or joint powers agency that provides fire protection or a city fire department is dissolved or the area it serves is decreased by reason of a consolidation, merger, incorporation, annexation, or contract, and the district, joint powers agency, or city fire department taking over the duties of the dissolved or decreased district, joint powers agency, or department decides to hire additional firefighters, it shall give first choice for the positions to be filled to firefighters employed by the dissolved or decreased district, joint powers agency, or department. As nearly as possible, the firefighters who are hired shall be given positions with a rank comparable to that which they held in the dissolved or decreased district, joint powers agency, or department. No firefighter shall be hired who is over the mandatory retirement age of the district, joint powers agency, or city fire department which is taking over the duties of the dissolved or decreased district, joint powers agency, or department.

(b) Notwithstanding any other provision of law, where firefighters are hired as a result of the consolidation, merger, incorporation, annexation, or contract, the seniority or other employment rights of the employees of the district, joint powers agency, or fire department taking over the duties of the dissolved or decreased district, joint powers agency, or department shall not be impaired as a result of the consolidation, merger, incorporation, annexation, or contract, except as otherwise agreed upon in a county, other than a county of the first class, in a memorandum of understanding with each employee organization, which has been recognized pursuant to Chapter 10 (commencing with Section 3500) of Division 4 of Title 1, and which represents employees of the district, joint powers agency, or department taking over the duties of the dissolved or decreased district, joint powers agency, or department who are in classes affected by the consolidation, merger, incorporation, annexation, or contract.

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Wednesday, April 2, 2003
1:30 p.m.
Room 3191

8260 Arts Council

The California Arts Council budget was funded at $49.7 million ($47.9 million GF) in 2001-02 and $21.5 million ($19.6 million GF) in the current year. Most of this reduction ($20 million) was attributable to the elimination of funding provided for district-specific projects. In addition, local grants were reduced by $9 million. The budget proposes expenditures of $13.6 million ($12.0 million GF) in the budget year.

Issues

Arts in Education Program. Under the program, the state assists artists and arts organizations to enhance the capacity of California schools to teach the arts and to use the arts to teach other subject matters. The budget provided $6.8 million (GF) in grants for this program in 2001-02 and $6.2 million ($5.7 million GF) in the current year. The budget proposes to reduce this amount by $3.0 million (47 percent) to $3.3 million ($3 million GF) in the budget year.

Does the subcommittee want to approve the proposed reduction?

Organization Support Grants. This program provides matching grants that leverage local private and public dollars for over 800 arts organizations throughout the state. Grants for this program were funded at $9.7 million (GF) in 2001-02. The current year funding is $5.8 million reflecting a $2 million unallocated reduction. The budget proposes to reduce funding by $2.8 million (47 percent) for grant funding of $3.0 million in 2003-04.

The December Revision proposed to reduce the Multicultural Arts Program by $102,000 in the current and budget year. SB 15X (the first budget correction bill passed by the Senate) did not include the $102,000 current year reduction. Chapter 3, Statutes of 2003-04 First Extraordinary Session (SB 19X, Chesbro) included the $102,000 current year reduction.

Does the subcommittee want to approve the proposed reduction of $2.8 million including the $102,000 reduction to Multicultural Arts Program?

Artists in Residence Program. The Artists in Residence Program uses art professions to work with K-12 public school students and other Californians in mental health, drug prevention, youth at risk, day care, latchkey, and other community programs to promote critical thinking self esteem, and to provide positive role models. The program was funded at $4.8 million ($3.7 million GF) in 200-01 and $2.6 million ($1.9 million GF) in the current year. The budget proposes expenditures of $1.7 million ($1.1 million GF). The $600,000 reduction is all local assistance.

Does the subcommittee want to approve the proposed reduction?

Simon Wiesenthal Museum (Tools for Tolerance). This grant program was funded at $2 million (GF) in 2001-02. The December Revision proposed to reduce this program by $100,000. SB 15X (the first budget correction bill passed by the Senate) did not include the $100,000 current year reduction. Chapter 3, Statutes of 2003-04 First Extraordinary Session (SB 19X, Chesbro) included the $100,000 current year reduction.

The budget proposes to reduce the 2003-04 funding by $200,000 to $1.8 million (10% reduction).

Does the subcommittee want to approve the proposed reduction?

2920 Technology, Trade and Commerce Agency

Managing the state's economic development efforts is the primary responsibility of the (TTCA). Its major programs are Economic Development, International Trade and Investment, Marketing and Communications and Tourism. The department also provides low-cost financing to public agencies for a variety of infrastructure and public improvements through the California Infrastructure and Economic Development Bank.

The TTCA budget for 2001-02 was $216.1 million ($68.9 million GF). The current year budget, adjusted for the December Revision, is budgeted at $156.4 million.

Technology, Trade, and Commerce Agency Expenditures			
All Funds Including Federal Funds			
(In Thousands)			
Program	**2001-02**	**2002-03**	**2003-04**
Infrastructure Bank	$81,311	$77,680	$76,182
Science, Technology, and Innovation Programs	1,923	763	131
Film Commission and Film California First	12,920	10,972	11,212
Biomass-to-Energy grant program	11,500	-	-
Tourism	8,257	8,141	--
Manufacturing Technology Program	6,039	2,739	-
California Technology Investment Partnership and Regional Technology Alliances	6,000	3,000	—
Foreign Trade Offices	5,584	3,873	3,841
Small Business Loan Guarantee Program	2,662	4,662	4,662
Regional Offices	2,622	-	-
Internet Network Grants	2,000	-	-
Rural E-commerce grants	2,000	-	-
Office of Military Base Reuse and Retention	1,926	923	-
Economic Research	1,217	883	188
Contract, Grants and Loans Office	1,437	1,400	364
Marketing and Communications	804	453	-
Commission of the Californias	324	278	280
Office of California-Mexico Affairs	250	241	242
Other	35,348	40,404	11,966
Totals	$184,124	$ 156,412	$ 109,068

Current-Year Reductions. The current-year budget included elimination of the agency's regional offices as well as grants for local defense adjustment, development of small business software applications, and rural E-commerce programs. In addition, the 2002-03 budget reduced spending for the foreign trade offices, consulting services for small manufacturers, military base reuse, and small business grants for product development and generating electricity from biomass. This resulted in a 15 percent decline in total expenditures (37 percent for General Fund-supported activities) from 2001-02 to the current year. The 2002-03 budget included an unallocated reduction of $2 million to the foreign trade offices and an unallocated reduction of $10 million to the department.

Proposed Budget-Year Reductions. The administration proposes further reductions in 2003-04 from (1) substantially reducing most General Fund support and (2) eliminating consulting and technology grants for small businesses, defense retention activities, marketing and communications, economic research, and state-funded tourism promotion. This amounts to a 31 percent reduction from total current-year spending (53 percent for the General Fund).

The proposed budget maintains local assistance from special funds of $87 million in 2003-04. Of this amount, $73 million is for the Infrastructure Bank, which provides low-interest loans to local governments for infrastructure projects. The California Infrastructure and Economic Development Bank Fund received its initial funding from a transfer from the General Fund. The remaining special fund local assistance (which also include transfers from the General Fund and some federal funds) is for various grant and loan programs such as replacement of underground gasoline storage tanks, rural economic development, and disaster assistance.

General Fund Support

The reductions proposed by the administration leave General Fund support for the programs shown below. The budget proposes $21.9 million for these purposes in 2003-04. This request preserves small business loan guarantees, film permit subsidies, and foreign trade offices at or near current-year levels.

2003-04 Proposed General Fund Expenditures (In Thousands)	
Film California First Program (transfer from General Fund)	$8,200
Small business loan guarantee program (Transfer from General Fund)	4,662
Foreign trade offices	3,841
Film Commission	2,992
Commission of the Californias	280
Office of California-Mexico Affairs	242
Other	1,706

1. California Film Commission and Film California First Program

The California Film Commission is responsible for promoting, increasing, and retaining the production of motion pictures, television programs, and commercials within the state. The Commission is funded at $2.9 million in both the current and budget year.

The Film California First Program subsidizes fees that movie and television production companies pay to local governments for on-site filming in California. Reimbursements are capped at $300,000 per project and cover costs such as public safety expenses and public property use fees. In the first year of the program (2000-01), the budget provided $15 million in grants. Of this amount, $7 million was allocated in 2000-01 and $8 million was allocated in 2001-02. In 2001-02, an additional $2 million was provided for a total of $10 million. The budget provided $7.9 million in the current year. The budget proposes $8.2 million (GF) for 2003-04.

According to the California Film Commission, the entertainment industry employs more than 250,000 Californians. The industry generated more than $33.4 billion for the economy in 2000. The Commission argues that the program pays for by retaining or attracting film productions to the state and providing valuable tax dollars and income to other small businesses. According to the Commission, filming on state property increased by more than 32% percent from 2001 to 2002.

The LAO analyzed 2001 program data on reimbursements and total reported filming costs. The LAO found that reimbursements covered about 0.2 percent of total production costs. For feature films, reimbursements covered 2.7 percent of total production costs for productions costing less than $100,000 and 0.1 percent of production costs for $50 million-plus blockbusters. The LAO states that reimbursing this small share of production costs would unlikely have a significant impact on retaining film productions in California. Other cost differences, such as labor costs, would likely have greater impacts on film location decisions.

The LAO recommends elimination of the film permit subsidy program for savings of $8.2 million (GF).

The LAO recommends elimination of three related positions in the Film Commission for savings of $300,000 (GF).

The LAO also recommends transferring approximately $2 million of the current year funds for the film permit subsidy program to the General Fund. TTCA asserts that they have allocated the entire appropriation.

Have all the current year funds been encumbered?

2. Foreign Trade Offices

The budget proposes continued operation of all trade offices. The state operates trade offices in 12 locations around the world. Seven foreign trade offices are staffed by state employees, while five other offices are staffed by contracted consultants. Total funding was $ 6 million in 2001-02, $3.9 million in 2002-03 and $3.8 million in the budget year. There was an unallocated reduction of $2 million in the current year budget.

The LAO states that these offices have not demonstrated a clear impact on state exports or foreign investment in California. The LAO states that in past assessments, the agency has included the entire value of export and foreign investment agreements in which they played even a minor role. In some cases, the office may have merely provided a list of foreign companies potentially interested in a product developed by a California business. The agency counted the total value of a subsequent export agreement as attributable to the assistance of the trade office. The federal government and local trade organizations frequently provide opportunities and assistance.

Contract Foreign Trade Offices. The budget proposed the closure of the five contract offices effective January 1, 2003 as part of the mid-year spending reductions and then reversed this position. SB 19X, however, eliminated $195,000 for contract foreign trade offices in the current year. This was the maximum amount that could be saved at the time of enactment. .

The budget proposed eliminating the contract foreign trade offices and DOF submitted a Finance Letter on January 10 requesting $480,000 for funding in 2003-04.

The following table displays current-year and proposed budget-year funding for these offices.

Contract Foreign Trade Offices (In thousands)			
Argentina	$265	$ 19	$ 25
Shanghai	270	85	140
Singapore	200	56	100
South Korea	261	87	150
Israel	200	38	65
Totals	$ 1,196	$ 285	$480

The LAO recommends eliminating all funding for the contract foreign trade offices.

Does the Subcommittee want to adopt the Finance Letter and reinstate funding for the five contract foreign trade offices?

<u>Foreign Trade Offices.</u> Seven foreign trade offices are staffed by state employees. The table below shows funding by trade office from 2001-02 through 2003-04. The following table shows the cost of each office

Foreign Trade Offices (In Thousands)			
	2001-02	**2002-03**	**2003-04**
Mexico	$1,150	$ 727	$696
Hong Kong	829	587	538
Japan	1,009	684	636
United Kingdom	571	522	488
Germany	546	476	449
Taiwan	355	331	308
South Africa	355	261	246
Total	$ 4,815	$ 3,588	$3,361

The LAO recommends that the Legislature eliminate the seven state-staffed foreign trade offices for savings of up to $3.4 million (GF).

Does the Subcommittee want to approve the proposed funding for the foreign trade offices?

3. California Technology Improvement Program (CalTIP)

The CalTIP grant program was designed to create new jobs for defense workers affected by cutbacks in the early 1990s and help secure federal research and development grants by providing state matching funds. CalTIP provides matching funds for federal grant money to small- and medium-sized businesses to assist in the development of marketable technologies. Grants are used to match federal funds, although matching funds can come from other sources including private funds.

From 1997-98 through 2001-02, $ 26 million (GF) has supported 145 CalTIP projects. The typical CalTIP award is about $200,000. Businesses awarded state funding have also received $108 million in federal grants and $100 million from private sources (including the businesses themselves) to support their projects. This equals $233 million in total project funding. The state has provided 11 percent of funds, compared to 46 percent from the federal government and 43 percent from private funds.

Federal and private matches do not seem to correlate strongly with the level of state grants over the years. The year with the highest level of federal and private grants was 1994-95. In that year, the state provided $ 4.8 million, the federal government provided $53.4 million and private funds were $ 45.5 million for a total of $ 69.5 million. The lowest year was 1999-2000; the state provided $4.6 million, the federal government provided $21.9 million and private grants were $17.3 million for a total of $43.8 million. Businesses must secure federal funding to be eligible to receive a CalTIP grant.

According to a survey conducted by a former program manager of CalTIP, a majority of businesses indicated that their CalTIP grants were critical for project development. According to LAO's review of the study, a majority of businesses indicated that the CalTIP grants were not critical to get federal or private funding. Thus, some portion of these jobs would have been created without state funds. The LAO's review of the study estimates that although the state receives some increased revenues from new product development and sales as a result of CalTIP grants, it is likely well under $1 million.

The current year budget provided $1 million for CalTIP grants. The proposed budget eliminates funding for this program.

The LAO recommends the Legislature approve the proposed elimination of funding for CalTIP grants and enactment of legislation to eliminate the grant program

Does the Subcommittee wish to approve the elimination of funding for CalTIP grants?

Does the Subcommittee wish to adopt trailer bill language to eliminate the grant program?

4. Regional Technology Alliances. The state created nonprofit regional technology alliances (RTAs) to administer the CalTIP grants and to support technology development and commercialization. Current law requires RTAs to raise funds from many sources, assist in the formation of new businesses, provide industry-networking forums, and identify emerging industries. There are currently six RTAs serving San Diego, Los Angeles, the Bay Area, the Inland Empire, the San Joaquin Valley, and the Sacramento region.

From 1997-98 through 2001-02, RTAs received $7 million in state support and $16 million from private sponsors. The state has provided 32 percent of RTA funding on average, while private sources have provided the remaining 68 percent.

According to the LAO, it is not clear that state involvement significantly adds to the business opportunities afforded by the private marketplace.

The current-year budget provides $2 million to support activities of the six RTAs. The proposed budget eliminates funding for the RTAs.

The LAO recommends the Legislature approve the proposed deletion of funding for the regional technology alliances (RTAs). They also recommend enactment of legislation to eliminate the RTAs as state-created entities because the job and tax revenue impact of the program does not justify its state costs.

The RTAs could continue to exist with the financial assistance of the private companies that currently support them, to the extent businesses find their services of value.

Does the Subcommittee wish to approve the elimination of funding for RTAs?

Does the Subcommittee wish to adopt trailer bill language to eliminate RTAs as state-created entities?

5. Military Base Reuse and Retention Program. The budget proposes to eliminate funding for this program. This program was funded at $1.9 million in 2001-02 and $0.9 million in the current year ($190,000 General Fund and $720,000 Federal Grant). Funding for this program was reduced in the current year because the next round of base closures has been delayed to 2005. The budget proposes to eliminate funding for this program in the budget year.

Does the subcommittee wish to approve the elimination of funding for this program?

6. Manufacturing Technology Program (MTP). The mission of MTP is to improve the competitiveness of California small- and medium-sized manufacturers to create and retain high-wage, high-skill jobs. California's public and private sectors, along with Federal partners such as the U.S. Department of Commerce National Institute of Standards and Technology Manufacturing Extension Partnership invest in MTP to sustain the state's leadership role in manufacturing through the formation of joint state/federal/academic/private sector partnerships that provide targeted solutions for industry needs. The program requires one-third federal/two-thirds other funding requirement.

For the six years this program has been in operation the funding has totaled $39.2 million (GF), $69.4 million (federal funds) and $77.3 million in local/private match. The share of funding is 21 percent (GF), 37 percent (federal funds) and 42 percent (local/private funds). The local/private match has increased from $8.7 million in 1996-97 to $15.5 million in 2001-02. The state contribution has stayed relatively stable increasing from $5 million in the first year to $6 million in 2001-02. In 2000-01, the state grant was $7.9 million.

In 2001-02, MTP grantees were funded through grants of $6,039,000 (GF) as a match to federal funds of $10.5 million and local/private funds of $15.5 million. The program was reduced to $2.7 million in the current year.

The budget proposes to eliminate funding for this program. Eliminating state funding could reduce federal funding because of the match requirements although other nonstate funds (local and private) may be available to provide a match to federal funds.

Does the subcommittee wish to approve the elimination of funding for MTP?

7. Market Expansion

The Office of Small Business Development, Small Business Advocate and the Office of Export Development received total funding of $15.1 million ($4.7 million GF and $10 million federal funds) in the current year. These programs will receive $286,000 in special funds in the budget year.

Does the subcommittee wish to approve the proposed funding for this program?

8. Office of Tourism. The Tourism Marketing Act (1995) granted the travel industry authority to create the California Travel and Tourism Commission (CTTC). CTTC is funded by a self-assessment on the travel and tourism industry. The state contributes $7.5 million (GF) and the industry contributes $6.8 million to fund a competitive advertising campaign, an international and domestic marketing presence, conduct research, and provide travelers with information on California as a destination.

California is the number one travel destination in the United States. The tourism industry is California's fourth largest employer, employing more than one million Californians. The industry contends that it generates more than $75 billion in direct spending in California and generates more than $5 billion in state and local revenue.

The budget proposes to eliminate funding of $7.5 million (GF) for the Agency's Tourism Division.

Does the subcommittee wish to approve the elimination of funding for this program?

10. An Agency or a Department?

Before 1992, TTCA was the Department of Commerce in the Business, Transportation, and Housing Agency. The Agency does not perform the same functions as other agencies, such as providing policy guidance or oversight of other departments. The Agency's primary function is to generate revenue for the State. The agency's proposed budget for 2003-04 is $109 million and 104 PYs. The new Labor and Workforce Development Agency with 2,600 employees has the fewest number of employees of the state's other agencies.

The LAO recommends that the Legislature adopt trailer bill legislation that moves the agency back into the Business, Transportation, and Housing Agency as a department. This should result in some minor cost savings.

Does the subcommittee want to approve trailer bill language to convert the agency to a department?

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Wednesday, April 9, 2003
1:30 p.m.
Room 2040

PROPOSED CONSENT CALENDAR

0160 Legislative Counsel Bureau
0850 California State Lottery Commission
0955 California Revenue Bond Financing Authority
0959 California Debt Limit Allocation Committee
0965 California Industrial Development Financing Advisory Commission
0971 California Alternative Energy & Advanced Transportation Financing Auth
1140 State Athletic Commission
1165 State Board of Barbering and Cosmetology
1250 Board of Dentistry
1340 Board for Geologists and Geophysicists
1350 State Board of Guide Dogs for the Blind
1390 Medical Board of California
1420 Physical Therapy Board of California
1430 Physician Assistant Committee
1440 Board of Podiatric Medicine
1455 Respiratory Care Board of California
1460 Speech-Language Pathology & Audiology Examiners
1480 State Board of Optometry
1485 Osteopathic Medical Board
1490 Board of Pharmacy
1500 Board Profession Engineers & Land Surveyors
1510 Board of Registered Nursing
1530 Structural Pest Control Board
1550 Veterinary Medicine
1900 Public Employees' Retirement System
1920 State Teachers' Retirement System
2120 Alcoholic Beverage Control Appeals Board
2320 Department of Real Estate
8320 Public Employment Relations Board
8385 California Citizens Compensation Commission
8530 Board of Pilot Commissioners
8780 Milton Marks Little Hoover Commission
8820 Commission on the Status of Women
8910 Office of Administrative Law

Control Sections

1.0 Budget Act Citation
1.50 Intent and Format
3.0 Defines Purposes of Appropriations
8.50 Federal Funds Receipts
8.51 Federal Funds Accounts
13.0 Legislative Counsel Bureau
14.0 Special Fund Loans Between Boards of Department of Consumer Affairs
28.50 Agency Reimbursement Payments

Control Sections (continued)

29.0 Personnel-Year Estimates; May Revision and Final Change Book
30.0 Continuous Appropriations
31.0 Budget Act Administrative Procedures for Salaries and Wages
32.0 Prohibits Excess Expenditures
33.0 Item Veto Severability
34.0 Constitutional Severability
36.0 Provides that Budget Act is for Usual and Current Expenses

0950 State Treasurer

The State Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of state monies; administration of the sale of state bonds; and payment of warrant drawn by the State Controller and other state agencies. The proposed budget is $20.7 million ($6.4 million GF).

0956 California Debt and Investment Advisory Commission

The California Debt and Investment Advisory Commission (CDIAC) assists state and local governments to effectively and efficiently issue, monitor and manage public debt. It also provides a municipal education and oversight program to help local governments safely and effectively invest public funds. The Commission consists of nine members including the State Treasurer; the Governor or the Director of Finance; the State Controller; two local government finance officers appointed by the Treasurer; two members of the Assembly appointed by the Speaker of the Assembly; and two members of the Senate appointed by the Senate Rules Committee.

Issue

1. General Fund Loan. The budget proposes a loan from the California Debt and Investment Advisory Commission (CDIACF) to the GF of $3 million in 2003-04.

The CDIACF has estimated revenues of $2.4 million and a beginning balance of $5.7 million in 2003-04. Estimated expenditures are $1.9 million. The loan would leave a reserve of $3.2 million, or 168 percent of expenditures in the fund.

The loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. There is intent language that repayment shall be made to ensure that the programs supported by this fund are not adversely affected by the loan.

Does the Subcommittee wish to approve the loan?

0968 California Tax Credit Allocation Committee

The California Tax Credit Allocation Committee allocates federal and state low income housing tax credits to promote the development of rental housing and also allocates mortgage revenue bond authority for ownership housing.

Issues

1. General Fund Loan. The budget included a loan from the Tax Credit Allocation Fee Account (TCAFA) to the GF of $27 million in 2002-03. The budget includes an additional loan of $3 million in the budget year.

The TCAFA has estimated revenues of $5.0 million and a beginning balance of $1.5 million in 2003-04. Estimated expenditures are $1.5 million. The loan would leave a reserve of $2.0 million, or 133 percent of the expenditures from the fund.

The loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. There is intent language that repayment shall be made to ensure that the programs supported by this fund are not adversely affected by the loan.

<u>Does the Subcommittee wish to approve the loan?</u>

9210 Local Government

The Local Government Finance item proposes $330 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.

Summary of Expenditures (In thou sands)			
	2001-02	**2002-03**	**2003-04**
High-Technology Grants for Local Law Enforcement	$35,400	$18,500	$18,500
Reimbursement for Booking Fees	38,220	38,220	0
Property Tax Grant Program	52,093	51,500	60,000
Rural and Small County Law Enforcement	18,500	18,500	18,500
Citizens' Option for Public Safety (COPS)	232,600	232,600	232,600
Special Supplemental Subventions	1,200	1,400	0
State-Mandated Local Programs	15,843	3	3
Local Grants	7,752	0	0
Other	147	147	847
Total	$401,755	$360,870	$330,450

1. High Technology Grants for Law Enforcement. This program provides grants to local law enforcement agencies for purchase of high-technology equipment for crime prevention and suppression. Eligible local agencies include cities, counties, and the special districts that provide law enforcement services. The program was funded on a one-time basis for the first time in 2001-02 at $35.4 million. The funds were allocated on a per capita basis with minimum grants per agency of $30,000. Funding in 2002-03 was $18.5 million with minimum grants of $15,000.

The budget proposes to provide the third year of one-time funding at $18.5 million with minimum grants of $15,000. Budget bill language provides that each recipient agency shall report to DOF on or before August 15, 2004 on how the funds were spent.

One of the LAO "options" is to eliminate funding for this program.

2. Citizens' Option for Public Safety (COPS) and Juvenile Crime Prevention Programs. The COPS program funds local law enforcement, sheriffs' departments for jail construction and operations, and district attorneys for prosecution. Funds from COPS are allocated to cities, counties, and the few special districts that provide law enforcement services. In 2000, this program was expanded to include funding for county juvenile crime prevention programs. Funding for this program is extended at the current-year level of $232.6 million ($116.3 million for COPS and $116.3 million for Juvenile Justice programs).

One of the LAO "options" is to eliminate funding for the COPS program and to suspend the Juvenile Justice grants for one-year.

3. Rural and Small County Law Enforcement Grants. As part of the 2001-02 budget compromise, an annual appropriation of $18.5 million was provided in statute to provide grants to county sheriffs to enhance law enforcement in the 37 smallest counties. Each county received a grant of $500,000. The funds must be used to supplement not supplant existing resources, but there are no reporting requirements on expenditures.

One of the LAO "options" is to adopt trailer bill language to eliminate funding for this program.

4. Booking Fees. Counties are authorized to charge cities, special districts, and school districts a "booking fee" for the cost of booking persons arrested by another local entity into the county jail. Commencing with 1999-2000 fiscal year, an amount up to $50 million is annually appropriated in statute to reimburse cities and qualified special districts for booking fees paid to counties in 1997-98. The amount expended annually has been $38.2 million.

The budget proposes trailer bill language to eliminate this reimbursement.

Does the subcommittee wish to adopt trailer bill language eliminating this reimbursement?

5. Special Subventions for Redevelopment Agencies. Business inventory was exempted from the property tax in 1982-83. The state reimbursed the property tax revenue loss to local governments. The state reimbursements were eliminated in 1984-85.

A special subvention program was established to reimburse the property tax loss related to bond debt of redevelopment agencies. The Controller allocates funds to redevelopment agencies that have pledged special supplemental subventions as security for payment of the principal and interest on bonds and have insufficient funds to cover their maximum annual debt service requirement on those bonds. The only two redevelopment agencies that still receive these subventions are Huntington Park and Santa Maria.

When the program began in 1984-84, the subvention to redevelopment agencies was about $50 million. The state subvened $1.2 million in 2001-02 and $1.4 million in the current year for this purpose. The budget proposes trailer bill language to eliminate funding for this subvention permanently.

How will these redevelopment agencies be able to make their bond payments?

Does the Subcommittee want to adopt the trailer bill language?

6. Redevelopment Agency Property Tax Transfer. The budget proposes trailer bill language to transfer 25 percent of the property tax increment allocated to redevelopment agencies that otherwise would have been received by schools to ERAF in 2003-04. This transfer is estimated to be $250 million and would reduce General Fund apportionments to K-14 education by the same amount.

The trailer bill language provides that if a redevelopment agency cannot meet the tax increment transfer to ERAF because of debt or other contractual obligations, the county auditor shall transfer the property tax from the sponsor city or sponsor county of the redevelopment agency.

In future fiscal years, RDA's would increase this transfer by 5 percent per year until the schools receive the amount of local property tax they would have received if there were no redevelopment agency within their boundaries.

How would funding for affordable housing from the redevelopment agencies' Low and Moderate Income Housing funds be affected?

How much of the proposed redevelopment tax increment transfer would become an immediate and direct obligation of the sponsor city or county?

7. Funds for Counties for Administration of the Property Tax. The budget proposes funding of $60 million to assist counties with the administration of the property tax. This amount is intended to reimburse counties for the cost of administration of the property tax allocated to K-12 and community college school districts. School districts receive over 50 percent of the property tax, but do not reimburse counties for the cost of administration.

The grants per county are specified in statute, but the amount expended is contingent upon a budget act appropriation. These funds must be used to supplement and not supplant existing funding. The determination of whether or not the funds supplement existing funding is, however, conditioned upon the amount of funds expended in the 1993-94 or 1994-95 fiscal year, whichever is less. For counties that did not participate in the program in 1995-96, the base year would be 1995-96.

Does the subcommittee want to consider trailer bill language setting a more recent year for determining whether or not the funds supplement or supplant existing funds?

9100 Tax Relief

California offers a variety of tax relief programs by appropriating funds through a reduction in rates or nonrefundable tax credits. The state also provides the following tax relief through the appropriation of funds for payments to individuals or reimbursement of local agencies. Relief proposed in 2003-04 is $1.6 billion, or 50.2 percent, less than the amount provided in 2002-03. This decline is due to the elimination of Open Space Subventions and the elimination of the general-purpose backfill to local governments of the Vehicle License Fee (VLF) offsets.

Summary of Expenditures
(In thousands)

	2002-03	2003-04	$ Change	% Change
Senior Citizens' Property Tax Deferral	$12,800	$11,900	($900)	-7.0
Senior Citizens' Property Tax Assistance	36,501	37,961	1,460	4.0
Senior Citizen Renters' Tax Assistance	151,735	157,805	6,070	4.0
Homeowners' Property Tax Relief	414,213	419,600	5,387	1.3
Open Space Subventions	39,000	0	(39,000)	-100.0
Substandard Housing	44	44	44	0.0
Vehicle License Fee Offset	2,585,291	987,014	(1,598,277)	-61.8
State-Mandated Local Programs	3	3	3	0.0
Total	$3,239,587	$1,614,327	($1,625,260)	-50.2

The budget proposes trailer bill language deleting subventions for Open Space Contracts and Vehicle License Fees. The changes in expenditures for other tax relief programs are due to changes in the number of eligible claimants.

Issues

1. Vehicle License Fee Subventions to Cities and Counties. The budget proposes trailer bill language to eliminate the VLF backfill to cities and counties commencing in February 2003 for current year savings of $1.3 billion and budget year savings of $2.9 billion. The budget does not eliminate the backfill for county realignment funds or funds related to the Orange County bankruptcy. The Senate and Assembly both rejected the proposal to eliminate the current year VLF backfill in the First Extraordinary Session.

The budget does not propose increasing the VLF to ensure that both the state and local governments are held harmless. The Senate approved AB 1105 in August 2002 and AB 4 X in the First Extraordinary Session in 2003, which would have clarified the mechanism for reducing the VLF offset if there is a shortfall in General Fund revenues available to reimburse local governments. Although the finding of insufficient revenues is calculated on a monthly basis, the revenue estimate for full year General Fund savings would be approximately $3.9 billion in circumstances where there are insufficient General Fund revenues to reimburse local governments. Both the Senate and Assembly approved AB 4X, but the bill has been in enrollment since February 3, 2003.

The Director of Finance and the State Controller issued a joint legal opinion on March 10, 2003 indicating the Director of Finance and the State Controller must each make findings on the condition of the General Fund. The opinion asserts that revenues from external borrowing that spans two fiscal years should not be considered "available" moneys to the General Fund. The Department of Finance would request a statement of cash from the State Controller. The Department of Finance would be required to "examine the budgetary revenue forecasts and projected disbursements for the current fiscal year as adjusted by the May Revision, as well as the forecasts for the fiscal year beginning July 1, 2003". The Department of Finance would then make a finding whether or not the statutory conditions necessary for the provision of the offset can be met. If DOF finds that the conditions to continue the offset are not met, the Department of Finance must give notice to Department of Motor Vehicles and the Department of Housing and Community Development (trailer coach fees on mobilehomes) to discontinue the VLF offset.

If a finding is made that there is insufficient General Fund revenue to continue the VLF offsets, there would be no reduction in the VLF offset until three months later due to VLF billing procedures.

Does the Subcommittee wish to adopt the proposed trailer bill language eliminating the General Fund payments to local governments to reimburse for the VLF offset?

2. Open Space Subventions. This program allows cities and counties to contract with landowners to limit the use of land to agricultural, scenic, and open space purposes. In exchange, these properties are assessed at other than market value based on their limited use. The state subventions to local agencies are based on the amount and type of land under contract, rather than the actual reduction in local property tax revenues.

The contracts entered into between local governments and property owners are ten-year contracts. The contracts are generally renewed each year for an additional year, so that their term is always ten years. If the contract is not renewed, the tax on the property gradually returns over a ten-year period to the level at which comparable but unrestricted land is taxed.

In 2002-03, $39 million was budgeted for payments to local governments with Williamson Act contracts. The budget proposes to eliminate subventions in the current year for savings of $39 million (GF). Local governments would still be required to assess the property under terms of the contracts because the contracts are only cancelable under limited circumstances.

The LAO recommends that the Legislature either:

- *Phase out the subventions coinciding with the gradual increase in property taxes received by participating local governments, or*

- *Reduce the funding for the program by 10 percent annually. This approach would save $3.9 million in 2003-04, with the full $39 million in annual savings realized after the full ten-year phase-out of subventions.*

Does the Subcommittee want to restore funding, phase out funding, or approve as budgeted with no appropriation?

8885 Commission on State Mandates

The Commission on State Mandates (COSM) acts as a quasi-judicial body to assume authority for the initial determination of state mandated costs. COSM 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.

Background: The California Constitution requires the state to reimburse schools and other local agencies if it "mandates" a new program or higher level of service. The state has generally funded ongoing mandates in the budget act. Once the COSM has taken action and the SCO approve a statewide estimate for mandated costs of a new mandate; the state generally funds the costs in an omnibus mandate reimbursement bill. If there are insufficient funds to pay all existing local mandate claims, the bill usually includes funding for the additional costs.

In 2002-03, the state did not fund noneducation mandates in the budget or claims bill, but deferred all mandate reimbursements to an unspecified date. Because the state did not repeal or suspend local governments' legal obligations, however, local agencies must carry out these mandated tasks despite the delay in reimbursement.

The amount appropriated for reimbursing local mandated costs was $309.4 million (GF) in 2001-02 and $113.4 million (GF) in the current year. The budget deferred payments to local governments for 2002-03 mandate claims, prior-year deficiencies, and newly identified mandate claims. The LAO estimates the state's costs to pay these deferred claims will total about $800 million.

Proposed Budget: The budget proposes to continue deferring all general government mandate reimbursements in 2003-04. The LAO estimates that the deferral of these payments will result in costs of an additional $400 million in the budget year for a total deferred cost of $1.2 billion at the end of 2003-04.

Pursuant to the California Constitution and state law, these mandate deferrals essentially are a "loan" from local governments that the state eventually must repay with interest.

LAO Recommendation: *The LAO recommends that the Legislature adopt the policy of either funding a mandate—or eliminating the state's liability for the mandate. The Legislature can eliminate its liability for a mandate by:*

- Repealing the mandate.

- Modifying the mandated requirement to make it optional or to permit local governments to offset their costs through fees or program-related savings.
- Suspending the mandate for the budget year pursuant to Government Code Section 17581. This has the effect of suspending local government's requirement to perform the mandated activity and the state's obligation to reimburse.

The state has fiscal responsibility for 59 ongoing general government mandates costing approximately $300 million annually, plus another 26 mandates that the state has suspended annually for a decade.

While many of the 46 other ongoing general government mandates involve beneficial governmental procedures, the LAO recommends that they be suspended or repealed in light of the state's fiscal difficulties.

In terms of the 26 mandates that have been suspended annually for a decade, the LAO recommends that these mandates be permanently repealed. According to the LAO, most of these long-suspended measures impose relatively minor local government requirements and their repeal would eliminate any potential confusion regarding local government obligations.

<u>Deferral of Payment for State Mandates.</u> The budget proposes reimbursing local government $1,000 for specified mandates and paying the full cost in future fiscal years with statutorily required 3 percent compounded interest. Local governments will still be required to perform the mandate, but their payment will be deferred. The mandates in the jurisdiction of Subcommittee 4 are:

1880 State Personnel Board
Peace Officer Procedural Bill of Rights (POBOR). Seeking to ensure stable employer-employee relations and effective law enforcement services, the Legislature enacted POBOR, Chapter 465, Statutes of 1976 (AB 301, Keysor). This measure provides a series of rights and procedural protections to peace officers that are subject to interrogation or discipline by their employer.

In 1995, the City of Sacramento filed a claim with the Commission on State Mandates, alleging that POBOR (including nine subsequent legislative measures that clarified or expanded POBOR) constituted a reimbursable state-mandated program pursuant to the California Constitution.

In 1999, the commission adopted its "Statement of Decision," finding to be a mandate certain procedural requirements of POBOR that exceeded the rights provided all public employees under the due process clause of the United States and California Constitutions.

To guide local agencies in their preparation of mandate claims, the commission adopted a reimbursement methodology." Local agencies submitted claims to the State Controller's Office (SCO). In March 2001, based on the claims submitted to the SCO, the commission adopted a statewide cost estimate, projecting the annual costs of the POBOR mandate to be $26.5 million and prior-year costs to be $126 million.

After the COSM adopts a statewide cost estimate, the state generally reimburses local governments through the annual claims bill. In 2001, the budget funded $50 million for reimbursement of POBOR costs in the claims bill and the remaining $102.5 million in prior year reimbursements in future years.

The 2002-03 budget deferred $25 million in 2002-03 reimbursements and the $102.5 million in prior year reimbursements. These funds are included in the State Personnel Board budget. The budget also directed the Bureau of State Audits to conduct an audit on claims submitted to the State Controller's Office for reimbursement of the POBOR mandate. This audit was to be completed by March 30,2003.

The LAO reviewed these claims and found a greater number of local governments submitting reimbursement claims than was anticipated by the commission in its statewide cost estimate. They also noted that some local governments have amended their claims to request higher reimbursement amounts. Based on this review, the LAO estimated that the annual state cost associated with these peace officer procedural protections is likely to be two to three times higher than the amount projected by the commission, or $50 million to $75 million annually.

This amount is comparable to the state's annual costs to provide all peace officer training programs run by the Commission on Peace Officer Standards and Training. The cost of the mandate was thought to be insignificant at the time the Legislature enacted POBOR.

The 2002-03 budget included the following budget bill language:

The Joint Legislative Audit Committee shall authorize an audit of the claims submitted to the State Controller's Office for reimbursement of the POBOR mandate. The audit should consider:

a) Whether the mandate's parameters and guidelines clearly and precisely reflect the mandate's statement of decision and, if not, why parameters and guidelines meeting this standard were not enacted.

b) Whether mandate claims submitted by local agencies and school districts are consistent with the mandate's parameters and guidelines.

c) Factors explaining the wide variation in costs claimed, including different approaches used by consultants and financial incentives provided to local agencies relating to this claim.

d) The accuracy of the Commission on State Mandates' statewide cost estimate for POBOR.

e) Requirements of the POBOR mandate that pose the greatest state-reimbursable costs.

The language required that the Bureau of State Audits report the results of the audit and make recommendations to budget subcommittees of each house, the Legislative Analyst, and the Department of Finance by March 30, 2003.

Because the language required JLAC to authorize an audit, JLAC could not take an action until their first meeting in March 2003. The audit has a high priority, but will not be completed until July.

0890 Secretary of State:

Voter Registration Procedures (Ch. 704//75)—Requires significant changes to voter registration procedures, including implementation of voter registration by mail and local voter outreach programs. Deferral of $1.5 million (GF).

Absentee Ballots (Ch. 77/78 and 920/94)—Requires that absentee ballots be available to any registered voter who requests it. Deferral of $8.3 million (GF).

Permanent Absent Voters (Ch. 1422/82)—Establishes the Permanent Absentee Voter program. Specifically, the test claim legislation requires counties to establish and maintain a list of permanent absent voters who provide evidence of physical disability; mail absent voter ballots to those individuals prior to each election; and delete any person who fails to return an executed absent voter ballot for any statewide primary or general election. Deferral of $341,000 (GF).

0950 State Treasurer

Investment Reports: Cities and Counties (Ch. 783/95). Requires cities and counties to file investment reports. Deferral of $3.5 million (GF).

2240 Housing and Community Development

Regional Housing Needs Allocation Process (Ch. 1143/80).

Local governments are required to zone enough land at appropriate densities to meet all of their housing needs for each income group and to reduce barriers that prevent the identified sites from being developed. Council of Governments (COGs) are required to allocate to each community its share of the regional housing need. The costs to COGs are reimbursable as a state mandate. Cities and counties are compensated for the identification of sites in their housing element to meet the targets assigned to them by COG. In addition, some local governments have received reimbursement for the costs of "review" of the proposed housing need allocations and for the costs of completing some recent additions to the housing element itself.

The state reimbursement for this mandated program ($867,000 GF) was deferred in 2002-03. The budget proposes to appropriate $1,000 so that the mandate continues but the reimbursement is deferred.

The LAO states that the cost of reimbursing for this mandate has been about three times the amount appropriated in the budget act.

Does the subcommittee wish to defer payment of this mandate?

Does the subcommittee wish to fund the annual reimbursable costs of $750,000 for COGs?

Should local governments be exempt from reviewing the regional housing needs allocation? How much would this save?

9100 Tax Relief

Senior Citizens' Property Tax Deferral Program (Ch.1242/77) Requires tax collectors to submit claims to the SCO for reimbursement for property tax deferral program. Deferral of $291,000 (GF).

Countywide Tax Rates (Ch.921/87). Requires county auditors to allocate and account for property tax revenues derived from State (BOE)-assessed properties. State-assessed property tax revenues are allocated on a countywide basis, unlike locally-assessed revenues, which are allocated on a situs basis. Deferral of $387,000 (GF).

Allocation of Property Tax Revenue (Ch.697/92). Requires counties to implement, plan, administer, report, and account for new/changed property tax allocations for schools, including ERAF. Deferral of $381,000 (GF).

9210 Local Government Financing.

Test Claims and Reimbursement Claims (Ch.486/75). This reimburses for costs incurred in preparing and presenting test claims, including attorney services and travel. Reimbursement is allowed only if the claim is successful. – Deferral of $3.2 million (GF).

Open Meetings Act Notices (Ch.641/86). Requires local agencies/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. Deferral of $.31 million (GF).

Rape Victim Counseling Center Notices (Ch.999/91) Costs for local law enforcement agencies to reprint and provide to rape victims with information cards, obtain consent to notify local rape counseling center, notify the center, and verify, with consent, that the counseling center has been notified. Deferral of $160,000

For Vote Only

Consumer Affairs - Loans to the General Fund

The budget proposes a variety of loans from the unexpended balances of special funds to the General Fund. A trailer bill was enacted in the First Extraordinary Session with the following conditions for the loans:

1) The loan is authorized in the 2003-04 Extraordinary Session or the 2003 Budget Act;
2) The terms and conditions of the loan are set forth in the loan authorization, including an interest rate;
3) The loan is considered part of the balance of the fund or account; and
4) A fee or assessment may not be increased as a result of the loan.

The bill also provides that moneys loaned may not be considered a transfer of resources for purposes of determining the legality of the use of those funds. The bill requires the Director of Finance to order the repayment of all or a portion of the loan if it is determined that 1) the fund or account from which the loan was made has a need for the money or 2) the need for the moneys in the fund or account that received the loan no longer has a need for the money.

1111 Bureau of Security and Investigative Services.

The budget proposes a loan of $4 million from the Private Security Services Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of about $2 million or about 28 percent of the annual expenditures.

Approve this loan as budgeted.

1130 Board of Architectural Examiners

The budget proposes a loan of $1 million from the California Board of Architectural Examiners-Landscape Architects Fund to the General Fund. This would leave a fund balance of $525,000, or about 75 percent of the annual expenditures.

Increase the loan to the General Fund by $225,000 to $1,225,000.

The California Board of Architectural Examiners Fund has a balance of $2.3 million or about 83 percent of budget year expenditures.

Approve a loan of $1.8 million to the General Fund.

1230 Contractors' State License Board

The budget proposes a loan of $5 million from the Contractors' License Fund to the General Fund. The $11 million current year loan would be repaid in September 2003. This proposed loan and the repayment of the current year loan would leave a 2003-04 fund balance of $10.7 million or about 23 percent of the annual expenditures.

Increase the loan to the General Fund by $3.7 million.

1260 Dental Board of California

The budget proposes a loan of $5 million from the State Dentistry Fund to the General Fund, in addition to the current year loan of $5 million approved in last year's budget. This proposed loan would leave a 2003-04 fund balance of $1.7 million or about 24 percent of the annual expenditures.

Approve the loan as budgeted.

1400 Acupuncture Board

The budget proposes a loan of $1 million from the Acupuncture Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $1.0 million or about 33 percent of budget year expenditures.

Increase the General Fund loan by $500,000 to $1.5 million.

1475 California Board of Occupational Therapy

The budget proposes a loan of $1 million from the Occupational Therapy Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $913,000 or about 150 percent of the annual expenditures.

Approve the loan as budgeted.

1520 Court Reporters Board of California

The budget proposes a loan of $1 million from the Court Reporters Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $551,000 or about 87 percent of budget year expenditures.

Increase the General Fund loan by $250,000 to $1.25 million.

1580 Board of Vocational Nurse & Psychiatric Technicians

The budget proposes a loan of $1 million from the Vocational Nurse Examiners Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $1.8 million or about 42 percent of the annual expenditures.

Increase the General Fund Loan by $1 million to $2 million.

The budget also proposes a loan of $1 million from the Psychiatric Technicians Account Vocational Nurse and Psychiatric Technician Examiners Fund to the General Fund. This proposed loan would leave a 2003-04 fund balance of $395,000 or about 33 percent of the annual expenditures.

Approve the loan as budgeted.

8500 Board of Chiropractic Examiners

The State Board of Chiropractic Examiners Fund has a fund balance of nearly $5 million and budget year expenditures of only $2.3 million.

Approve a loan to the General Fund of $4 million.

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny

Wednesday, April 23, 2003
1:30p.m.
Room 2040

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

Issues

1. Proposal to Consolidate the Office of Traffic Safety

Background: 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 million of federal grant funds in 2003-04 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.

Issue: The Governor's Budget proposes to consolidate OTS with the Office of the Secretary for Business, Transportation, and Housing. The Administration estimates that this proposal will allow for contracted personnel services savings of $135,000 in 2003-04.

LAO Recommendation: The consolidation proposal identifies relatively small savings—elimination of only one contract position. The LAO argues that only $96,000 (the federally funded portion of the savings) should be redirected. Since the proposed administrative costs for the Traffic Safety Program in 2003-04 would be lower, the amount of state matching funds required would be less. The LAO recommends a reduction of $39,000 from the MVA.

The LAO also believes that additional savings might be achieved by consolidating certain administrative functions that both OTS and BT&H perform separately.

Accordingly, the LAO recommends the agency identify any additional areas of savings and report to the Legislature.

Subcommittee staff have not received opposition to the consolidation proposal. However there are questions regarding the future of the Traffic Safety Program, specifically relating to who will assume responsibility for administering the grants. Staff has received information that the California Highway Patrol (CHP) may assume control of the Traffic Safety Program. Opponents argue that shifting responsibility to CHP creates a disadvantage for grant recipients because CHP is a main competitor for OTS grants.

Staff Recommendation: **Staff recommends the Subcommittee approve the consolidation proposal. The Subcommittee may also wish to have the Secretary or Agency staff address the issues and concerns regarding CHP's involvement in administering the Traffic Safety Program.**

Action:

2. Questions Regarding Borrowed Positions

Background: According to the LAO, the Secretary's office is authorized 22 staff positions, however the actual staffing level is 38 positions. The agency over the years "borrowed" a number of positions from various departments (Currently there are 16 borrowed positions).

Current law authorizes departments to loan positions under certain circumstances. The LAO argues that the number of borrowed positions in the agency has consistently been at around 13 for the past several years. This has enabled the agency to increase its staffing by almost 60 percent without any workload justification or review by the Legislature.

LAO Recommendation: The LAO informs the subcommittee that in subsequent discussions with the Secretary's office, 8 of the 16 positions will be returned to their respective departments. At issue for the LAO are 4 of these positions that will be returned to Caltrans. The LAO argues that neither the agency nor Caltrans can provide justification for these positions.

Staff Recommendation: **Staff recommends the subcommittee withhold action on this item, and require the Administration to provide additional information on the 4 Caltrans positions. If these positions are in fact unnecessary, the subcommittee may wish to delete the positions.**

Action:

Other Budget Items

Staff Recommendation: **No other issues have been raised with the Secretary's budget. Staff recommends the subcommittee approve as budgeted.**

Action:

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.

1. Information Item: Allocation of State Transportation Improvement Program (STIP) Funds

Background: Early projections of state and federal revenues for the STIP were significantly lower than projected in the 2002 STIP fund estimate. Original estimates released by Caltrans identified a $4 billion cash shortfall in the STIP over the next five years. The projected cash balance in the State Highway Account for the current fiscal year was a $173 million shortfall, and a $634 million for the 2003-04 fiscal year.

Annual expenditures from the State Highway Account significantly increased in response to efforts to speed the delivery of capital projects and reduce the traditionally high cash balances in the SHA. During the 2001-02 fiscal year, SHA expenditures exceeded account revenues by approximately $1 billion. Expenditures were projected to exceed revenues between $500 million and $1 billion annually over the next three years because of the continuing emphasis on accelerated project delivery.

However, based on new estimates prepared by Caltrans, the SHA is now projected to have a 2003-04 fund balance of $546 million. Caltrans also estimates that expenditures are approximately $900 million less than the December projections.

The new SHA cash and expenditure forecast may be a cause of concern for the following reasons:

- STIP project funds are not allocated in 2002-03 and 2003-04 ($1.2 billion reduction in expenditures).
- The new projections assume a significant increase in federal revenues ($246 million).
- The new projections assume Legislative approval of the Administration's local assistance expenditure reductions ($130 million)
- The loophole in SB 2084 (Polanco) is corrected and the Department of Motor Vehicle (DMV) weight fees increase by $108 million.

In light of these issues, the subcommittee may wish to have the CTC respond to the following issues:

1. Explain how the CTC's allocation of STIP funds factors in to the Administration's approach to protecting the Highway Account.

2. Please discuss what the CTC has done this year with STIP allocations and what your plan is for 2003-04 allocations.

Staff Recommendation: **This is an informational item, no action is required. Staff does recommend the subcommittee request that CTC staff be prepared to answer questions regarding the TCRP in Caltrans' budget.**

Other Budget Items

Staff Recommendation: **No issues have been raised with the commission's budget. Staff recommends the subcommittee approve as budgeted.**

Action:

2640 Special Transportation Programs

The Special Transportation Programs budget reflects mass transit program funding that is appropriated to the State Controller for allocation to regional transportation planning agencies. Administration of the State Transportation Assistance (STA) program is performed by the State Controller and the Department of Transportation. The State Transit Assistance (STA) program is one of the state's primary sources of financial support for public transportation. The program will provide about $96 million in the current year to over 100 transit operators statewide, largely to support public transportation operating costs.

The Governor's budget identifies approximately $100.4 million for STA, an increase of 4.6 percent over the current-year level.

The STA program is funded from the Public Transportation Account (PTA). Currently, 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 STA program 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.

Staff Recommendation: **All issues regarding the STA will be raised under item 2660-Department of Transportation. Staff recommends the subcommittee approve the STA budget as proposed.**

Action:

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 $6.4 billion, a decrease of $673.5 million (9.5 percent) from the current-year budget.

Issues

1. Proposition 42 Suspension and the Traffic Congestion Relief Program

Background: The Administration proposes various fund shifts and transfers from transportation to the General Fund. In total, the Governor's re-financing proposal identifies nearly $1.6 billion from transportation. Key provisions of the proposal include the following:

- Suspend the $1.09 billion transfer of the sales tax on gasoline from the General Fund to the Transportation Investment Fund (TIF) for the 2003-04 fiscal year. The result of this action will eliminate $678 million from the TCRP, $147 to the State Transportation Improvement Program (STIP), $147 million for local streets and roads, and $74 million to the Public Transportation Account.

- Forgive the $500 million General Fund loan repayment to the TCRP scheduled for the 2003-04 fiscal-year.

When this proposal was first presented in the December revision, the Administration indicated that the Transportation Commission (CTC) would work with locals to prioritize TCRP and STIP projects to ensure vital projects would continue to receive funding. Essentially the Administration was attempting to have locals pick and choose between their STIP and TCRP projects without providing sufficient revenues for both programs.

Subcommittee staff have spent a great deal of time analyzing this proposal and working with the Administration to understand the specific details. Although the Administration has presented this as a budget-year proposal, the suspension of Proposition 42 funds will have a significant effect on the long-term viability of the TCRP.

The loss of the sales tax revenues in the budget-year will leave the TCRP approximately $1.2 billion short of the funds needed for the approved, and statutorily – endorsed, congestion relief projects. This is equivalent to approximately 25% of the funds promised for the program over its six years. The Governor's proposal suggests that these underfunded projects should compete with other approved state and local transportation projects (in the STIP). Essentially, the situation would be one of too many projects chasing too few dollars.

The competition for remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in greater Los Angeles and the Bay Area, due to the concentration of TCRP projects in those two regions. The Department of Transportation and regional transportation agencies would have to reconstitute their respective transportation programs, either formally or informally. Project delays would increase the projects' ultimate costs while project abandonment would impede statewide mobility and increase congestion. The state would fall further behind in its attempts to maintain and expand the transportation infrastructure.

Issue: It is important for the Administration to explain to the subcommittee how the Prop 42 suspension will effect the TCRP in the budget year and beyond. If this proposal is in fact only intended to be a "single year" proposal, than what is the Administration's plan for dealing with the $1.2 billion loss of sales tax funds? The Administration should also explain to the subcommittee what the contract close-out costs will be if these funds are permanently swept away, and discuss what the legal/liability costs will be for closing out the outstanding contracts.

Subcommittee staff believe there are alternatives to suspending the Proposition 42 transfer that will still enable the General Fund to achieve maximum savings. Subcommittee staff have asked the CTC and Caltrans to identify the cash-flow needs of the TCRP in the budget-year. Based on the data provided by the CTC and Caltrans, the outstanding allocations needed for the 2003-2004 budget-year are $207 million. In order for the CTC to resume allocations, the Legislature would need to authorize an additional $252 million in 2003-2004.

As an alternative to the Administration's proposal, subcommittee staff recommend the following:

1. **Direct staff to develop trailer bill language to authorize a deferral of these funds. A deferral will allow the General Fund to achieve the savings proposed by the Administration, but still allow the Legislature to maintain its commitment to the TCRP by requiring a repayment of these transportation funds.**

2. **Direct staff to identify a revenue source to fund the $207 million needed for TCRP current project allocation in the budget-year. Some of these options**

include likely surplus funds in the Public Transportation Account or additional sales tax revenues on gasoline. The Administration will release these revenue projections in the May revision.

3. **Authorize the Administration to suspend (but not forgive) the $500 million General Fund loan repayment to the TCRF. Current law requires the General Fund loan to be repaid by June 30, 2006.**

Action:

2. Department Proposes to Eliminate Significant Number of Positions

Issue: Caltrans proposes to eliminate a total of 1845.9 positions (1344.9 personnel years) in the 2003-2004 budget-year. Specifically the department proposes the following position reductions:

- Expiring limited-term positions -105.7
- Expiring limited-term transportation permit positions -15
- Reduction in enhanced services to locals positions -30.5
- Elimination of Traffic Congestion Relief Program (TCRP) Positions -1,223.7
- Position reduction through attrition to generate State Highway Account savings -471

The Administration argues that the positions associated with the TCRP are being eliminated due to the uncertainty surrounding the program. The 1,223.7 TCRP positions were authorized when the TCRP was created in statute. Caltrans is anticipating a decrease in workload demand in the likely scenario that TCRP projects are not carried forward. The Administration indicates it will restore a certain level of positions needed to deliver high-priority TCRP projects if alternative financing is identified to continue funding the TCRP.

The subcommittee will not have the official staffing proposal until the department submits the Capital Outlay Support (COS) finance letter at the May revision. Caltrans has to establish its capital outlay workload demand for the upcoming budget-year in order to determine its staffing needs. This process has put the Legislature in a position of having to make difficult decisions regarding state staff and contracting out positions in a very limited time frame. The subcommittee on average has less than one week to approve, modify, or deny the Administration's COS budget proposal.

LAO Recommendation: The LAO has prepared an extensive analysis of the COS budget process. The Analyst has identified several key issues and made recommendations for the subcommittee to consider. The subcommittee may wish to have the LAO report on these recommendations.

Staff Recommendation: **Staff recommends the subcommittee direct Caltrans to identify what the staffing needs will be assuming funds for the current allocations are available ($207 million). Staff also recommends the department discuss the future plan for the remaining positions associated with the TCRP.**

Action:

Other Budget Issues

The subcommittee has received numerous opposition letters to the Administration's proposal to delete funding for the Environmental Enhancement Mitigation Program (EEMP). The proposal calls for a reduction of $10 million (State Highway Account) to the program. ***Staff recommends the subcommittee withhold action on this item until the May revision.***

Additionally staff recommends the subcommittee approve remaining items in Caltrans' budget as proposed.

Action:

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 EIR and related technical studies.

Issues

Uncertain Future of the HSRA

Background: The Administration proposes to consolidate the HSRA with Caltrans, beginning in the 2003-2004 budget-year. As stated in the Governor's budget summary, the Administration seeks to "bring the transportation expertise of Caltrans to the high-speed rail project." If approved, the HSRA board would continue to exist, but Caltrans staff would assume responsibility for support and administration of the program. This proposal could provide as much as $589,000 (thousand) in special fund(s) savings.

Issue: Caltrans rationale for eliminating the HSRA is that the department has both experience and knowledge with rail capital projects through the Mass Transportation program and their partnership with Amtrak. However, the decision to designate Caltrans as the lead agency for the high-speed rail project does raise questions, including whether the department has relevant expertise or experience with "high-speed" rail issues.

First, given the department's notorious track record with project delivery, is it wise to have Caltrans assume the lead on a project that is arguably the biggest public works project in California over the past 40 years?

Second, the timing of this proposal is questionable. Senate Bill 1856 (Costa, Chapter 697, Statutes of 2002) authorizes a $9.95 billion bond measure on the ballot in 2004 to help fund the planning and construction of the high-speed rail passenger system. How will the Administration's proposal affect the long-term viability of the program? Could eliminating the HSRA jeopardize the passage of the high-speed rail bond?

Staff Recommendation: During a Senate Transportation Hearing earlier this year, the Administration testified the actual savings that would be achieved through the proposal is significantly less than $589,000. Essentially this proposal will eliminate the Executive Director position at the HSRA, and house the remaining staff at Caltrans.

There is no reason to believe that the HSRA has failed to meet its objectives or that Caltrans is best suited to perform these administrative tasks. It is questionable at best to justify consolidating the HSRA with Caltrans while the preliminary environmental impact report is not complete and the high speed rail bond is one year away from being on the ballot. It is important to note that the language in the high speed rail bond specifically identifies the HSRA and requires the authority to obtain additional funds for the project.

Staff recommends the subcommittee deny the Administration's proposal to consolidate the HSRA with Caltrans.

Action:

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny

Tuesday, April 29, 2003
Upon Adjournment of Senate Governmental Organization Committee
Room 3191

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. This amount is a decrease of $4.6 million or 0.4 percent from current year expenditures. The majority of funding for support of the CHP is from the Motor Vehicle Account (MVA), which is proposed at $1 billion (84 percent of the total support budget).

CHP Funding Sources

Funding Source	2001-02	2002-03	2003-04	Change 02-03 to 03-04	% Change 02-03 to 03-04
General Fund	5	-	-	0	0.0
State Emergency Telephone Number Account	-	-	41,041	41,041	100.0
State Highway Account	24,574	28,296	43,787	15,491	54.7
Motor Vehicle Account	949,497	1,126,049	1,039,729	-86,320	-7.7
Less funding provided by Federal Funds	-	-94,601	-74,581	20,020	-21.2
Motor Carrier Permit Fund	1,426	1,799	-	-1,799	-100.0
Motor Carrier Safety Imp. Fund	1,028	1,179	1,190	11	0.9
California Motorcyclist Safety Fund	1,123	1,380	1,573	193	14.0
Federal Trust fund	9,274	106,532	86,658	-19,874	-18.7
Hazardous Substance Account	6	200	208	8	4.0
Asset Forfeiture Account	770	2,002	2,087	85	4.2
California Peace Officer Memorial Fund	216	400	400	0	0.0
Reimbursements	64,371	63,309	58,892	-4,417	-7.0
Public Safety Surcharge Fund	-	-	30,940	30,940	100.0
Totals, All Funds	**1,052,290**	**1,236,545**	**1,231,924**	**-4,621**	**0.4**

CHP Program Expenditures

Program	***Expenditures** (dollars in thousands)*				***Percent***
	2001-02	**2002-03**	**2003-04**	**Change**	**Change**
Traffic Management	925,932	1,069,983	1,067,120	-2,863	0.3
Regulation and Inspection	100,865	136,774	134,588	-2,186	1.6
Vehicle Ownership Security	25,493	29,788	30,216	428	1.4
Administration	113,051	139,891	145,848	5,957	4.3
Distributed Administration	-113,051	-139,891	-145,848	-5,957	-
Totals, Programs	**1,052,290**	**1,236,545**	**1,231,924**	**-4,621**	**0.4**

Issues

Motor Vehicle Account Expenditures Continue to Outpace Available Revenues

Background: The Motor Vehicle Account (MVA) provides the primary source of revenue for all CHP expenditures. The budget proposes $1.2 billion in expenditures for CHP; of this amount the MVA will contribute approximately $1 billion (84 percent) of total funding. The MVA receives most of its revenues from vehicle registration and driver license fees. The MVA also provides funding for the Department of Motor Vehicles ($389 million), the Air Resources Board ($74 million), the Department of Justice ($20 million), and other various departments.

The budget proposes approximately $163 million ($333 million in 2004-2005) in additional revenue for the MVA to address a projected shortfall in the account (these fee increases will be discussed under item 2740-Department of Motor Vehicles). For the second consecutive year the Administration has proposed revenue enhancements to avert a projected shortfall in the MVA.

The Legislative Analyst (LAO) estimates that over the past five years MVA expenditures have increased by 40 percent, while revenues have increased by only 13 percent. As the primary recipient of MVA funds, CHP's expenditure increases are a major cause of additional pressures on the MVA. For example, the MVA is the fund source for CHP's homeland security expenditures. Although the budget assumes approximately $170 million in federal funds for homeland security costs, the state has yet to receive these funds and the MVA has to fund these expenditures.

Another increase in expenditures has been in the area of CHP staff benefits and salaries. Under the current M.O.U. with uniformed staff, the state is required to pay both the employer's and employees' retirement contribution. According to the LAO, staff benefits (retirement, health insurance, workers compensation, etc) have increased by $177 million since the 2000-2001 fiscal year. The LAO also estimates that salaries for both uniformed and non-uniformed staff have increased by $51 million since the 2000-2001 fiscal year. The LAO believes that staff salaries and benefits could increase by an additional $100 million in the budget-year. The LAO argues that the increase may occur for two reasons:

- CalPERS expects retirement rates to increase in 2003-2004. The LAO believes this increase could be in the range of $60 million.
- The current M.O.U. with CHP calls for a 6.01 percent and 5 percent pay raise for uniformed and non-uniformed staff effective July 2003. The LAO estimates that these raises would require an additional $40 million in the budget-year.

Issue: In response to growing pressures on the MVA, the Administration is proposing various actions to shift funds for CHP or provide additional revenues separate from the MVA. In total, these proposals are intended to provide CHP with approximately $88 million in additional funding. The following issues highlight these proposals and identify the subcommittee staff and LAO recommendations.

1. ***Rate Increase for the State Emergency Telephone Number Account (911 Account).*** Current law provides for a surcharge of up to 0.75 percent on intrastate calls. These funds may be used for the following purposes:

- To pay refunds.
- Administrative costs of the Board of Equalization and DGS for administering the surcharge.
- Bills submitted to DGS by service suppliers or communications equipment companies for the installation and ongoing expenses for the 911 emergency phone number system.
- Claims of local agencies for approved incremental costs related to the 911 emergency phone number system.

The surcharge has a logical, direct relationship between the use or purposes and the persons from whom it was collected. Therefore, the revenues collected are fees and not the proceeds of taxes.

Issue: The budget proposes trailer bill language to increase the surcharge on intrastate calls from 0.72 percent to one percent. This will increase revenues to the State Emergency Telephone Number account by $46.6 million ($181.2 million total in 2003-2004). Of this amount, CHP will receive an additional $41 million (CHP currently receives $4 million for its 911 response activities). Additionally the Department of Health Services and the Department of Forestry and Fire Protection will receive $3.6 million and $2.6 million respectively from this revenue increase.

In its current form the trailer bill is considered a "tax" and not a "fee" because there is not a direct relationship between the use or purposes of the account and the persons from whom it was collected. The trailer bill language is considered a "change in state taxes for the purpose of increasing state revenues" and would require a two-thirds vote. The Administration has informed subcommittee staff that the language will be amended to exclude the allocations to Health Services and Forestry and Fire Protection in an attempt to change the bill to a "fee" proposal.

LAO Recommendation: The LAO argues that the proposal is not justified because the proposed activities do not relate directly to maintaining and operating the 911 telephone system. The LAO recommends the subcommittee deny this proposal.

Staff Recommendation: Although the majority of revenues generated from this proposal will be allocated to CHP, this item will also be considered when the subcommittee hears the Department of General Services' (DGS) budget later this week.

Subcommittee staff has developed the following recommendations for the subcommittee to consider.

- **Without prejudice to the overall 911 surcharge proposal (which will be considered at the DGS hearing later this week), delete all expenditures for CHP from the Emergency Telephone Number Account and shift the expenditures to the Public Safety Surcharge Account (PSS). The PSS is discussed in further detail under the next issue.**

- **Withhold action on this item until the May Revision. The subcommittee may want to allow the Administration to work out the outstanding issues with this proposal, including the "tax versus fee" discussion.**

These recommendations are intended to avert any program deficiencies and provide the necessary revenues for CHP in the 2003-2004 budget year.

Action:

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2. Creation of a New Public Safety Surcharge Account

Background: The budget proposes the creation of a new Public Safety Surcharge Account (PSS) to provide an ongoing source of funding for CHP's protective and security services. The budget proposes to generate approximately $32 million in revenue from the PSS in 2003-2004. The PSS would require an additional surcharge on intrastate telephone calls (separate from the existing 911 surcharge). Specific details of the Administration's proposal include the following:

- Establishes an initial rate of 0.25 percent in the budget year, and a permanent cap of 2 percent.
- Allows CHP to determine and establish the surcharge rate for each fiscal year. The trailer bill language requires the Department of Finance to approve CHP's surcharge rate determination.
- Establishes a maximum 10 percent reserve in the PSS.

An important point to identify is that Article XIX of the Constitutions prohibits the use of Motor Vehicle Account funds for non-transportation and traffic enforcement activities. The LAO estimates that CHP's program expenditures unrelated to traffic safety and enforcement are approximately $125 million. CHP's need for additional revenues to fund the department's increasing protective services and security responsibilities is justifiable. Subcommittee staff agree with the concept of providing a stable and ongoing revenue stream for CHP's non-transportation expenditures.

LAO Recommendation: The LAO does not believe that the PSS proposal creates a nexus between the surcharge and the programs that will be funded from this account. If the Legislature approves the PSS, the LAO recommends that the authority to establish the rate be shifted to the Board of Equalization (B.O.E.), and limit these funds for specific, non-transportation activities (The B.O.E. currently sets the rate for the 911 Account surcharge).

Staff Recommendation: Including the additional revenues from the Emergency Telephone Account proposal and the PSS, CHP's budget assumes $72 million in funding for the budget year. Subcommittee staff agree with the Administration's to provide ongoing revenues to CHP for protective and security services. **To that end, staff recommends the following:**

- **Approve the PSS proposal with the following changes: 1) Shift the surcharge rate authority from CHP to the Board of Equalization, 2) Shift all CHP expenditures from the 911 account to the PSS, 3) Authorize the BOE to establish an appropriate PSS rate to allow CHP to receive the necessary revenues in the budget year ($72 million). In reference to point number 3, the intent of the recommendation is to allow the BOE to establish the rate as necessary, but allow the Legislature to maintain oversight of the account by authorizing the expenditure authority in each subsequent budget act.**

Alternatively the subcommittee may wish to fefer action on this item until after the May Revision. As the Administration is addressing concerns with the PSS and 911 account proposals, it is likely that changes will be made at the May Revision.

Action:

3. State Highway Account Support Increase for CHP

Background: The budget proposes to increase support from the State Highway Account (SHA) by $16 million in the 2003-2004 budget year ($19 million ongoing). The current year budget authorizes $28 million from the SHA for CHP's truck inspection activities. According the LAO, the Administration believes the SHA should fund CHP for activities relating to highway efficiency. The Administration indicates that CHP officers spend approximately 4.2 percent of their time performing these types of activities.

LAO Recommendation: The LAO raises two issues with this proposal:

- The Analyst is concerned that accounting and paying for CHP officer's time (as proposed) could lead to a fragmented funding structure. The LAO believes that the ongoing process of tracking the amount of time officers spend performing specific duties, and then charging a proportional amount to the appropriate account creates a complicated and unstable system of budgeting.

- The LAO argues that the Administration cannot substantiate the determination that officers spend 4.2 percent of their time on traffic flow activities.

Staff Recommendation: The subcommittee may wish to have CHP respond to the concerns raised by the LAO. **If the subcommittee is satisfied with the department's response, staff recommends approval of the proposal.**

Action:

Other Budget Proposals

Staff Recommendation: No other issues have been raised with the department's requests. Staff recommends the subcommittee approve the remaining items in CHP's budget as proposed. Staff also recommends the subcommittee request a CHP representative remain present for the DMV portion of the hearing to answer questions regarding the Truck Weight Fee proposal.

Action:

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 $681.9 million ($1.1 million, General Fund), a decrease of $4.2 million (0.6 percent) from the current-year budget.

Department of Motor Vehicles

Funding Source	2001-02	*(dollars in thousands)* 2002-03	2003-04	Change 02-03 to 03-04	% Change 02-03 to 03-04
General Fund	2,694	1,598	1,114	-484	-30.3
State Highway Account	42,986	41,005	59,727	18,722	45.7
Motor Vehicle Account	351,276	355,297	389,272	33,975	9.6
New Motor Vehicle Board Account	1,396	1,703	1,708	5	0.3
Motor Vehicle License Fee Account, Transportation Tax Fund	277,390	269,609	213,079	-56,530	-21.0
Motor Carriers Permit Fund	2,708	3,033	-	-3,033	-100.0
Harbors and Watercraft Revolving Fund	4,513	2,066	4,503	2,437	118.0
Federal Trust Fund	30	-	-	0	0.0
Reimbursements	11,820	11,859	12,524	665	5.6
Total	**694,813**	**686,170**	**681,927**	-4,243	-0.6

Department of Motor Vehicles Program Expenditures

Program	2001-02	***Expenditures*** *(dollars in thousands)* 2002-03	2003-04	Change	*Percent* Change
Vehicle/Vessel Identification and Compliance	392,834	387,302	384,223	-3,079	-0.8
Driver Licensing and Personal Identification	176,550	172,722	172,071	-651	-0.4
Driver Safety	87,488	87,670	87,134	-536	-0.6
Occupational Licensing and Investigative Services	36,545	36,773	36,791	18	0.0
New Motor Vehicle Board	1,396	1,703	1,708	5	0.3
Administration	81,748	84,231	81,517	-2,714	-3.2
Distributed Administration	-81,748	-84,231	-81,517	2,714	-3.2
Total	**694,813**	**686,170**	**681,927**	-4,243	-0.6

Issues

1. ***Loopholes in Truck Weight Fee Program Results in Significant Revenue Loss for State Highway Account.***

Background: Senate Bill 2084 (Polanco, Chapter 861, Statutes of 2000) revamped the commercial vehicle registration system by authorizing the state to convert from an unladen weight system to a gross vehicle weight system (GVW), and by initiating a permanent trailer identification program (PTI). As a member of the International Registration Program (IRP), California is authorized to collect registration fees for commercial trucks that operate on an inter-state basis. Under the IRP, the 48 contiguous states, the District of Columbia, and three Canadian Provinces collect registration fees for trucks based in their jurisdictions and then share those fees based on the amount a particular truck operates in each jurisdiction.

Prior to SB 2084, California registered commercial trucks by using an unladen (empty) weight system and charging vehicle license fees (VLF) on trailers and semitrailers. California was the only member of the IRP to use the unladen weight system, and eventually the IRP members required California to comply with their fee systems. The Legislature approved SB 2084 because the state was in jeopardy of losing its membership in the IRP and the ability to collect and share commercial vehicle share fees with other IRP members.

SB 2084 was agreed to by all relevant parties, including DMV, Caltrans, the California Farm Bureau, and the commercial trucking industry. Under the GVW, commercial vehicles with a declared weight over 10,000 pounds pay fees based on the weight of the truck (a fee schedule was also approved). The new system also exempts trailers and semitrailers from vehicle registration and payment of the vehicle license fee.

Issue: A major component of SB 2084 was ensuring that the new system would remain revenue neutral. Section 1 of the bill reads:

"For purposes of this act, revenue neutrality requires that all recipients of the fees collected under the system in effect on December 31, 2000, shall receive the same level of funding, with the same degree of flexibility, after the conversion to the system created by this act."

When SB 2084 passed, the agreement with industry was that the new program would remain revenue neutral and the state would not lose transportation revenues. Unfortunately this has not been the case. Since the new program was enacted, the state has lost approximately $300 million in revenue (truck weight fees are deposited into the State Highway Account). Based on conversations with the Administration, the loss of revenue can be attributed to fewer vehicles paying the new weight fees.

The Administration is proposing trailer bill language to cleanup SB 2084, and to ensure that the revenue neutrality agreement is adhered to. The first version of the trailer bill proposed additional enforcement measures and fee increases to the existing weight schedule. In subsequent discussions with the Administration, the weight schedule may no longer need to be changed.

Staff Recommendation: There are issues that have yet to be resolved with the cleanup language. Staff recommends the Administration respond to the following questions:

- What is the status of the trailer bill language to cleanup SB 2084. Please report to the subcommittee on the Administration's proposal to correct the loopholes in statute. Specifically the subcommittee would like to know when the appropriate fee schedule will be determined. Also, SB 2084 required the department to review the new fee systems and report to the Legislature on DMV's findings to ensure revenue neutrality. The report was due January 1, 2003. What is the status of the report?

- Please respond the LAO's assertion that DMV delayed implementation of the GVW. The LAO should also be prepared to discuss this issue.

- In the area of enforcement, SB 2084 requires the CHP to complete a study to determine an effective approach to enforcing the provisions of the bill. The report is due July 1, 2003. Please share with the subcommittee your initial findings.

Staff recommends the subcommittee approve the trailer bill language.

Action:

2. ***Various Fee Increases Proposed to Address Motor Vehicle Account Shortfall***

Background: As discussed in item 2720-California Highway Patrol, expenditures from the MVA continue to increase while revenues remain relatively stable. The LAO estimates that, under a worse-case scenario (i.e. no corrective action), the discrepancy between expenditures and revenues could grow to $270 million in the 2003-2004 budget year.

The Administration proposes trailer bill language to implement various fee increases to address the projected revenue shortfall for the MVA. In total, these fee increases are intended to raise revenues by $163 million in 2003-2004, and $333 million annually. Listed below are the fee proposals, which will take effect in the upcoming budget year.

New MVA Fees	2003-2004 Projected Revenues ($ in Thousands)	Ongoing Projected Revenues ($ in Thousands	Existing Fee	New Fee
Increase identification card fees for non-seniors. Seniors will now receive their cards free of charge.	$8,745	$19,000	$6	$20
Authorize Business Partner Automation Fee. This fee would apply to private firms for registering vehicles ad performing other transactions on-site (of the private firm). The fee is authorized in statute but has never been implemented	$1,950	$2,000	$2	$3

Increase non-commercial drivers license fees for a five-year license.	$30,100	$67,000	$15	$24
Increase vehicle registration fees. Of this amount, $4 would be dedicated to CHP officers.	$94,850	$190,000	$30	$37
Standardize various transaction fees.	$15,500	$31,000	$2-$15	$15
Establish new penalties for failure to file transfer of title documents.	$12,000	$24,000	-	$15
Totals	$163,145	$333,000	-	-

LAO Recommendation: The LAO raises an issue with the transfer of title fee proposal. Currently vehicle owners are required to notify DMV and pay a $15 transfer fee whenever ownership of a vehicle changes hands. According to the LAO only 25 percent of these fees are collected because new owners are not aware of the notification requirement, or new owners do not report their transaction to the department. The LAO argues that it will be very difficult for DMV to track ownership changes and identify owners that are not in compliance. The LAO questions the department's ability to realize the projected revenues that are factored into this proposal.

Staff Recommendation: The fee proposals are necessary for one reason, to avert a shortfall in the MVA. There is no quantifiable data that supports raising these fees in response to increasing costs of the respective programs. For example, there is no data that indicates the costs for issuing and distributing identification cards has increased to $20. If the Legislature does not approve these fees, departments such as CHP, DMV, and the Air Resources Board will have to implement ongoing reductions totaling $330 million.

Given the limited options the subcommittee has with the fee proposals, staff recommends the following:

- **Approve some or all of the fee increases and trailer bill language.**
- **Withhold action on the fee increases, and refer the trailer bill to Senate Transportation Committee.**
- **Deny the fee increases and direct staff to work with the Administration to identify budget-year reductions of $163, and $333 million in ongoing expenditures.**

Action:

3. *Online Vehicle Registration*

Background: Three years ago the Legislature approved the Administration's proposal to implement an online vehicle registration system. As part of their original request the

Administration requested that the state pay the credit card convenience fee, however the Legislature denied this item from the proposal.

Although the program is still relatively new, it is arguable if usage of the online system has met initial projections. To help stimulate usage of the system, the budget proposes to eliminate the $4 dollar credit card convenience fee charged to individuals who register online. The Administration argues that the convenience fee has suppressed both telephone and online credit card transactions that might otherwise be diverted away from field offices.

Issue: The timing of this proposal is somewhat questionable. Given the status of the MVA and other transportation funds, it is difficult to justify an augmentation to the program for the following reasons:

- The Administration is not able to provide a reasonable estimate or projection as to the state's costs for paying the convenience fee. The amount needed to pay the convenience fee could be anywhere from $200,000 (thousand) to $2 million.
- The Administration argues that this proposal will help reduce volume at the field offices, but there is no estimate as to how this proposal may or may not reduce costs.

Staff Recommendation: **Staff recommends the subcommittee withhold action or deny this proposal. If the Administration can provide further data to support this proposal, the subcommittee may wish to reconsider this item at a later hearing.**

Action:

Other Budget Issues

Staff Recommendation: No other issues have been raised with DMV's budget. Staff recommends the subcommittee approve the remainder of the department's budget as proposed.

Action:

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 $6.4 billion, a decrease of $673.5 million (9.5 percent) from the current-year budget.

Issues

1. Proposition 42 Suspension and the Traffic Congestion Relief Program

Background: The Administration proposes various fund shifts and transfers from transportation to the General Fund. In total, the Governor's re-financing proposal identifies nearly $1.6 billion from transportation. Key provisions of the proposal include the following:

- Suspend the $1.09 billion transfer of the sales tax on gasoline from the General Fund to the Transportation Investment Fund (TIF) for the 2003-04 fiscal year. The result of this action will eliminate $678 million from the TCRP, $147 to the State Transportation Improvement Program (STIP), $147 million for local streets and roads, and $74 million to the Public Transportation Account.

- Forgive the $500 million General Fund loan repayment to the TCRP scheduled for the 2003-04 fiscal-year.

When this proposal was first presented in the December revision, the Administration indicated that the Transportation Commission (CTC) would work with locals to prioritize TCRP and STIP projects to ensure vital projects would continue to receive funding. Essentially the Administration was attempting to have locals pick and choose between their STIP and TCRP projects without providing sufficient revenues for both programs.

Subcommittee staff have spent a great deal of time analyzing this proposal and working with the Administration to understand the specific details. Although the Administration has presented this as a budget-year proposal, the suspension of Proposition 42 funds will have a significant effect on the long-term viability of the TCRP.

The loss of the sales tax revenues in the budget-year will leave the TCRP approximately $1.2 billion short of the funds needed for the approved, and statutorily – endorsed, congestion relief projects. This is equivalent to approximately 25% of the funds promised for the program over its six years. The Governor's proposal suggests that these underfunded projects should compete with other approved state and local transportation projects (in the STIP). Essentially, the situation would be one of too many projects chasing too few dollars.

The competition for remaining funding between TCRP and STIP projects would require the delay and/or abandonment of numerous transportation projects, especially in greater Los Angeles and the Bay Area, due to the concentration of TCRP projects in those two regions. The Department of Transportation and regional transportation agencies would have to reconstitute their respective transportation programs, either formally or informally. Project delays would increase the projects' ultimate costs while project abandonment would impede statewide mobility and increase congestion. The state would fall further behind in its attempts to maintain and expand the transportation infrastructure.

Issue: It is important for the Administration to explain to the subcommittee how the Prop 42 suspension will effect the TCRP in the budget year and beyond. If this proposal is in fact only intended to be a "single year" proposal, than what is the Administration's plan for dealing with the $1.2 billion loss of sales tax funds? The Administration should also explain to the subcommittee what the contract close-out costs will be if these funds are permanently swept away, and discuss what the legal/liability costs will be for closing out the outstanding contracts.

Subcommittee staff believe there are alternatives to suspending the Proposition 42 transfer that will still enable the General Fund to achieve maximum savings. Subcommittee staff have asked the CTC and Caltrans to identify the cash-flow needs of the TCRP in the budget-year. Based on the data provided by the CTC and Caltrans, the outstanding allocations needed for the 2003-2004 budget-year are $207 million. In order for the CTC to resume allocations, the Legislature would need to authorize an additional $252 million in 2003-2004.

As an alternative to the Administration's proposal, subcommittee staff recommend the following:

1. **Direct staff to develop trailer bill language to authorize a deferral of these funds. A deferral will allow the General Fund to achieve the savings proposed by the Administration, but still allow the Legislature to maintain its commitment to the TCRP by requiring a repayment of these transportation funds.**

2. **Direct staff to identify a revenue source to fund the $207 million needed for TCRP current project allocation in the budget-year. Some of these options include likely surplus funds in the Public Transportation Account or additional sales tax revenues on gasoline. The Administration will release these revenue projections in the May revision.**

3. **Authorize the Administration to suspend (but not forgive) the $500 million General Fund loan repayment to the TCRF. Current law requires the General Fund loan to be repaid by June 30, 2006.**

Action:

2. Department Proposes to Eliminate Significant Number of Positions

Issue: Caltrans proposes to eliminate a total of 1845.9 positions (1344.9 personnel years) in the 2003-2004 budget-year. Specifically the department proposes the following position reductions:

• Expiring limited-term positions	-105.7
• Expiring limited-term transportation permit positions	-15
• Reduction in enhanced services to locals positions	-30.5
• Elimination of Traffic Congestion Relief Program (TCRP) Positions	-1,223.7
• Position reduction through attrition to generate State Highway Account savings	-471

The Administration argues that the positions associated with the TCRP are being eliminated due to the uncertainty surrounding the program. The 1,223.7 TCRP positions were authorized when the TCRP was created in statute. Caltrans is anticipating a decrease in workload demand in the likely scenario that TCRP projects are not carried forward. The Administration indicates it will restore a certain level of positions needed to deliver high-priority TCRP projects if alternative financing is identified to continue funding the TCRP.

The subcommittee will not have the official staffing proposal until the department submits the Capital Outlay Support (COS) finance letter at the May revision. Caltrans has to establish its capital outlay workload demand for the upcoming budget-year in order to determine its staffing needs. This process has put the Legislature in a position of having to make difficult decisions regarding state staff and contracting out positions in a very limited time frame. The subcommittee on average has less than one week to approve, modify, or deny the Administration's COS budget proposal.

LAO Recommendation: The LAO has prepared an extensive analysis of the COS budget process. The Analyst has identified several key issues and made recommendations for the subcommittee to consider. The subcommittee may wish to have the LAO report on these recommendations.

Staff Recommendation: **Staff recommends the subcommittee direct Caltrans to identify what the staffing needs will be assuming funds for the current allocations are available ($207 million). Staff also recommends the department discuss the future plan for the remaining positions associated with the TCRP.**

Action:

Other Budget Issues

The subcommittee has received numerous opposition letters to the Administration's proposal to delete funding for the Environmental Enhancement Mitigation Program (EEMP). The proposal calls for a reduction of $10 million (State Highway Account) to the program. ***Staff recommends the subcommittee withhold action on this item until the May revision.***

Additionally staff recommends the subcommittee approve remaining items in Caltrans' budget as proposed.

Action:

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Wednesday, April 30, 2003
2:30 p.m. or Upon Adjournment of
Banking, Commerce and International Trade Committee
Room 3191

Proposed Consent Calendar

Item	Department
0510	Secretary of State and Consumer Services
8620	Fair Political Practices Commission
8640	Political Reform Act of 1974
8860	Department of Finance
9840	Augmentation for Contingencies or Emergencies
9860	Capital Outlay Planning and Studies Funding

Proposed Consent Calendar
(Continued)

CONTROL SECTIONS
4.40 e-Business Center
4.80 State Public Works Board Interim Financing
6.00 Project Alterations Limits
9.20 Administrative Costs Associated with the Acquisition of Property
9.30 Federal Levy of State Funds
9.50 Minor Capital Outlay Projects
10.00 Statewide Utility Savings
11.00 EDP/Information Technology Reporting Requirements
11.10 Reporting of Statewide Software License Agreements
11.52 Transfer of Unencumbered Balance of Various Funds to the General Fund
12.30 Special Fund for Economic Uncertainties
24.30 Transfer School Building Rental Income to the General Fund
26.00 Intraschedule Transfers
27.00 Deficiency Reporting Requirements
28.00 Program Change Notification

Delete this Control Section per DOF request:

31.75 Augmentation pursuant to Control Section 31.70 Budget Act of 2002

0840 State Controller

The State Controller 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.

The Governor's budget proposes expenditures of $106 million ($68 million GF) to support the activities of the State Controller's Office (SCO) in 2003-04. This is about one percent less than current-year expenditures. The budget proposes $3.5 million from the General Fund and 32 new positions to implement Chapter 1128, Statutes of 2002 (AB 2834, Migden), to perform audits of local government mandate claims and other duties.

Issues

1. Unclaimed Property Program: Proposed Fees. Banks and other institutions are 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. Escheated property continues to belong to the owners of the unclaimed property, but the state is authorized to use the property while it is in the state's custody.

Interest is paid at the lower of 5 percent or the bond equivalent rate of the 13-week treasury bills on approved claims. The current interest rate is 1.69%.

The state currently holds $3.2 billion in unclaimed property belonging to over five million individuals and organizations. The state receives about $300 million annually in unclaimed property funds and returned $190 million, including interest, to approximately 205,000 individuals and organizations in 2001-02.

The budget proposes expenditures of $11.8 million (GF) and 140 positions to administer the unclaimed property program.

The budget proposes trailer bill language to deduct 3 percent of the unclaimed property value or $10; whichever is greater, effective January 1, 2004. This charge is estimated to generate $3 million in General Fund revenues in 2003-04 and $6 million in 2004-05. This would cover about 55 percent of the costs of the program.

<u>The trailer bill language</u> also would extend the statutory deadline for the SCO to review unclaimed property claims from 90 days to 180 days. The language also eliminates a requirement that the Controller provide prior approval for payment through the national electronic payment system that transfers funds through federal reserve banks.

<u>The LAO recommends</u> amending *trailer bill language to impose a fee on all approved claims at a level sufficient to cover administrative program costs. This would result in about $5.4 million in revenues for 2003-04 and $10.8 million in 2004-05—for General Fund savings of $2.4 million in the budget year and $4.8 million thereafter in comparison to the Governor's budget*

<u>The Controller has an alternative proposal</u> *to eliminate interest on the payment of claims instead of charging a fee. The estimated amount of interest to be paid in the budget year is $12.0 million, or about the same as the administrative costs of the program. The Controller's proposal would take effect immediately upon enactment.*

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers the Personal Income Tax and the Bank and Corporation Tax Laws, and the Senior Homeowners and Renters' Assistance program. In addition, FTB provides processing services through contracts with other governmental agencies and performs audits and field investigations of campaign statements and lobbyist reports authorized by the Political Reform Act. The board began collecting delinquent child support payments under a permanent program last year. FTB is funded at $445.2 million, of which $402.8 million is General Fund. This amount is $16.5 million or 3.5 percent less than budgeted in the current year.

1. Integrated Non-Filer Compliance (INC). The INC program pursues taxpayers that do not file returns, but have tax liabilities over $200. These individuals have income subject to taxes, but have not filed a tax return. A majority of the budget year reduction of $16.5 million for FTB ($11.8 million) is due to completion of the limited-term INC program.

The overall objective of FTB's non-filer compliance program is to ensure that businesses and individuals required to file tax returns in California carry out this obligation. The FTB's program uses a variety of automated and manual processes to achieve tax compliance from nonfilers. The INC program is part of this larger nonfiler compliance program operated by FTB. As part of this program, FTB receives federal tax returns from the Internal Revenue Service (IRS) for the last three years, wage information from the Employment Development Department, as well as various other data. By analyzing these data in an automated fashion, FTB can determine whether the records from these sources indicate that a federal return was filed or income was earned, and yet no state income tax return was filed.

The FTB has recently completed improvements to its nonfiler compliance program, resulting in cost savings and greater efficiencies. The new system will allow for the integration of more data into the system and lead to the identification of an additional 100,000 non-filers. The program is also expected to reduce unnecessary taxpayer intrusion by reducing the number of erroneous notices, assessments, and collection actions that have occurred in the past because of incomplete or inaccurate data.

<u>The LAO recommends</u> *that the tax liability threshold be reduced from $200 to $100, which would result in FTB contacting an estimated 120,000 additional nonfilers. The FTB estimates that these additional contacts would generate an additional $4.4 million in General Fund revenue in 2003-04. The overall cost of the expanded program would be $800,000. This would have a benefit-cost ratio in excess of 5:1.*

The 2002 May Revision proposed lowering the threshold to $100, but the Legislature rejected this proposal.

2. E-File Tax Practitioner. The budget proposes trailer bill language to implement a program to require tax professionals who file 100 or more personal income tax returns to e-file or pay a fine of $50 per return. This program would result in savings of $1.4 million (GF) and 50.5 PYs. Tax practitioners filing returns for 100 or more taxpayers include about 10,000 of the 40,000 tax professionals who conduct business in California. These practitioners, however, prepare about 60 percent of the personal income tax returns filed.

The customer of a tax practitioner that prepares 100 or more tax returns would not have the choice of filing a hard copy of their return themselves. An identical proposal was rejected by the Legislature last year.

The LAO recommends *amending the trailer language to require tax practitioners that file* ***50 or more*** *returns to e-file. Reducing the threshold to 50 or more returns would result in additional net annual savings of $140,000 (5.5 PYs). There would be savings in administrative costs of $400,000 offset by increased taxpayer assistance costs of $260,000.*

Does the Subcommittee want to approve the trailer bill language?

3. Political Reform Audit Program. The budget proposes trailer bill language to change the funding for compliance audits from the General Fund to the Political Reform Audit Fund (newly created special fund). The trailer bill language would impose a fee on candidates filing for elected public offices, lobbyists, lobbying firms, lobbyist employers, and certain committees for deposit in the newly established fund.

It would not apply to committees that meet the following conditions:

a) Make contributions totaling ten thousand dollars ($10,000) or more in a calendar year to or at the behest of candidates or committees.
b) Are controlled directly or indirectly by a candidate.

The trailer bill language does not specify the fee amount to be imposed. The fee would be imposed at the time of filing statements with the Secretary of State. 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 shall report on the amount of any fee increase no later than June 30, 2004 and biannually thereafter.

The new fee, although unspecified, is estimated to generate $1.36 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 $1.36 million (GF).

Does the Subcommittee want to approve the trailer bill language?

4. Finance Letter: Penalty and Interest Waiver Program. The 2002-03 budget included an increase in collection staff of 34 one-year limited term positions at a cost of $3.3 million to contact high-risk delinquent taxpayers with an offer to waive penalties and interest if back taxes are paid. This is not an amnesty program, but a settlement program to maximize revenue collection on a one-year basis. This was estimated to increase revenues by $125 million in the budget year for a net gain of $121.7 million (GF).

There is an April 1 Finance Letter requesting $493,000 for continuation of the program for four additional months from September 1, 2003 through December 31, 2003. The additional four months are needed because the program started two months later than expected when the budget was approved. The current year allocation was reduced by $308,000 in Chapter 3, Statutes of 2003-04 First Extraordinary Session (SB 19X).

If this appropriation is approved, how much revenue is expected to be collected?

Does the Subcommittee want to approve the Finance Letter?

4. Treasury Offset Program. Federal law provides for the collection of state tax obligations through a reduction of refunds payable to federal taxpayers. The federal government requires a reciprocal arrangement with states to offset certain federal obligations against state tax refunds. Currently, 25 states participate in the Treasury Offset Program (TOP).

The FTB performed a study in 1998 and determined that participation in TOP was not effective for the following reasons:

- The most appropriate application of TOP was to nonresidents, yet this was prohibited under the program.
- A significant portion of the balance due the taxpayer was already being offset by other obligations, such as child support, that are collected first.
- Procedural requirements, such as sending a certified letter of intent to all taxpayers potentially subject to the offset, were costly.

FTB concluded the program at that time was not cost-effective for California and that it was receiving better results from its existing collection activities than would be available through the TOP.

The LAO recommends *that the FTB report regarding the feasibility and cost-effectiveness of participating in the existing Treasury Offset Program in order to reduce tax collection costs and increase revenues to the General Fund.*

FTB should respond to the LAO recommendation.

5. Augmentation for Implementation of City Business Tax Disclosure. The budget requests increased reimbursement authority of $355,000 and 4.4 PYs to implement Chapter 915, Statutes of 2001 (AB 63, Cedillo), which authorized FTB to disclose confidential tax information to city business tax officials. These costs will be fully reimbursed by the cities that use the information.

City tax officials use this information to identify individuals that report business income on state returns but do not have an active city business license within their city jurisdictional boundaries.

The Legislature denied a similar request for reimbursement authority for this chaptered legislation last year.

Does the Subcommittee want to approve the reimbursement expenditure authority?

1760 Department of General Services

The Department of General Services (DGS) provides management review and support services to state departments. The DGS is responsible for the planning, acquisition, design, construction, maintenance, and operation of the state's office space and properties. It is also responsible for the procurement of materials, data processing services, communication, transportation, printing, and security. The budget for DGS is proposed at $837.1 million, of which $3.0 million is General Fund. The total budget is about $32 million or 3.7 percent less than in the current year. The General Fund support is reduced from $110.2 million in 2001-02 and $17.0 million in the current year to $3.0 million in the budget year.

Issues

1. Rate Increase for the State Emergency Telephone Number Account (911 Account). Current law provides for a surcharge of up to 0.75 percent on intrastate calls. These funds can be used to pay refunds, administrative costs of the Board of Equalization and DGS for administering the surcharge, bills submitted to DGS by service suppliers or communications equipment companies for the installation and ongoing expenses for the 911 emergency phone number system, and claims of local agencies for approved incremental costs related to the 911 emergency phone number system.

Costs of DGS and local agencies that can be reimbursed are for the basic telephone system and approved incremental costs. Because the surcharge has a logical, direct relationship between the use or purposes and the persons from whom it was collected, the revenues collected are fees and not the proceeds of taxes.

The budget proposes trailer bill language to increase the surcharge on intrastate calls from 0.72 percent to one percent. This will increase revenues to this fund by $46.6 million to a total of $181.2 million. The use of the funds would be expanded to include the California Highway Patrol for providing 911 emergency assistance. The CHP is allocated $41 million from this fund in the proposed budget. These revenues would replace existing funding sources.

This increase in the surcharge is considered a "tax" and not a "fee" because there is not a logical, direct relationship between the use or purposes and the persons from whom it was collected. This trailer bill language is considered a "change in state taxes for the purpose of increasing state revenues" and would require a two-thirds vote.

Should this trailer bill language be adopted?

2. Delegation of Authority. AB 3000 (a 2002 budget trailer bill) exempted DGS from various provisions in order to achieve improved levels of performance by focusing its efforts on enhancing the value of the services it delivers as a fee-for-service organization. These provisions are intended to assist DGS in providing services on a cost-competitive basis. This language sunsets at the end of the current year. Similar language has been included in budget trailer bills since 1995.

The budget proposes trailer bill language to make the following changes on a permanent basis:

a) Delegate the authority to approve Architectural Revolving Fund transfers from DOF to DGS.

b) Exempt DGS from filing an application of discharge with the SCO when it has been determined it is no longer cost effective to pursue collection efforts.

c) Give DGS the option to procure goods usually purchased from the Prison Industry Authority from the private sector when it is cost beneficial to do so.

d) Allow the Director of DGS, rather than the Director of DOF, to certify funds are available in the case of the department's liability for a legal settlement.

e) Authorize the Director of DGS, rather than the Director of DOF to approve the deposit of checks into the Architectural Revolving Fund.

f) Authorize the director of DGS, rather than the Director of DOF to certify funds for payment for all legal court settlements for projects funded from the Architectural Revolving Fund.

Should this language be made permanent?

3. State Printing Policy. In the 1995 budget act, the Office of State Printing (OSP) was authorized to offer printing services to state and other public agencies. In June 1996, the control that OSP has over print-procurement by state agencies was eliminated through a management memo from DGS. Printing jobs from the Governor's Office, the Legislature, and ballots were required to be performed by OSP. Thus, state agencies could obtain printing services through a bidding process.

In 1999, DGS mandated through a management memo that all state printing be done by a union shop. Later that year, DGS rescinded the written mandate. In October 2001, DGS reclassified agency print purchases as "personal service contracts". A state agency would be required to send all printing projects to OSP. OSP would have the choice of taking the job or contracting it out.

In 2002, AB 3000 provided that state printing procurement is not considered a personal service contract. The effect of this provision is that state departments are no longer required to submit all printing projects to OSP, but instead can obtain printing services through a bidding process that allows OSP also to bid on the project. This provision has no sunset.

AB 3000 also provided that that state departments would not be required to submit all printing projects to OSP, but instead could obtain printing services through a bidding process that would allow OSP to also bid on the project. This provision sunsets on the effective date of the 2003 Budget Act or June 30, 2003, whichever occurs later.

<u>The budget proposes trailer bill language</u> to extend this sunset to the effective date of the 2004 Budget Act or July 1, 2004, whichever is later. The statute is repealed as of January 1, 2005.

Should this language be adopted?

Should this language be made permanent?

4. Finance Letter: Procurement Training Program. This Finance Letter requests an on-going expenditure authority increase of $1.5 million (Service Revolving Fund) for a new procurement training program for state employees. The training program is being developed by California State University (CSU) Northridge, and it consists of three component (1)$480,000 to develop the training curriculum and courses, (2) $840,000 for tuition and training sites costs, and (3) $180,000 in CSU overhead costs. This would implement a recommendation of the Task Force on Contracting and Procurement Review. These activities would be funded by increasing the procurement service fees on departments by 5.6%.

<u>The LAO recommends</u> *that the proposal be reduced by $840,000 for tuition and instead have participating departments pay tuition. The program should also be designated as one-time. They also recommend adoption of the following supplemental report language:*

> *The Department of General Services shall, by April 1, 2004, provide a status report to the chairs of the budget subcommittees, in each house and the Chair of the Joint Legislative Budget Committee of the state's procurement training and certification program. The report shall include: (1) descriptions of training courses conducted over the past 12 months, (2) the number of state staff attending each training course by department, (3) description and status of the state's certification program, (4) the number of state staff receiving certification over the past 12 months by department, (5) descriptions of proposed training courses to be provided over the next 12 months and the estimated number of state staff to be trained, and (6) descriptions of additional training courses needed and being developed.*

The Department *maintains that CSU would not agree to conduct the program if a reliable funding source is not provided. DGS also asserts that all departments would pay a portion of the procurement surcharge each year.*

5. Notification Language. Three budget bill language provisions (Budget Item 1760-001-0666, Provisions 3, 5, and 6) allow DGS to augment its expenditure authority as required to provide services to departments. These provisions require DGS to notify DOF and the Legislature within 30 days **after** making such augmentations.

Other budget notifications generally require the administration to notify the Legislature 30 days **prior** to making budget adjustments.

<u>The LAO recommends</u> *the budget bill language be revised to require DGS (or DOF) to notify the Legislature 30 days prior to making expenditure authority increases.*

6. Master Plan for Central Plant.

a) The Governor's budget requests $159.7 million (lease-revenue bonds) to renovate and expand the District Heating and Cooling System (central plant). Proposed spending would accommodate additional equipment and construct an 8 million gallon underground Thermal Energy Storage tank, new cooling towers, and an underground piping distribution system.

The LAO is concerned with providing funding for all phases of such a large complicated project in this budget. If the proposed funding is approved for this project, ***the LAO recommends*** *the inclusion of the following proposed budget bill language in Item 1760-301-0660 as a way to ensure the Legislature's oversight of the project:*

> *The Department of Finance will provide written notification to the Joint Legislative Budget Committee, within ten days of receipt, of any requests for an augmentation of project costs, change in project scope, and any related change in project schedule, for projects identified in Schedule (1).*

Does the Subcommittee want to approve the LAO language?

b) An April 1 Finance Letter proposes to add language to the Central Plant project that would allow DGS to use "design-build" as a method to acquire the Central Plant project. **The LAO** is concerned with the use of "design-build" as a method of procurement because it does not necessarily result in a project being awarded to the lowest responsible bid, nor is the project scope fully defined at the outset of the project. However, notwithstanding these concerns the Legislature has authorized the use of design-build in other state projects.

LAO recommends *that the proposed budget bill language be amended to require DGS to use "lowest price" as a criteria when deciding which design-build team will be awarded the project.*

Does the Subcommittee want to adopt the Finance Letter?

<u>Consent Issues:</u>

7. Finance Letter: Technical Correction. This Finance Letter requests restoration of $1.1 million (SRF) to restore funding that was incorrectly deleted from the DGS Budget.

<u>The LAO</u> *concurs with this request.*

8. Finance Letter: Reappropriation of Proposition 122 Funds. This Finance Letter requests reappropriation of Earthquake Safety and Public Building Rehabilitation Bond Fund of 1990 funds of $2.4 million for local seismic grants that were reappropriated in 2001.

<u>The LAO</u> *concurs with this request.*

9. Finance Letter: Notification of change in 911 Emergency Services Program. The Finance Letter notices a change in the reimbursement of the City of Los Angeles for the purchase of equipment. This will be funded due to savings from delays in other program implementation.

<u>The LAO</u> *concurs with this request.*

10. Finance Letter: Reappropriations of Capital Outlay Funds. The April 1 Finance Letter proposes several reappropriations and the extension of the liquidation period for nine seismic projects.

<u>The LAO</u> *concurs with this request.*

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.

The budget proposes $16 million for SPB support in 2003-04, which is $3.4 million, or 17 percent, below current-year estimated expenditures. The proposed expenditures consist of $3 million (GF) and $13 million in reimbursements from state departments and other government entities.

1. Finance Letter: Restoration of Positions. The budget proposed a reduction of $3.8 million (GF) and 57 positions for SPB. This would result in a 53 percent decline in GF support from the current year, leaving $3.1 million (GF) for the budget year. Activities funded by reimbursements would be unaffected. The budget notes that General Fund support for the following SPB functions would be retained:

- Hearing appeals of disciplinary actions.
- Developing exams for the civil service hiring process.
- Providing advice and assistance related to the Dymally-Alatorre Bilingual Services Act.

<u>This Finance Letter</u> requests an increase of $825,000 (GF) and increased reimbursements of $895,000 for a total increase of $1.7 million. These funds are to support the reestablishment of 22.3 positions to correct technical errors in the budget, to fund the equal employment opportunity program, and to fund workload related to anticipated layoffs.

SB 1045 (Polanco), Chapter 1165, Statutes of 2002, required state and local governmental agencies to utilize specified methods for conducting employment outreach and recruitment programs. SPB should describe the extent to which they will meet these requirements in 2003-04 and beyond.

Has SPB identified their core constituencies and have they developed an outreach strategy to these constituencies?

What outreach media and information dissemination tools are being used?

Has SPB integrated telecommunications technologies and web-based information delivery in your outreach tools?

What strategies are being utilized to reach under-served communities?

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Wednesday, May 7, 2003
Upon Adjournment of Banking,
Commerce & International Trade Committee
Room 3191

Proposed Consent Calendar
(Adoption of Finance Letters and Other Actions)

Proposed Consent Calendar
(Approved as Budgeted)

Item	Department
0950	State Treasurer
1170	Board of Behavioral Sciences
1705	Fair Employment and Housing Commission
2320	Real Estate
8855	Bureau of State Audits

0890 Secretary of State

Issues

1. Vacant Position Funding. DOF eliminated 24 positions and $1.3 million dollars from this budget pursuant to Control Section 31.60. Of this amount, 19 positions and $1 million were associated with the Business Fees Fund (BFF). Pursuant to Control Section 31.70, DOF restored the maximum of $510,000 (BFF) in the current year.

The budget proposes to augment the budget by $200,000 to address the backlog from enactment of AB 55, which requires corporations to file annual, rather than biennial, reports with the SOS. The bill also requires that the information collected must be open to public inspection and that this information be available on an online database.
.
The LAO recommends *deleting the $200,000 augmentation because additional funding for the backlog has been approved.*

2. Filing Fees on Common Interest Development Associations.

There are estimated to be more than 30,000 common interest development (CID) associations in California. Chapter 1117, Statutes of 2002, requires all CID associations to biennially file basic information with the SOS's office in order to gain a better understanding of the type and number of CID associations in the state.

To cover the costs associated with the new filings, a filing fee of up to $30 on each association is authorized. The Secretary of State originally proposed setting a filing fee on CID associations at $30. The Secretary of State has agreed to a filing fee of $15, which is expected to generate $225,000 in 2003-04. The budget proposes only $61,000 in expenditures related to the filings. While the identified costs seem reasonable, the SOS has been unable to identify any other costs associated with Chapter 1117.

The LAO recommends *that since only $61,000 in new costs is budgeted that budget bill language be adopted to limit the fee to $5, which would generate about $75,000.*

Consent Issue

3. Finance Letter: Address Confidentiality Program. This Finance Letter requests $75,000 (GF) and 1 position on a two-year limited-term basis due to enactment of Chapter 380, Statutes of 2002, which expanded the Address Confidentiality Program for Victims of domestic Violence and Stalking to include employees of women's reproductive health service providers.

1111 Bureau of Automotive Repair

Issues

1. Smog Check II Program – Telephone Referral System for Test-Only Stations. BAR has a web site with information by zip code or city regarding test-only stations. The information is available only in English. The Department of Consumer Affairs (DCA) has an 800 number that provides a list of three randomly selected stations by zip code. From 8 a.m. to 6 p.m. on weekdays, you can talk to an individual in either English or Spanish.

The Subcommittee requested the Bureau to report on the telephone referral system.

Consent Issues

2. Loan from the Vehicle Inspection and Repair Fund. The budget act authorized a loan from the Vehicle Inspection and Repair Fund to the General Fund of $5 million in 2001-02 and $100 million in 2002-03. The budget proposes an additional loan to the General Fund of $5 million in 2003-04. This will leave an ending balance of $22.5 million on June 30, 2004.

Increase the loan to the General Fund from $5 million to $14 million.

1111 Office of Privacy Protection

OPP was funded at $755,000 (GF) in 2001-02 and $860,000 (GF) in the current year. The current year funding reflects a reduction of $212,000 included in SB 19X that was approved by the Senate on February 24. The proposed budget of $527,000 includes a reduction of $529,000 and 1.4 PYs. This is a reduction from 7.1 PYs to 5.7 PYs or nearly 20 percent.

Issues

1. Identity Theft Detail of the Southern California High Tech Crimes Task Force. The budget proposes the elimination of 1 Senior Investigator and 0.5 Staff Services Analyst position for savings of $99,000 (GF). The investigator investigates identify theft cases and serves as OPP's liaison to the Task Force. This is the only investigator position for OPP. OPP will have to rely on local law enforcement to investigate identity theft cases.

Should the investigator position be eliminated?

2. Consumer Information and Education Programs. The budget proposes a reduction of $414,000 (GF) or 41 percent of OPP's total budget to reduce funding for consumer information and education programs. This budget was reduced by $212,000 in SB 19X. OPP will continue to provide the public with information and assistance by relying on the Internet web site and Public Service Announcements. OPP contends that individual assistance to identity theft victims and others with privacy concerns will be provided through e-mail and a toll-free telephone line.

What about consumers who want information without using the Internet either because they do not have access to the Internet or because of privacy concerns?

0650 Office of Planning and Research

The Office of Planning and Research (OPR) provides policy research for the Governor on land-use, growth planning issues and California Environmental Quality Act provisions. The budget proposes total expenditures of $54 million, of which $4.2 million is from the General Fund.

Issues

1. Cesar Chavez Day of Learning Grants. The December Revision proposed that the $5 million annual appropriation for Cesar Chavez Day of Learning Grants be reduced by $4,750,000 in 2002-03. The Senate rejected this proposal by not adopting the trailer bill language.

The budget further proposes trailer bill language suspending the grants for the 2003-04 through 2005-06 fiscal years.

Consent Issue

2. Finance Letter: Transfer of Positions. This Finance Letter requests the transfer of eight positions from Teale Data Center to OPR. **The LAO** has no concerns with this request.

1700 Department of Fair Employment and Housing

The objective of the Department of Fair Employment and Housing (DFEH) is to protect the people of California from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence. The budget year expenditures are proposes at $16.6 million ($12.6 million GF), which is a decrease of 24 percent from the current year.

SB 19X reverted $837,000 (GF) and 9 PYs related to vacant positions and an additional 11 positions as part of a five percent reduction as proposed in the budget. One-time federal funding from HUD in the current year provided an augmentation of $1.6 million to process housing cases.

Issues

1. Workload. The budget proposes to reduce the budget by an additional $3.1 million (GF) and 45 PYs, equal to about 20 percent of the staffing of the department. The department has a mandate to investigate cases within 365 days. After 365 days, DFEH loses jurisdiction. The complainant's only recourse is to obtain legal representation.

The budget proposes to close two district offices (San Bernardino and Ventura). It would also reduce staff from 21 to 13 at the Los Angeles district office.

The table below shows the number of cases filed, authorized and filled positions, and average caseload for employment-related issues.

Fiscal Year	Cases Filed for Investigation	Authorized Positions	Filled Positions	Average Caseload	Cases Exceeding 365 Days
1999-00	9,254	127	108	86	14
2000-01	8,865	127	102	87	22
2001-02	9,620	108	95	101	68
2002-03 1/	10,374	103	101	103	65
2003-04 2/	11,183	80	80	140	--

1/ The 2002-03 estimates are based on the first seven months of the year. The actual number of filled positions is lower now because staff is accepting other employment in anticipation of the proposed reduction in staff in the budget year.

2/ The 2003-04 estimates assume the same increase in filings from 2001-02 to 2003-04 (between seven and eight percent).

8260 Arts Council

The California Arts Council budget was funded at $49.7 million ($47.9 million GF) in 2001-02 and $21.5 million ($19.6 million GF) in the current year. Most of this reduction ($20 million) was attributable to the elimination of funding provided for district-specific projects. In addition, local grants were reduced by $9 million. The budget proposes expenditures of $13.6 million ($12.0 million GF) in the budget year.

Issues

1. Arts in Education Program. Under the program, the state assists artists and arts organizations to enhance the capacity of California schools to teach the arts and to use the arts to teach other subject matters. The budget provided $6.8 million (GF) in grants for this program in 2001-02 and $6.2 million ($5.7 million GF) in the current year. The budget proposes to reduce this amount by $3.0 million (47 percent) to $3.3 million ($3 million GF) in the budget year.

2. Organization Support Grants. This program provides matching grants that leverage local private and public dollars for over 800 arts organizations throughout the state. Grants for this program were funded at $9.7 million (GF) in 2001-02. The current year funding is $5.8 million reflecting a $2 million unallocated reduction. The budget proposes to reduce funding by $2.8 million (47 percent) for grant funding of $3.0 million in 2003-04.

The December Revision proposed to reduce the Multicultural Arts Program by $102,000 in the current and budget year. SB 15X (the first budget correction bill passed by the Senate) did not include the $102,000 current year reduction. SB 19X (Chesbro) included a reduction of $102,000 in the current year.

3. Artists in Residence Program. The Artists in Residence Program uses art professions to work with K-12 public school students and other Californians in mental health, drug prevention, youth at risk, day care, latchkey, and other community programs to promote critical thinking self esteem, and to provide positive role models. The program was funded at $4.8 million ($3.7 million GF) in 200-01 and $2.6 million ($1.9 million GF) in the current year. The budget proposes expenditures of $1.7 million ($1.1 million GF). The $600,000 reduction is all local assistance.

4. Simon Wiesenthal Museum (Tools for Tolerance). This grant program was funded at $2 million (GF) in 2001-02. The December Revision proposed to reduce this program by $100,000. SB 15X (the first budget correction bill passed by the Senate) did not include the $100,000 current year reduction. Chapter 3, Statutes of 2003-04 First Extraordinary Session (SB 19X, Chesbro) included the $100,000 current year reduction.

The budget proposes to reduce the 2003-04 funding by $200,000 to $1.8 million (10% reduction).

Consent Issue

5. Finance Letter: Restore Federal and Special Fund Authority. The budget proposed reductions to all local assistance funding for CAC. This Finance Letter requests restoration of $85,000 (federal funds) and $287,000 (Graphic Design License Plate Account).

Proposed Consent Calendar (Adoption of Finance Letters and Other Actions)

0750 Lieutenant Governor

Consent Issue

1. Finance Letter: Technical Correction. The Finance Letter requests reinstatement of nine positions that were incorrectly deleted pursuant to the Control Section 31.60 (vacant positions).

0845 Department of Insurance

Consent Issue

1. Finance Letter: Technical Correction. The budget was reduced by 31 vacant positions, but the budget inadvertently reduced 43 positions. This Finance Letter requests the authority for 12 positions to correct a technical error in the vacant position reduction.

0860 Board of Equalization

<u>Consent Issue</u>

1. Finance Letter: Permanent Reclassification of Positions. The 2001 Budget Act authorized BOE to reclassify 50 tax auditor positions to tax collection positions in order to generate additional sales and use tax revenues through increased tax collections. This authority expires June 30, 2003. BOE asserts that the reclassification has resulted in increased revenues of $8 million (GF) and $2 million (local).

The Finance Letter requests that this reclassification be made permanent.

1130 Board of Architectural Examiners

<u>Consent Issue</u>

1. Finance Letter: Increased examination Costs and Caseload. The Finance Letter requests $115,000 (Architectural Examiners – Landscape Architects Fund) for increased examination contract costs and caseload.

1450 Board of Psychology

<u>Consent Issue</u>

1. Finance Letter: Decreased Administrative Costs. Requests a reduction of $365,000 (Psychology Fund) to reflect administrative cost savings for converting the Professional Practice in Psychology examination to a computer-based format.

2780 Stephen P. Teale Data Center

The budget proposes $93 million in expenditure authority for the Teale Data Center (TDC) in the budget year. TDC provides information technology services to numerous state agencies that reimburse the data center for its operational costs. This is a $2.9 million (3 percent) increase over current year expenditures.

<u>Consent Issues</u>

3. Finance Letter: Transfer of Positions. This Finance Letter requests the transfer of eight positions from Teale Data Center to OPR. **<u>The LAO</u>** has no concerns with this request.

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny

AGENDA II

Wednesday, May 7, 2003
Upon Adjournment of Banking, Commerce, and International Trade Committee
Room 3191

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.

Spring Finance Letters

The Administration proposes the following changes to the department's budget:

1. **Budget Realignment and Revision Detail (Issue 101)—**The Governor's Budget includes the following operating expense and equipment (OE&E) reductions for 2002-03 and 2003-04:

- A 2003-04 allocated reduction of $80,000,000 ($70,000,000 OE&E/ $10,000,000 overtime).
- A 2003-04 unallocated OE&E reduction of $89,845,000.
- A 2002-03 allocated OE&E reduction of $40,000,000.

This request amends Item 2660-001-0042, resulting in a net increase in expenditure authority of $10,000,000 by:

- Reducing the 2003-04 **allocated** reduction by $10,000,000 through the transfer of $10,000,000 from the Equipment Services Fund to the State Highway Account and allocating those expenditures. Therefore, it is requested that the transfer in Item 2660-031-0608 be increased by $10,000,000.
- Realigning the remaining $70,000,000 in 2003-04 **allocated** reductions by program and budget line item.
- Allocating $71,845,000 of the 2003-04 **unallocated** $89,845,000 reduction in Item 2660-001-0042. The allocation of the remaining $18,000,000 will be addressed in the May Revision in conjunction with the Capital Outlay Support workload.

In addition to this Finance Letter, a separate notification is being transmitted to the Legislature under the provisions of Control Sections 8.50 and 26.00, and pursuant to Provision 3a of Item 2660-001-0042, Budget Act of 2002. These changes to the current year budget would shift OE&E savings to personnel services across programs to meet current year salary and wage costs and align actual workload with federal fund sharing. The net effects of those actions are as follows:

- Decrease Item 2660-001-0042 by $38,378,839.
- Increase Item 2660-001-0890 by $38,378,839.
- Reallocate $38,378,839 of the 2002-03 reductions by program.

Staff Recommendation: **This proposal deals with issues associated with the Capital Outlay Support (COS) budget. The subcommittee will not have the official COS budget**

proposal until the May revision. Staff recommends the subcommittee withhold action on the finance letter until the May revise hearing on May 21.
Action:

2. **Unallocated Position Reduction Due to Attrition (Issue 102)—**The Governor's Budget includes an unallocated position reduction from attrition of 471 positions. This request allocates the position reduction by position title and by functional area in Item 2660-001-0042.
   Staff Recommendation: **For purposes of dealing with the department's total staffing proposal at the May revision, staff recommends the subcommittee withhold approval of the finance letter.**
   Action:

3. **Toll Operations "FasTrak" (Issue 104)—**Amend Item 2660-001-0042 to redirect surplus reimbursement authority of $1,350,000 ($700,000 from the Maintenance Program and $650,000 from the New Technology Program) to the Traffic Operations Program to provide expenditure authority for reimbursements to be received from the Bay Area Toll Authority. Reimbursements will be used to procure 50,000 transponders each year in 2003-04 and 2004-05 for the FasTrak electronic toll collection program. The additional transponders will allow the program to continue accepting new FasTrak applications and replace expired transponders for existing customers.
   Staff Recommendation: **No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
   Action:

4. **Transportation Finance Bank (Issue 105)**—Amend Item 2660-496 to revert $389,000 in local assistance State Highway Account funding originally appropriated by Item 2660-101-0042, Budget Act of 2000, and reappropriated by Item 2660-490, Budget Act of 2002. In addition, it is requested that Item 2660-115-0042 be added to transfer these funds to the Local Transportation Loan Account. These funds will be used to provide the matching funds requirement for $3,000,000 in federal funds appropriated by Item 2660-115-0890, Budget Act of 2002 to implement the Transportation Finance Bank (TFB) Revolving Loan Program. The TFB was created to provide flexible, short-term financing to public entities and public/private partnerships for the delivery of transportation projects in California.
   Staff Recommendation: **No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
   Action:

5. **Underground Storage Tank Program (Issue 107)**—Amend Item 2660-001-0042 to redirect $4,687,000 from the Planning Program to the Capital Outlay Support (COS) Program to reflect the movement of the Underground Storage Tank Program (USTP) from the Planning Program to the COS Program. The USTP oversees the removal, replacement, and repair of underground storage tanks on current and former Caltrans properties in order to comply with State and federal environmental mandates. The USTP program will not be considered a component of the annual COS zero-based budget review.
   Staff Recommendation: **No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
   Action:

6. **Transportation Permit Double-Checkers (Issue 108)**—Increase Item 2660-001-0042 by $448,000 to extend 8.0 limited-term positions/7.7 personnel years in the Operations Program to continue manual double-checking of all permits for loads over 14 feet high until the Transportation Permits Management System (TPMS) is implemented.

   Under current procedures, the Single Trip Application and Routing System (STARS) database contains route safety information and provides the first review of a proposed route; a Caltrans employee that verifies the route performs the second check. STARS usage has increased from 10,000 permits two years ago to approximately 80,000 in the current year reducing the double-checking workload by approximately 50 percent or 7 positions. The double-checking workload is temporary in nature, because the TPMS will eliminate the need for this workload. This request would fund the identified workload for double-checking all permits for loads over 14 feet high for 18 months – through the expected implementation of TPMS.
   Staff Recommendation: **No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
   Action:

7. **Local Bridge Scour and Inspection Program (Issue 109)—**Convert 8.5 positions/8.2 Personnel Years (PYs) from permanent to three-year limited term to conduct bridge hydraulic scour erosion ("scour") evaluation workload on an identified 1,850 bridges with known foundations. The Budget Act of 2002 authorized the continued use of the 8.2 PYs for 2002-03 to gather and evaluate bridge blueprints, called "as-built" plans and to document related workload. The department has now identified and documented workload that supports continuation of the 8.2 PYs for three years. Item 2660-001-0042 contains the detail for this request.
   Staff Recommendation: **No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
   Action:

8. **Capital Outlay, California Department of Transportation.** Reappropriation of construction funding ($72,599,000 from the Public Building Construction Fund) for the San Diego Office Building Replacement project. The department argues that this proposal is necessary due to delays at the working drawing phase related to completing street vacation agreements and the approval of public sewer plans by the City of San Diego. As a result of these delays, the working drawings may not be completed in time to allow the project to proceed to bid by June 2003.
   ***Staff Recommendation:* No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
   Action:

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.

Spring Finance Letters

The Administration proposes the following change to the department's budget:

1. **Repair Fullerton Field Office (Issue # 010) —** It is requested that the following items be increased by a total of $1,569,000 for asbestos abatement and related emergency repairs in the Fullerton Office of the DMV.

   Increase Item 2740-001-0042 by $97,000
   Increase Item 2740-001-0044 by $834,000
   Increase Item 2740-001-0064 by $638,000

Leaks have resulted in the deterioration of asbestos ceiling plaster and tiles that, on several occasions, has fallen onto workstations and personnel. The repairs proposed would abate the asbestos and renovate interior areas. The request also includes the cost to relocate the office for six months during construction and to replace modular furniture upon reoccupation of the building.
***Staff Recommendation:* No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**
Action:

Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny

AGENDA 1

Wednesday, May 21, 2003
1:30 p.m.
Room 3191

0520 Secretary for Business, Transportation, and Housing

Issues

Proposal to Consolidate the Office of Traffic Safety

Background: 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 million of federal grant funds in 2003-04 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.

Issue: The Governor's Budget proposes to consolidate OTS with the Office of the Secretary for Business, Transportation, and Housing. The Administration estimates that this proposal will allow for contracted personnel services savings of $135,000 in 2003-04.
Staff Recommendation: **Staff recommends the Subcommittee deny the Administration's proposal to consolidate the Office of Traffic Safety.**
Action:

2660 Department of Transportation

Proposed Consent Items

Staff Recommendation: **Staff recommends the subcommittee approve the following finance letters. No issues or objections have been raised with these proposals:**

1. **Budget Realignment and Revision Detail.** This request amends Item 2660-001-0042, resulting in a net increase in expenditure authority of $10,000,000 by:

- Reducing the 2003-04 **allocated** reduction by $10,000,000 through the transfer of $10,000,000 from the Equipment Services Fund to the State Highway Account and allocating those expenditures. Therefore, it is requested that the transfer in Item 2660-031-0608 be increased by $10,000,000.
- Realigning the remaining $70,000,000 in 2003-04 **allocated** reductions by program and budget line item.
- Allocating $71,845,000 of the 2003-04 **unallocated** $89,845,000 reduction in Item 2660-001-0042. It is also requested that this reduction remain unallocated so Caltrans can maintain the flexibility to shift these reductions across programs to best manage the Department with reduced resources. Caltrans will submit a notification to Budget Committees by January 10, 2004, that details the nature of these reductions.

In addition to this Finance Letter, a separate notification is being transmitted to the Legislature under the provisions of Control Sections 8.50 and 26.00, and pursuant to Provision 3a of Item 2660-001-0042, Budget Act of 2002. These changes to the current year budget would shift OE&E savings to personnel services across programs to meet current year salary and wage costs and align actual workload with federal fund sharing. The net effects of those actions are as follows:

- Decrease Item 2660-001-0042 by $38,378,839.
- Increase Item 2660-001-0890 by $38,378,839.
- Reallocate $38,378,839 of the 2002-03 reductions by program.

2. **Unallocated Position Reduction Due to Attrition.** The Governor's Budget includes an unallocated position reduction from attrition of 471 positions. This request allocates the position reduction by position title and by functional area in Item 2660-001-0042.

3. **Toll Operations "FasTrak".** Amend Item 2660-001-0042 to redirect surplus reimbursement authority of $1,350,000 ($700,000 from the Maintenance Program and $650,000 from the New Technology Program) to the Traffic Operations Program to provide expenditure authority for reimbursements to be received from the Bay Area Toll Authority. Reimbursements will be used to procure 50,000 transponders each year in 2003-04 and 2004-05 for the FasTrak electronic toll collection program. The additional transponders will allow the program to continue accepting new FasTrak applications and replace expired transponders for existing customers.

4. **Transportation Finance Bank.** Amend Item 2660-496 to revert $389,000 in local assistance State Highway Account funding originally appropriated by Item 2660-101-0042, Budget Act of 2000, and reappropriated by Item 2660-490, Budget Act of 2002. In addition, it is requested that Item 2660-115-0042 be added to transfer these funds to the Local Transportation Loan Account. These funds will be used to provide the matching funds requirement for $3,000,000 in federal funds appropriated by Item 2660-115-0890, Budget Act of 2002 to implement the Transportation Finance Bank (TFB) Revolving Loan Program. The TFB was created to provide flexible, short-term financing to public entities and public/private partnerships for the delivery of transportation projects in California.

5. **Underground Storage Tank Program.** Amend Item 2660-001-0042 to redirect $4,687,000 from the Planning Program to the Capital Outlay Support (COS) Program to reflect the movement of the Underground Storage Tank Program (USTP) from the Planning Program to the COS Program. The USTP oversees the removal, replacement, and repair of underground storage tanks on current and former Caltrans properties in order to comply with State and federal environmental mandates. The USTP program will not be considered a component of the annual COS zero-based budget review.

6. **Transportation Permit Double-Checkers.** Increase Item 2660-001-0042 by $448,000 to extend 8.0 limited-term positions/7.7 personnel years in the Operations Program to continue manual double-checking of all permits for loads over 14 feet high until the Transportation Permits Management System (TPMS) is implemented.

7. **Local Bridge Scour and Inspection Program.** Convert 8.5 positions/8.2 Personnel Years (PYs) from permanent to three-year limited term to conduct bridge hydraulic scour erosion ("scour") evaluation workload on an identified 1,850 bridges with known foundations. The Budget Act of 2002 authorized the continued use of the 8.2 PYs for 2002-03 to gather and

evaluate bridge blueprints, called "as-built" plans and to document related workload. The department has now identified and documented workload that supports continuation of the 8.2 PYs for three years. Item 2660-001-0042 contains the detail for this request.

8. **Capital Outlay, California Department of Transportation.** Reappropriation of construction funding ($72,599,000 from the Public Building Construction Fund) for the San Diego Office Building Replacement project. The department argues that this proposal is necessary due to delays at the working drawing phase related to completing street vacation agreements and the approval of public sewer plans by the City of San Diego. As a result of these delays, the working drawings may not be completed in time to allow the project to proceed to bid by June 2003.

9. **Project Resourcing and Schedule Management (PRSM) System Reappropriation.** Add language to Item 2660-492 to reappropriate $7,057,000 from Item 2660-001-0042, Budget Act of 2001, reappropriated by Item 2660-492, Budget Act of 2002. The PRSM system will improve project scheduling and reporting and will meet the requirements of Chapter 622, Statutes of 1997 (SB 45). In October 2002, Caltrans discontinued the procurement process because only one bid had been received and it was double the estimated cost. Caltrans will reexamine the scope of the project to ensure it is consistent with the approved feasibility study report and will rebid the project.

10. **Budget Planning Model System (BPMS) Reappropriation.** Add language to Item 2660-492 to reappropriate $501,000 from Item 2660-001-0042, Budget Act of 2001, reappropriated by Item 2660-492, Budget Act of 2002. The BPMS will be a dynamic budget-planning model that will provide more-timely budget planning information and allow for the simulation of alternate economic and program scenarios. These funds were reappropriated for fiscal year 2002-03 to conduct an FSR for the model. The FSR has been completed, but the funding will not be encumbered by a consulting services contract until 2003-04.

11. **Suspension of the Two-way Traffic Signal Communication Mandate.** It is requested that the following language be added to Item 2660-295-0042 to suspend the Two-way Traffic Signal Communication mandate. This suspension is made to address the State's budget year funding shortfall.

Pursuant to Section 17581 of the Government Code, mandates identified in the appropriation schedule of this item with an appropriation of $0 and included in the language of this provision are specifically identified by the Legislature for suspension during the 2003-04 fiscal year:

(2) 98.01.129—Two-way Traffic Signal Communication (Ch. 1297, Stats. 1994)

Subcommittee Action:

Issues

1. May Revision Finance Letter-Proposition 42 Suspension and the Traffic Congestion Relief Program.

The Administration proposes to Transfer $207,000,000 from the General Fund to the Transportation Investment Fund (TIF) pursuant to Article XIXB, Section 1 (d) of the Constitution. This request would fund cash expenditures for TCRP projects that received California Transportation Commission allocations prior to December 2002. Trailer Bill language is also proposed for a partial TIF suspension – for the amount over $207,000,000, and to specify that the General Fund shall be obligated to repay the TIF for the amount of the transfer that is suspended in 2003-04.

The Administration also proposes Item 2660-001-3007 be added in the amount of $49,466,000 for project delivery workload associated with these TCRP projects. This request includes 283 positions/268.7 personnel years and $23,940,000 to fund project delivery contracts.

Staff Recommendation: The May revise proposal is consistent with the Subcommittee's intent to restore funding for TCRP projects that have outstanding cash allocations. As a result of this proposal the TCRP will remain operative through 2008, and the General Fund will repay the balance of sales tax revenues not utilized for transportation purposes this year.

It is important to note that the Assembly has approved a different action relating to TCRF. **The structure of this proposal requires additional work. For purposes of sending this issue to conference committee, staff recommends the subcommittee approve the finance letter as proposed.**
Action:

2. *May Revision Finance Letter-Capital Outlay Support Workload*

The Administration proposes to augment staffing, and operating expenses and equipment to deliver planned Capital Outlay Support workload during the budget year. The Governor's Budget eliminated all of the TCRP positions and associated architectural and engineer contract funding with the understanding that they would be restored through the Capital Outlay Support Finance Letter to the extent that funding was available and workload justified. This Finance Letter reestablishes funding and positions for the portion of TCRP workload associated with State Transportation Improvement Program funds, local measure funds, and other non-Traffic Congestion Relief Fund sources. This request also adjusts funding and positions for other identified Capital Outlay Support workload. In total, 1,365 positions/1,296.5 personnel years are included in this request. This request includes an augmentation of $8,854,000 to fund architectural and Engineering Contracts, and an adjustment to the budgeted cost of a personnel year equivalents (PYEs) to reflect the weighted average cost of PYE for existing contracts.

The May Revision adjustment requires changes to the following items as outlined below:

- Increase Item 2660-001-0042 by $38,207,000
- Increase Item by 2660-001-0890 by $32,646,000
- Increase funding for Streets and Highways Code Section 188.10 by $5,185,000

- Increase funding for Government Code Section 8879.3 by $529,000
- Increase Reimbursements by $21,820,000

Staff Recommendation: No issues have been raised with this item. Staff recommends the subcommittee approve the finance letter as proposed.
Action:

3. May Revision Finance Letter-High Speed Rail Consolidation

The Administration proposes to reduce Item 2660-001-0046 by $1.992 million to rescind the proposal included in the Governor's Budget, which would have consolidated the High-Speed Rail Authority within Caltrans. Concurrently, the Administration requests to increase Reimbursements by $312,000 to fund three existing positions to permit Caltrans to assist the High-Speed Rail Authority in completing the environmental impact report and the implementation plan, and amend Item 2660-001-0042 to reflect these changes.
Staff Recommendation: Staff recommends the subcommittee approve the finance letter as proposed.
Action:

4. Environmental Enhancement Mitigation Program

The subcommittee has received numerous opposition letters to the Administration's proposal to delete funding for the Environmental Enhancement Mitigation Program (EEMP). The proposal calls for a reduction of $10 million (State Highway Account) to the program in 2003-2004, and a reversion of $6 million from the current-year budget.
Staff Recommendation: Staff recommends the subcommittee deny the Administration's proposal to revert the current-year funds for this program. Additionally staff recommends the subcommittee approve $5 million for the 2003-2004 budget-year.
Action:

2665 High-Speed Rail Authority

Issues

May Revise Finance Letter- Restoration of HSRA

The Administration proposes to add $3,839,000 to reverse the consolidation of the High-Speed Rail Authority (HSRA) within Caltrans as proposed in the Governor's Budget. This request specifically consists of:

- $2,597,000 from the Public Transportation Account to reinstate the budget for the Authority. Of this amount, $787,000 is for the administration of the Authority and $1,810,000 is to complete the EIR.
- $930,000 in federal funds for Implementation Plan workload to be completed prior to the November 2004 ballot measure and for legal support related to the EIR.
- $312,000 in federal funds to provide reimbursement to the Department of Transportation (Caltrans) for three personnel years of workload to permit the Authority to leverage the expertise of Caltrans staff on environmental issues in assisting the Authority in the completion of the EIR and the Implementation Plan.

It is also requested that the following provisional language be added to Item 2665-001-0046:

1. Of the amount available in this item, $312,000 shall only be available to reimburse the Department of Transportation for workload related to the completion of the Environmental Impact Report and the Implementation Plan.

Staff recommends the subcommittee approve the finance letter as proposed.
Action:

2720 California Highway Patrol

Issues

1. ***Rate Increase for the State Emergency Telephone Number Account (911 Account).***

Issue: The budget proposes trailer bill language to increase the surcharge on intrastate calls from 0.72 percent to one percent. This will increase revenues to the State Emergency Telephone Number account by $46.6 million ($181.2 million total in 2003-2004). Of this amount, CHP will receive an additional $41 million (CHP currently receives $4 million for its 911 response activities).

Although the majority of revenues generated from this proposal will be allocated to CHP, this item will also be considered when the subcommittee hears the Department of General Services' (DGS) tomorrow. It is also important to note that the Administration has proposed a new Public Safety Surcharge (PSS) which will generate approximately $62 million in additional funds for CHP (Please see issue #2 on the next page for a summary of the PSS proposal). **In total, the Administration is proposing $103 million for CHP.**

Staff Recommendation: Staff recommends the subcommittee delete the CHP's expenditures from the 911 account. Please see the staff recommendation under issue #2 on the next page for further detail.

2. Creation of a New Public Safety Surcharge Account

Background: The budget proposes the creation of a new Public Safety Surcharge Account (PSS) to provide an ongoing source of funding for CHP's protective and security services. The budget proposes to generate approximately $62.5 million in revenue from the PSS in 2003-2004. The PSS would require an additional surcharge on intrastate telephone calls (separate from the existing 911 surcharge). Specific details of the Administration's proposal include the following:

- Establishes an initial rate of 0.505 percent in the budget year, and a permanent cap of 2 percent.
- Allows CHP to determine and establish the surcharge rate for each fiscal year. The trailer bill language requires the Department of Finance to approve CHP's surcharge rate determination.
- Establishes a maximum 10 percent reserve in the PSS.

The May Revision also proposes to reduce Item 2720-001-0044 by $32.5 million to reflect a fund shift from the MVA to the PSSF for CHP's Homeland Security tactical alerts. It is also requested that Provision 1 of Item 2720-001-0044 be amended to conform to this request as follows:

> *"Of the funds appropriated in this item, the amount of $32,500,000 is allocated for security tactical alerts. If the amount used for tactical alerts is less than $32,500,000, the remainder of that sum shall revert to the ~~Motor Vehicle Account~~ Public Safety Surcharge Fund."*

This fund shift reflects the first year of a two-year proposal to shift all Homeland Security and non-transportation security activities of the CHP to the PSSF. This fund shift is intended to consolidate funding for security activities of the CHP into a singular fund source by 2004-05. The 2003-04 partial fund shift of the tactical alerts portion of the Homeland Security activities is proposed to maintain a stable rate for the PSSF from 2003-04 through the subsequent years because the first year revenues for the PSSF will be partial year revenues only.

It is also requested that Item 2720-011-0890 be deleted to conform to this request. Control Section 8.00 can be used to offset the prior expenditure of state funds to the extent that federal funds are received for Homeland Security activities. The reserve of the MVA will be increased by the $32.5 million by the end of 2003-04 as a result of this proposal.
Staff Recommendation: Staff recommends the subcommittee approve the Administration's PSS proposal with the following changes:

- ***Increase the PSS rate to include the $41 million that was proposed under the Administration's 911 surcharge increase. All expenditures that were scheduled to receive funds under the 911 account will now receive funds under the PSSF.***

- ***Modify the provisions that authorize CHP to establish the surcharge rate. The Department of General Services should be responsible for setting the PSS surcharge rate.***

Action:

2740 Department of Motor Vehicles

Issues

1. ***Loopholes in Truck Weight Fee Program Results in Significant Revenue Loss for State Highway Account.***

Background: Senate Bill 2084 (Polanco, Chapter 861, Statutes of 2000) revamped the commercial vehicle registration system by authorizing the state to convert from an unladen weight system to a gross vehicle weight system (GVW), and by initiating a permanent trailer identification program (PTI). As a member of the International Registration Program (IRP), California is authorized to collect registration fees for commercial trucks that operate on an inter-state basis. Under the IRP, the 48 contiguous states, the District of Columbia, and three Canadian Provinces collect registration fees for trucks based in their jurisdictions and then share those fees based on the amount a particular truck operates in each jurisdiction.

Prior to SB 2084, California registered commercial trucks by using an unladen (empty) weight system and charging vehicle license fees (VLF) on trailers and semitrailers. California was the only member of the IRP to use the unladen weight system, and eventually the IRP members required California to comply with their fee systems. The Legislature approved SB 2084 because the state was in jeopardy of losing its membership in the IRP and the ability to collect and share commercial vehicle share fees with other IRP members. **SB 2084 was agreed to by all relevant parties, including DMV, Caltrans, the California Farm Bureau, and the commercial trucking industry.** Under the GVW, commercial vehicles with a declared weight over 10,000 pounds pay fees based on the weight of the truck (a fee schedule was also approved). The new system also exempts trailers and semitrailers from vehicle registration and payment of the vehicle license fee.

Issue: A major component of SB 2084 was ensuring that the new system would remain revenue neutral. Section 1 of the bill reads:

"For purposes of this act, revenue neutrality requires that all recipients of the fees collected under the system in effect on December 31, 2000, shall receive the same level of funding, with the same degree of flexibility, after the conversion to the system created by this act."

When SB 2084 passed, the agreement with industry was that the new program would remain revenue neutral and the state would not lose transportation revenues. Unfortunately this has not been the case. Since the new program was enacted, the state has lost approximately $300 million in revenue (truck weight fees are deposited into the State Highway Account). Based on conversations with the Administration, the loss of revenue can be attributed to fewer vehicles paying the new weight fees. The Administration is proposing trailer bill language to cleanup SB 2084, and to ensure that the revenue neutrality agreement is adhered to. The first version of the trailer bill proposed additional enforcement measures and fee increases to the existing weight schedule. In subsequent discussions with the Administration, the weight schedule may no longer need to be changed.

Staff Recommendation: Staff recommends the subcommittee approve the Administration's proposed trailer bill language to cleanup SB 2084.

Action:

2. ***Various Fee Increases Proposed to Address Motor Vehicle Account Shortfall***
Background: The LAO estimates that, under a worse-case scenario (i.e. no corrective action), the discrepancy between expenditures and revenues could grow to $270 million in the 2003-2004 budget year.

The Administration proposes trailer bill language to implement various fee increases to address the projected revenue shortfall for the MVA. In total, these fee increases are intended to raise revenues by $163 million in 2003-2004, and $333 million annually. Listed below are the fee proposals, which will take effect in the upcoming budget year.

New MVA Fees	2003-2004 Projected Revenues ($ in Thousands)	Ongoing Projected Revenues ($ in Thousands	Existing Fee	New Fee
Increase identification card fees for non-seniors. Seniors will now receive their cards free of charge.	$8,745	$19,000	$6	$20
Authorize Business Partner Automation Fee. This fee would apply to private firms for registering vehicles ad performing other transactions on-site (of the private firm). The fee is authorized in statute but has never been implemented	$1,950	$2,000	$2	$3
Increase non-commercial drivers license fees for a five-year license.	$30,100	$67,000	$15	$24
Increase vehicle registration fees. Of this amount, $4 would be dedicated to CHP officers.	$94,850	$190,000	$30	$37
Standardize various transaction fees.	$15,500	$31,000	$2-$15	$15
Establish new penalties for failure to file transfer of title documents.	$12,000	$24,000	-	$15
Totals	$163,145	$333,000	-	-

Staff Recommendation: The fee proposals are necessary for one reason, to avert a shortfall in the MVA. There is no quantifiable data that supports raising these fees in response to increasing costs of the respective programs. For example, there is no data that indicates the costs for issuing and distributing identification cards has increased to $20. If the Legislature does not approve these fees, departments such as CHP, DMV, and the Air Resources Board will have to implement ongoing reductions totaling $330 million.
Staff recommends the subcommittee approve all of the fee increases proposed by the Administration.
Action:

3. ***Recommendations from Senate Select Committee on Oversight***

The subcommittee has received various recommendations from the Senate Select Committee on Oversight to implement reductions to help stabilize the Motor Vehicle Account. Subcommittee staff have reviewed these proposals and recommend the following for consideration:

- Eliminate toll free numbers for the DMV call centers.
- Increase span of control (employees per supervisor/manager) from 1:7 to 1:8.5. This would result in terminating approximately 206 manager/supervisor positions.
- Require all auto insurers to electronically report proof on financial responsibility to DMV by 2006.
- Eliminate on position that is "loaned" to the Attorney General's Office.
- Eliminate funding for two retired annuitants.

Action:

4. ***Online Vehicle Registration***

Background: Three years ago the Legislature approved the Administration's proposal to implement an online vehicle registration system. As part of their original request the Administration requested that the state pay the credit card convenience fee, however the Legislature denied this item from the proposal.

Although the program is still relatively new, it is arguable if usage of the online system has met initial projections. To help stimulate usage of the system, the budget proposes to eliminate the $4 dollar credit card convenience fee charged to individuals who register online. The Administration argues that the convenience fee has suppressed both telephone and online credit card transactions that might otherwise be diverted away from field offices.

Issue: The timing of this proposal is somewhat questionable. Given the status of the MVA and other transportation funds, it is difficult to justify an augmentation to the program for the following reasons:

- The Administration is not able to provide a reasonable estimate or projection as to the state's costs for paying the convenience fee. The amount needed to pay the convenience fee could be anywhere from $200,000 (thousand) to $2 million.
- The Administration argues that this proposal will help reduce volume at the field offices, but there is no estimate as to how this proposal may or may not reduce costs.

Staff Recommendation: **Staff recommends the subcommittee deny this proposal.**
Action:

5. ***Finance Letter*-Repair Fullerton Field Office.**

The Administration requests that the following items be increased by a total of $1,569,000 for asbestos abatement and related emergency repairs in the Fullerton Office of the DMV.

Increase Item 2740-001-0042 by	$97,000
Increase Item 2740-001-0044 by	$834,000
Increase Item 2740-001-0064 by	$638,000

Leaks have resulted in the deterioration of asbestos ceiling plaster and tiles that, on several occasions, has fallen onto workstations and personnel. The repairs proposed would abate the asbestos and renovate interior areas. The request also includes the cost to relocate the office for six months during construction and to replace modular furniture upon reoccupation of the building.

Staff Recommendation: **No issues have been raised with this proposal. Staff recommends the subcommittee approve the finance letter.**

Action:

Other Budget Issues

Staff Recommendation: No other issues have been raised with DMV's budget. Staff recommends the subcommittee approve the remainder of the department's budget as proposed.

Action:

2640 Special Transportation Programs

May Revise Finance Letter-Proposed Consent Item

Capitation of Program Funding "Spillover": The Administration proposes the following budget bill language to cap the revenues and expenditures for Special Transportation Programs at the $100.4 million level specified in the 2003-04 Governor's Budget.

Notwithstanding Section 99312 of the Public Utilities Code, not more than $100,377,000 shall be transferred to the Special Transportation Programs.

> 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.
>
> The May Revision proposes to maintain the base level of transfers to the PTA, but to specify that any excess sales tax revenue on gasoline remains in the General Fund, thereby increasing General Fund revenues by $87 million in 2003-04.

The May Revision assumes gasoline prices at the pump to average approximately $1.90 per gallon during the first two quarters of 2003. This compares with pump price expectations of $1.56 per gallon and $1.65 per gallon, respectively, in the Governor's Budget. The sharply higher gas prices and modestly increased taxable sales growth for the May Revision results in approximately $87 million that would be transferred to the PTA, absent the May Revision proposal. The May Revision proposes a partial Proposition 42 suspension and that the General Fund repay the Transportation Investment Fund (TIF) by June 30, 2009, for any funds not transferred in 2003-04 due to the suspension. The $87 million increase in General Fund sales tax revenue in 2003-04 due to the PTA spillover revenue is not included in the General Fund repayment, because it would not otherwise be considered TIF revenue.

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny

Agenda
PART II

Wednesday, May 21, 2003
1:30
Room 3191

0250 Judiciary

Budget Issues

Unallocated Reductions.

Budget Request. The budget proposes a one-time unallocated reduction of $17.7 million, or 4.9 percent of the total General Fund budget. The administration has provided a Finance Letter which allocates the reduction (see below).

May Revise Finance Letter. The Administration has submitted a May Revise Finance letter that would allocate the $17.7 million reduction to the judiciary item contained in the January 10 budget. The following detail reflects the proposed distribution of this unallocated reduction:

- Increase state operations by $4,056,000 and distribute the remaining $13,644,000 reduction between the programs as follows:

  Decrease Supreme Court by $1,983,000.
  Decrease Courts of Appeal by $9,291,000.
  Decrease Judicial Council by $2,095,000.
  Decrease Habeas Corpus Resource Center by $275,000.

- Decrease local assistance by $4,056,000 and distribute the reduction between the programs as follows:

  Decrease California Drug Court Projects by $1,000,000.
  Decrease Court Appointed Special Advocate (CASA) Program by $192,000.
  Decrease Model Self-Help Program by $83,000.
  Decrease Equal Access Fund by $2,751,000.
  Decrease Family Law Information Centers by $30,000.

Staff Comments. A budget year unallocated reduction of $8.5 million (2.5 percent), which is the amount of the one-time unallocated reduction in the current year, would prevent reductions to the local assistance programs and would limit layoffs in the Supreme Court, courts of appeal, Habeas Resource Center, and the Administrative Office of the Courts.

Does the Subcommittee wish to approve an unallocated reduction of $8.5 million?
Action.

Appellate Court Filing Fee Increase

Budget Request. The administration proposes trailer bill legislation to increase the appellate filing fee from $265 to $630, effective July 1, 2003. This increase would result in $2.1 million in revenues to the General Fund.

Staff Comments. This proposal would more than double the current fee and would make California's appellate filing fee the highest in the country. Staff notes that in some other states, there are other costs, such as transcript costs, that are charged in addition to a filing fee. No such fees are charged in California.

Potential Alternative. At the hearing on March 19, the Subcommittee members raised concerns regarding raising the appellate filing fee to the proposed level. An alternative that would collect the same revenue and retain the filing fees within the Judiciary would be as follows:

- Increase Appellate Filing Fees from $265 to $420 plus $65 for the State Library and retain increased fee in judiciary budget. (Estimated annual revenue - $1.45 million).
- Increase Supreme Court Filing Fees to $420 and retain increased fee in judiciary budget.(Estimated annual revenue - $290,000).
- Increase deposit for transcripts in the Courts of Appeal from $100 to $270. (Estimated annual revenue - $350,000).
- Retain current appellate courts' fees in judiciary's budget (Estimated annual revenue shift - $1.58 million).

This alternative would require trailer bill language implementing the appellate filing fees and the transcript fee, and to create an Appellate Court Trust Fund into which the fees would be deposited.

Does the Subcommittee wish to adopt the proposed alternative fee schedule and the necessary trailer bill language to implement the fees increases and create the Appellate Court Trust Fund.?
Action

Appellate Court Justice Position

Background. The Fourth District, Division Three is located in Santa Ana and covers cases from Orange County. The Court is made up of eight justices, one of whom is the District's presiding justice. The Court has historically been understaffed at 6 justices. As part of an effort to achieve adequate resources and improve case processing, the Legislature created two new judgeships in the Fourth District, Division Three as of 1/01/2001.

Issue. The Fourth District, Division Three has a higher number of pending cases per justice than the other courts of appeal. Despite its increased efficiency over the past few years, the court requires additional resources to address both its current and projected future caseload.

The Fourth District, Division Three had a case clearance rate of 113% in FY 2000-01 compared to a rate of 96% in the other Appellate districts. This means that justices in the Fourth District, Division Three "cleared" or disposed of 113% of the number of cases that were filed in FY 2000-01. Even with its high level of efficiency, the Fourth District, Division Three has an extremely high level of pending cases per justice. The number of pending cases per justice is 28% higher in the Fourth District, Division Three than in the other Appellate districts. With the DOF projecting population growth in Orange County to be 22.4% over the next 20 years, it is reasonable to assume that there will also be significant growth in the workload for the Fourth District, Division Three.

Proposal. Adding an additional justice is the next step in this effort to achieve adequate resources, to continue improving case processing and court efficiency, and to enable the court to meet the expected future workload increase. One option would be to create a new appellate court justice position in the Fourth District, Division Three. Due to the financial constraints on the state at this time, no funding would be provided in the budget year.

Does the Subcommittee wish to approve trailer bill language to establish an appellate court justice position in the Fourth District, Division Three?

Action

April Finance Letter: Design and Facilities Management Division.

Finance Letter Request. This Finance Letter requests that Item 0250-001-3037 be added in the amount of $10,752,000. This appropriation from the State Court Facilities Construction Fund will provide funding and 43 positions to begin the implementation of the Trial Court Facilities Act, Chapter 1082, Statutes of 2002. Specifically, these funds will be used to establish a Design and Facilities Management Division at the AOC that will begin to negotiate the transfer of court facilities from the counties to the State and prepare to take responsibility for the operation of some court facilities in fiscal year 2004-05.

Does the Subcommittee wish to adopt the Finance Letter?

Action.

Consent Issue

Administrative Consolidation Proposal

Budget Proposal. The budget proposes a reduction of $500,000 related to consolidation of administrative functions. The AOC indicates that no trailer bill language will be necessary to achieve these savings.

Does the Subcommittee wish to approve this proposal without trailer bill language?
Action

Consent Finance Letters

Accounting Processing Center. This Finance Letter requests that Item 0250-001-0001 be amended by increasing Reimbursements by $349,000. This increase would support the implementation of an Accounting Processing Center operated by the AOC to improve the fiscal accountability of the trial courts.

Does the Subcommittee wish to approve this Finance Letter?
Action

April Finance Letter: Reappropriations. This Finance Letter proposes to add Item 0250-490 to reappropriate funding for the following two appellate courthouse projects:

1. Fourth Appellate District Court Building, Orange County—Working Drawings and Construction. This reappropriation is necessary due to delays in the acquisition of the requested site.

2. Fifth Appellate District Court Building, Fresno—Working Drawings and Construction. This reappropriation is necessary due to delays in the acquisition of the requested site.

Add provisional language to Item 0250-490 as follows:

> Provision X. Funds appropriated in Sections 1 and 2 of Item 0250-490 shall be available until June 30, 2005.

Staff Comments. The Subcommittee may wish to adopt the following budget bill language related to the Fourth Appellate District Court Building. The language has been agreed to by the AOC, DOF, and DGS.

> Provision X. Consistent with Chapter 4.2 of the Government Code, the Judicial Council shall provide the project implementation, including but not limited to the establishment of site criteria and selection, acquisition, design, construction, and operation, of the new courthouse construction in the Fourth Appellate District.

Does the Subcommittee wish to adopt the Finance Letter reappropriation request and budget bill language regarding the Fourth Appellate District courthouse?
Action.

0450 State Trial Court Funding

Budget Issues

Unallocated Reductions

Budget Request. The budget proposes an unallocated reduction of $116 million for the trial courts in the budget year.

May Revise Finance Letter. This Finance Letter proposes to allocate the unallocated reduction amount from the January 10 budget. The Finance Letter proposes a number of technical changes be made to distribute this reduction between the various programs and funds in the State Trial Court Funding budget. The Administration indicates that this request is based on a plan submitted by the Judicial Council, and is consistent with the Governor's Budget proposal. The following detail reflects the proposed distribution of this unallocated reduction:

- Decrease Support for operation of the Trial Courts by $87 million, representing a 5 percent reduction to the budgets for individual trial courts.
- Decrease Compensation of Superior Court Judges by $10 million, related to salary savings for judicial positions.
- Decrease the Assigned Judges program by $1.9 million.
- Decrease the resources available in the Judicial Administration Efficiency and Modernization Fund by $5.1 million.
- Transfer $12 million from the Trial Court Improvement Fund to the General Fund, reducing the resources available in the Trial Court Improvement Fund.

Staff Comments. The AOC indicates that a budget year unallocated reduction of $85 million would prevent court closures and layoffs for court employees.

Does the Subcommittee wish to approve an unallocated reduction of $85 million?
Action.

Court Security Flexibility Proposal

Budget Request. The budget proposes trailer bill language that seeks to increase cost efficiency in the provision of court security by allowing courts to enter into contracts for court security based upon a competitive bid process. The proposal would allow the courts to contract with local sheriffs departments, local police departments, or the CHP for court security services. The budget assumes General Fund savings of $22 million in 2003-04 because of this increased flexibility.

Staff Comments. The LAO has noted that court security costs have grown rapidly in the last few years, from $263 million in 1999-00 to a projected $356 million in 2003-04. The Subcommittee has received information from the State Sheriffs' Association opposing the trailer bill language. The AOC indicates that it is having discussions with the Sheriffs' Association regarding options for reducing court security expenditures without compromising public safety.

Alternative Proposal. One alternative that would not provide savings in the budget year, but potential future cost avoidance would be to require the Judicial Council to establish common standards and requirements for trial court security services to ensure that such services are efficient, cost-effective, and consistent.

Does the Subcommittee wish to reject the proposed reduction and adopt alternative trailer bill language requiring the Judicial Council to establish common standards and requirements for court security service?
Action.

Electronic Reporting

Budget Request. The budget proposes trailer bill language that would give the courts the authority to use electronic reporting. The proposal assumes savings of $36.5 million in 2003-04, including $31 million from allowing courts the flexibility to use audio electronic reporting in courtrooms, and $5.5 million as a result of transferring ownership of the court record from the stenographic reporter to the courts.

Staff Comments. The Subcommittee has been contacted by the Court Reporters Association, the California Independent Public Employees Legislative Council (CIPELC), and Service Employees International Union (SEIU) opposing this proposal.

Does the Subcommittee wish to reject this proposal?
Action

May Revise: Transfer from Court Facilities Construction Fund

Finance Letter Request. In order to achieve General Fund savings, this Finance Letter proposes a transfer of $80,000,000 from the State Court Facilities Construction Fund to the Trial Court Trust Fund as a loan repayable by the General Fund. The request includes the following Budget Bill language specifying that funds will only be transferred pursuant to this item when the revenue collected by the fund is in excess of the $10,752,000 appropriated in Item 0250-001-3037, as well as specifying that this is a loan repayable by the General Fund.

> Item 0450-111-3037
> Provisions
> 1. Transfers authorized by this item shall only take place after the revenue collected by the State Court Facilities Construction Fund exceeds the amount appropriated pursuant to Item 0250-001-3037 in this act.
> 2. The transfer made by this item is a loan to the Trial Court Trust Fund to be repaid by the General Fund in a timeframe to be determined by the Department of Finance. This loan shall be repaid with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer.

Staff Comments. The DOF has revised the estimates that the Fund reserve for the Court Facilities Construction Fund. Previously, the fund reserve was projected to be $105.6 million in the budget year – the new projection is $92.4 million. Of this amount $10.8 million is proposed to be expended on the new

Design and Facilities Management Division within the AOC (Finance Letter discussed in the Judiciary budget Item above).

The Subcommittee may wish to adopt the following additional budget bill language to ensure that the courts operations, programs, and services are not adversely impacted as a result of this loan

> Provision 3. It is the intent of the Legislature that funding for court operations, programs, and services is not adversely impacted as a result of this loan. Consequently, upon determination that the total funding transferred pursuant to this Item shall be less than $80 million, the Administrative Office of the Courts is authorized to submit a request for deficiency funding for Item 0450-111-0001 in accordance with the requirements of Section 27.00.

Does the Subcommittee wish to adopt the Finance Letter with additional budget bill language to ensure that court operations are not adversely impacted as a result of the loan?
Action.

Filing Fee on Limited Jurisdiction Cases

Proposal. Under current law, the filing fee on unlimited jurisdiction cases (cases over $25,000) is $185 and the filing fee for limited jurisdiction cases (cases under $25,000) is $90. Increasing the filing fee for unlimited jurisdiction cases over $10,000 to $185 would generate an estimated $28.9 million on an annual basis in the Trial Court Trust Fund (TCTF), with a conforming reduction of General Fund. Such an action would require trailer bill language.

Does the Subcommittee wish to adopt trailer bill language to increase the filing fee for limited jurisdiction cases over $10,000 to $185 with the revenue to be retained in the TCTF?
Action.

Increase the Small Claims Fee

Proposal. As part of the state funding for trial courts, the filing fee for small claims cases for those that file more than 12 cases per year was increased to $35 with $5 going to the state. Increasing the small claims filing fee from $35 to $60 for filers of more than 12 cases per year would generate an estimated $1.6 million annually for the Trial Court Trust Fund (TCTF), with a conforming reduction of General Fund. Increasing this fee would require trailer bill language.

Does the Subcommittee wish to adopt trailer bill language to increase the Small Claims Filing Fee to $60 for filer of more than 12 cases per yea with the revenue to be retained in the TCTF?
Action.

Summary Judgment Motion Fee

Proposal. Increasing the Summary Judgment Motion Fee from $100 to $150, and depositing the increased fee into the TCTF would generate an estimated $760,000 annually into the TCTF, with a conforming reduction of General Fund. Increasing this fee would require trailer bill language.

Does the Subcommittee wish to adopt trailer bill language to increase the Summary Judgment Motion Fee to $150 with the revenue retained in the TCTF?
Action.

Continuance Fee

Proposal. Implementing a new Continuance Fee of $50 for all civil and family law cases is estimated to generate $9.3 million annually into the TCTF. A fee of $100 is estimated to generate $18.6 million. Implementing this fee would require trailer bill language.

Does the Subcommittee wish to adopt trailer bill language to implement of continuance fee of $50 or $100 for all civil and family law cases, with the revenue retained in the TCTF?
Action.

Enforcement of the Fee for Verbatim Record Keeping in Civil Matters.

Government Code Section 68086 requires payment of a fee by parties in civil cases when verbatim reporting services are provided by the court, including matters that last one-half day or less. The Legislature approved this statute in order to recoup the costs for verbatim recording.

Rules 890 through 892 of the California Rules of court set forth the guidelines for implementing Government Code Section 68086. Rule 892 (e) exempts matters lasting one hour or less from collection of this fee.

Alternatives. The AOC has noted that one alternative to enhancing collection would be to approve trailer bill language similar to the rule of court that provides for a graduated charge when a court reporter is used one hour or more for unlimited cases. Under this alternative, an hourly rate would be charged when a court reporter is used between one and four hours, a half day rate would be charged for four hours, half-day rate plus an hourly rate between four and six hours, and the daily rate for above six hours.

A second alternative proposed by the court reporters would be to assess court reporter fees for all limited and unlimited cases. Under this proposal, for all cases lasting more than an hour, a fee equal to the actual cost of providing that service per one-half day of service would be charged on a pro rata basis. For cases lasting less than one hour, a fee of $75 would be charged. Under this proposal, a monetary sanction of up to $100 would be charged per day that the fee is due and unpaid.

Staff Comments. The AOC and the court reporters are scheduled to continue discussions of these two proposals. The Subcommittee may wish to adopt a reduction of $6 million as a placeholder, and trailer bill language in concept, pending the outcomes of discussions between the AOC and court reporters.

Does the Subcommittee wish to adopt a reduction of $6 million and trailer bill language in concept, pending further negotiations?
Action

Trial Court Interpreter Employment and Labor Relations Act.

Budget Request. The budget proposes $3.9 million from the General Fund to implement Chapter 1047, Statutes of 2002 (SB 371, Escutia), which requires the trial courts to employ spoken language interpreters as court employees rather than independent contractors on or after July 2003. The funding is intended to pay for salaries, the cost of workers' compensation, and the costs of the employer portion of social security or other pension benefits.

The court interpreters have requested adoption of budget bill language that would ensure that the funds are provided to fund the costs of employer contributions or an equivalent contribution to an alternative pension plan provided by a court in lieu of social security.

Potential Language: Item 0450-101-0932

> Provision X. Of the funds provided in schedule 4, up to $3.9 million shall be available for employment costs for transitioning court interpreters from independent contractors to court employees, including the costs of the employer contributions to social security or an equivalent employer contribution of 7.65 percent to an alternative pension plan provided by a court in lieu of social security.

Does the Subcommittee wish to adopt the proposal and include budget bill language to ensure that the transition costs, include funding for employer contributions to social security or an alternative pension plan are funded?
Action.

Consent Issues

Undesignated Fees

Budget Request. The budget proposes trailer bill language to transfer $31 million in undesignated fee revenue from the counties to the courts, and reduces the General Fund allocation to the Trial Court Trust Fund by the same amount.

Analyst's Issue. The LAO agrees in concept with the proposal to transfer undesignated revenue from the counties to the courts, particularly where the court bears the cost of providing the service. However, the LAO indicates that there is a high level of uncertainty in the estimate of $31 million. To the extent the revenue from the undesignated fees does not materialize, the courts will have to either reduce their budgets or the General Fund will have to backfill the shortfall. The LAO notes two factors related to the uncertainty. First, because a number of courts were unable to report their revenue from undesignated fees, the AOC was forced to estimate the amount generated by those courts. Second, the LOA notes that some courts have informal agreements with counties regarding the use of undesignated fee revenue..

Staff Comments. At the hearing on March 19, the Subcommittee requested that the AOC and CSAC continue discussions regarding the undesignated fees. The AOC and CSAC have indicated that they have reached the an agreement for splitting the undesignated fees. This following proposal will require adoption of trailer bill language:

1. Any existing or new local agreements for sharing the revenue between courts and counties would be maintained through 2004-05. In order to ensure that expenditures from revenue sharing agreements are

consistent with Judicial Council policies and procedures the courts will be required to get AOC approval for new local agreements.

2. Provide that $31 million above the amount currently received by the courts through local agreements is deposited into the Trial Court Trust Fund (TCTF) in the 2003-04 and 2004-05 budget years.

3. Provide that the $31 million revenue to the TCTF shall come from any revenues above the amount currently received by the court in the following manner:
   a. Transfer to the TCTF those fees that relate to court-provided services.
   b. Provide that those fees related to services currently provided by both courts and counties shall be retained by the entity that provides the service.
   c. Determine the difference of $31 million and revenues transferred to TCTF pursuant to (a) and (b) above. Transfer that balance on a county-by-county basis as determined by the AOC and CSAC on January 1, 2004.

4. Require courts and counties to provide detailed quarterly reports of undesignated fee revenues in order to determine an equitable and permanent split of revenues not addressed in (a) and (b) above.

5. Require the AOC and CSAC to develop a long-term revenue allocation schedule at the end of the 2004-05 fiscal year, after taking into account any adjustments that are needed.

6. Provides that no other transfers of undesignated fees shall take effect in the 2003-04 and the 2004-05 fiscal years.

Does the Subcommittee wish to adopt the compromise trailer bill language that transfers $31 million to the TCTF and reduces the General Fund appropriation into the TCFT by $31 million?

Action.

Trial Motion Fee

Budget Request. The budget proposes trailer bill language to increase the fee for all trial court motions (excluding motions for summary judgment) by $10, from $23 to $33. This proposed increase to estimated to produce $1.2 million in additional revenues in the Trial Court Trust Fund. The budget reduces the General Fund appropriation to the Trial Court Trust Fund by a corresponding amount.

Does the Subcommittee wish to adopt this trailer bill language?
Action.

Security Fee Increase

Budget Request. The budget proposes trailer bill language to establish a new court security fee of $20. This new $20 fee will be levied on civil filings *($9 million)*, as well as criminal fines *($25 million).* The DOF estimates that the court security fee will generate $34 million in 2003-04. This funding would be deposited into the Trial Court Trust Fund. A corresponding amount of the General Fund appropriation into the Trial Court Trust Fund has been reduced.

Issue. The LAO has raised concerns, noting that (1) not all fee payers would be beneficiaries of court security services, (2) the new fee may reduce civil court access for some, and (3) the new fee may put other state and local programs at risk.

Staff Comments. The LAO has noted that court security costs have grown rapidly in the last few years, from $263 million in 1999-00 to a projected $356 million in 2003-04. Staff notes that if this fee proposal is not adopted, it would result in an additional reduction of $43 million to the trial courts.

Does the Subcommittee wish to adopt the proposed trailer bill language?
Action

Negotiated Salary Increases for Court Security Staff

Budget Request. The budget proposes an increase of $32.6 million to fund increases in the contractual costs of negotiated salary increases (NSIs) for security personnel for the budget year and for previously unfunded NSIs ($12.6 million), increased retirement contributions ($8.8 million), and increased benefit costs ($10.8 million).

Staff Comments. Staff notes that this proposal does not provide additional security for the courts, but allows the courts to pay for increases in the contracts for current security personnel. The AOC notes that if this proposal is not approved, courts will have to reduce the level of security provided or redirect funds from other court operations.

May Revise Finance Letter Request. The Administration has proposed a May revise Finance Letter regarding this issue. This Finance Letter proposes an increase of $3,556,000 to fund increased costs associated with providing security at trial court facilities. These increased security costs are related to salary and benefit increases negotiated by local law enforcement agencies that are passed on to the courts through security contracts. This request is in addition to the amount requested in the January 10 budget.

Does the Subcommittee wish to approve this proposal and the Finance Letter augmentation?
Action.

Administrative Consolidation Proposal

Budget Proposal. The budget proposes a reduction of $2.5 million related to consolidation of administrative functions in the trial courts. The AOC indicates that no trailer bill language will be necessary to achieve these savings.

Does the Subcommittee wish to approve this proposal?
Action

Trial Court Staff Retirement.

Budget Request. The budget proposes $20 million from the General Fund to pay for increased court staff retirement costs in 23 court systems.

May Revise Finance Letter Request. This Finance Letter proposes an increase of $5,518,000 to fund the increased retirement costs for trial courts throughout the State. These increased costs are a result of a variety of factors including increased retirement rates, changes in retirement benefit plans negotiated by the courts or counties, increased costs of retiree health benefits, and changes in the employers' share of retirement benefits. This request is in addition to the amount proposed in the January budget.

Does the Subcommittee wish to approve the request and the Finance Letter additional amount?
Action.

May Revise Consent Issues

Trial Court Workers' Compensation.

Finance Letter Request. This Finance Letter proposes an increase of $5,478,000 to fund increased workers' compensation costs for the trial courts. This amount reflects known increases in the amounts that courts will be required to pay to their workers' compensation providers in the budget year as well as funding for cost increases that the courts have absorbed in the current year but will be unable to absorb on an ongoing basis.

Does the Subcommittee wish to approve this Finance Letter request?
Action.

Service of Process Fees for Protective Orders.

Finance Letter Request. This Finance Letter proposes an appropriation of $3,000,000 to provide funding for the costs associated with Chapter 1009, Statutes of 2002, which requires the courts to provide free service of process of a protective order, restraining order, or injunction if the service of process is a result of domestic violence, stalking, or a threat of sexual assault. This legislation allows local law enforcement agencies to bill the superior court for payment of the fees related to the service of process required by this bill if the individual requesting the service would not otherwise qualify for a fee waiver.

In addition, the letter requests that the following budget bill language be included, specifying the purpose for these funds, requiring that any unused funds will revert to the General Fund, and to requiring the Judicial Council to provide the Department of Finance with a report on the implementation of this legislation.

> Item 0450-101-0001
> Provisions.
> 1. The amount in this item shall only be used for the payment of service of process fees billed to the trial courts as a result of Chapter 1009, Statutes of 2002. The Judicial

Council shall distribute funds appropriated in this item to the individual trial courts on a reimbursement basis.
2. Any funds not used pursuant to Provision 1 shall revert to the General Fund.
3. The Judicial Council shall provide the Department of Finance with a report, by September 1, 2004, detailing the number of services of process billed to the courts under Chapter 1009, Statutes of 2002, the costs of these services, and information on any agreements reached with local law enforcement to provide this service free of charge or at a reduced rate.

Does the Subcommittee wish to approve this Finance Letter request?
Action

Court Security Realignment

Finance Letter Request. Court security, originally a part of the Governor's realignment proposal, is proposed to be reinstated in the budget. Therefore, an increase of $299,548,000 is proposed to reflect the restoration of General Fund support for the costs of court security. This amount equals the level of revenue that realignment would have provided to the Trial Court Trust Fund. It includes $266,954,000 for the base funding for court security and $32,594,000 to fund the budget change proposal for increased court security costs.

Staff Comments. The Subcommittee previously rejected the realignment proposal. Staff recommends rescinding the previous action and adopting the Finance Letter.

Does the Subcommittee wish to rescind the previous action and adopt the Finance Letter withdrawing the realignment proposal?
Action.

0280 Commission on Judicial Performance

The Commission on Judicial Performance investigates and adjudicates complaints against judges. A constitutional amendment, Proposition 221, was passed by the voters and became effective June 3, 1998. Proposition 221 placed all California court commissioners and referees under the commission's discretionary jurisdiction. This jurisdiction was previously vested exclusively in the presiding judges.

Budget Request. The budget proposes total expenditures of $3.1 million from the General Fund, a decrease of $1 million, or 25 percent from current year expenditures. The commission has a total of 27 positions.

Commission Workload. In 2001, 835 complaints about active judges were considered for the first time. The 835 complaints named a total of 781 different judges and covered a wide array of grievances. In 2001, the commission also received 112 complaints about subordinate judicial officers. In 2002, the commission 918 complaints about active judges were considered, and 128 complaints about subordinate judicial officers.

Commission Actions. In 2001, the commission removed one judge from office and issued two public censures, five private admonishments, three public disciplinary actions, and 19 advisory letters. In 2002, the commission issued four public censures, one public admonishment, six private admonishments, five public disciplinary actions, and 17 advisory letters. Additionally, the commission issued one order of removal of a judge that is pending.

Staff Comments. The CJP indicates that the proposed 25 percent reduction would have a significant impact on its mission. An 8 percent reduction ($331,000) would be closer to the net reductions to other judicial branch agencies.

Does the Subcommittee wish to reduce the CJP budget by 8 percent?
Action

0390 Judges' Retirement System

Consent Issue

Budget Request. For JRS I, the budget includes $15 million from judges' contributions, $3 million form civil fees, and $113 million from the General Fund. The General Fund portion is made up of $15 million, equivalent to 8 percent of judges' salaries, $600,000 for PERS administrative costs, and the amount necessary to cover JRS I payments (estimated at $98 million). JRS I will pay a projected $121 million in benefits to 1,546 annuitants in the budget year.

Analyst's Recommendation. The LAO recommends that the appropriation to JRS I be reduced by $10 million to help address the General Fund shortfall. The LAO indicates that this action would reduce the reserve from approximately two months' worth of pension payments to one month.

Finance Letter Request. This Finance Letter proposes to reduce the appropriation for the JRS by $10.3 million, to leave a fund balance of one month's worth of benefit payments. The original proposal included a reserve of two months.

Does the Subcommittee wish to adopt the Finance Letter?
Action.

Senate Budget and Fiscal Review Subcommittee #4 on Legislative, Executive, Judiciary, Transportation, and General Government

Senator Joseph Dunn, Chair
Senator Dick Ackerman
Senator Denise Ducheny

Wednesday, May 21, 2003
1:30 p.m.
Room 3191

Agenda #3

Proposed Consent Calendar
(Adoption of Finance Letters and Other Actions)

Proposed Consent Calendar
(Approved as Budgeted)

Item	Department
0505	Governor's Office
0950	State Treasurer
1170	Board of Behavioral Sciences
2150	Department of Financial Institutions
8800	Membership in Interstate Organizations
8855	Bureau of State Audits
Control Sections	
3.50	Benefit Charges Against Salaries and Wages
12.00	State Appropriation Limit

0840 State Controller

1. Exempt Positions. This proposal would reclassify three positions to be exempt positions. The proposed language is as follows:

> *Section 7.9b is added to the Government Code, to read:*
>
> *The Governor, upon nomination by the Controller, shall appoint three nominees as deputies of the State Controllers office to serve at the pleasure of the Controller. These positions will be in addition to those provided for in Sections 7.9 and 7.9a. Absent an affirmative appointment by the Governor, the nominee or nominees submitted by the Controller shall be deemed appointed by the Governor 30 days following their nomination by the Controller. The nominees so appointed shall be exempt from the state civil service system and shall be compensated in an amount not to exceed the compensation provided to career executives at category level V. The Controller shall reclassify three positions currently authorized in the Controller's office for the purpose of establishing the exempt appointments herein.*

2. May Revision Finance Letter: Human Resources Management System (HRMS). This is a request for additional reimbursement expenditure authority for $1,036,000 and eight one-year limited-term positions to conduct procurement activities and a business case savings study for the HRMS project. The project will replace the SCO's employment history, payroll, leave accounting, and position control systems. The SCO estimates total project costs ranging from $60 to $83 million over ten years. Special funds will pay their share ($36.5 million) between 2004-05 and 2007-08 and the General Fund will pay its share ($36.5 million) between 2006-07 and 2012-13.

Consent Issues

3. May Revision Finance Letter: Warrant/Remittance Advice. This is a request for $853,000, of which $12,00 is GF and $865,000 is reimbursements, to fund the costs of increased warrants and remittance advices.

4. **Finance Letter: Reappropriation.** This request to reappropriate funds for the purpose of performing statewide mandate claims audits.

0890 Secretary of State

Issues

1. Vacant Position Funding. DOF eliminated 24 positions and $1.3 million dollars pursuant to Control Section 31.60. Of this amount, 19 positions and $1 million were associated with the Business Fees Fund (BFF). Pursuant to Control Section 31.70, DOF restored the maximum of $510,000 (BFF) in the current year.

The budget proposes to augment the budget by $200,000 to address the backlog from enactment of AB 55, which requires corporations to file annual, rather than biennial, reports with the SOS. The bill also requires that the information collected must be open to public inspection and that this information be available on an online database.
.
The LAO recommends *deleting the $200,000 augmentation because additional funding for the backlog has been approved.*

2. Electronic Campaign and Lobbying Disclosure Filings. Current law requires candidates, officeholders, committees, and lobbyists with contributions, expenditures, or loans of $50,000 or more to file statements and reports online with the Secretary of State.

Trailer bill language proposed in the budget would delete the monetary threshold and thus require everyone to meet the online filing requirement. The budget assumes savings of $137,000 (GF) and elimination of three positions if this language is adopted.

Consent Issues

3. Finance Letter: Address Confidentiality Program. This Finance Letter requests $75,000 (GF) and 1 position on a two-year limited-term basis due to enactment of Chapter 380, Statutes of 2002, which expanded the Address Confidentiality Program for Victims of domestic Violence and Stalking to include employees of women's reproductive health service providers.

4. May Revision Finance Letter: Annuitant Health and Dental Benefit Costs. This Letter requests a reduction of $127,000 ($22,000 GF and $105,000 special funds) to offset increased annuitant health and dental benefit costs resulting from employees retiring under the Early Retirement Program. A corresponding increase is included in Item 9650 for Health and Dental Benefit Costs for Annuitants.

8940 Military Department

Issues

1. Santa Ana Armory. The 2002-03 supplemental report to the budget included language requiring the Military Department to report to the Joint Legislative Budget Committee and the chairs of the legislative budget committees by December 1, 2002, about the feasibility of relocating the Santa Ana armory to a new site, including how the relocation fits in with the department's long-term capital development plan and the availability of federal construction funds. The report should also include an estimate of the cost of relocating the armory in Orange County.

2. Los Alamitos Armed Forced Reserve Center - Fire Protection Services. The firefighters of the Los Alamitos Joint Forces Training Base 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.

At the last hearing, the Military Department stated that negotiations were underway between the department and the Orange County Fire Authority. There has been one meeting and staff is not aware of additional meetings scheduled to resolve the issue.

Consent Issues

3. Finance Letter: State Active Duty Compensation. This is a request for an augmentation of $2.5 million ($1.4 million GF, $36,000 reimbursements, and $1.0 million federal funds) to provide an increase in State Active Duty compensation based on the military compensation increase granted by the federal government.

4. Finance Letter: Azusa and Lancaster Armory. This is a request to reappropriate the Azusa Armory funding for construction and equipment due to delays in the acquisition of the required site. There is also language to increase expenditure authority to reflect the reappropriation and to shift from non-state federal funds to federal funds. There is also budget bill language to shift funding for the Lancaster Armory from reimbursements to federal trust funds.

1730 Franchise Tax Board

1. Political Reform Audit Program. The budget proposes trailer bill language to change the funding for compliance audits from the General Fund to the Political Reform Audit Fund (newly created special fund). The trailer bill language would impose a fee on candidates filing for elected public offices, lobbyists, lobbying firms, lobbyist employers, and certain committees for deposit in the newly established fund.

The budget proposed trailer bill language imposing an unspecified fee at the time of filing statements with the Secretary of State. The fee, although unspecified, is estimated to generate $1.36 million. This amount equals the costs for FTB to perform these audits and thus would result in savings of $1.36 million (GF).

Should the subcommittee amend the trailer bill language to generate sufficient revenue with an equitable fee schedule so that the fee does not discourage participation in either the election process or registration of lobbyists?

Are there constitutional problems with the language?

9210 Local Government

1. Special Subventions for Redevelopment Agencies. Business inventory was exempted from the property tax in 1982-83. The state reimbursed the property tax revenue loss to local governments. The state reimbursements were eliminated in 1984-85.

A special subvention program was established to reimburse the property tax loss related to bond debt of redevelopment agencies. The Controller allocates funds to redevelopment agencies that have pledged special supplemental subventions as security for payment of the principal and interest on bonds and have insufficient funds to cover their maximum annual debt service requirement on those bonds. Huntington Park and Santa Maria are the only redevelopment agencies that receive these subventions.

When the program began in 1984-84, the subvention to redevelopment agencies was about $50 million. The state subvened $1.4 million in 2002-03 for this purpose. There is proposed trailer bill language to eliminate funding for this subvention permanently.

2. Redevelopment Agency Property Tax Transfer. The budget proposes trailer bill language to transfer 25 percent of the property tax increment allocated to redevelopment agencies that otherwise would have been received by schools to ERAF in 2003-04. This transfer is estimated to be $250 million and would reduce General Fund apportionments to K-14 education by the same amount.

The trailer bill language provides that if a redevelopment agency cannot meet the tax increment transfer to ERAF because of debt or other contractual obligations, the county auditor shall transfer the property tax from the sponsor city or sponsor county of the redevelopment agency.

In future fiscal years, RDA's would increase this transfer by 5 percent per year until the schools receive the amount of local property tax they would have received if there were no redevelopment agency within their boundaries.

9100 Tax Relief

Issues

1. Open Space Subventions.

The **January 10 budget** proposed to eliminate subventions to cities and counties to compensate for special property tax treatment of land in Williamson Act Contracts in the budget year for savings of $40.1 million (GF).

The **May Revision** requests restoration of the $40.1 million.

8885 Commission on State Mandates

The January 10 budget proposed reimbursing local government $1,000 for specified mandates and paying the full cost in future fiscal years with statutorily required 3 percent compounded interest. Local governments will still be required to perform the mandate, but their payment will be deferred.
Issues

1. Finance Letter: Investment Reports: Cities and Counties (Ch. 783/95) AND County Treasury Oversight Committees (Ch. 784/95). Requires cities and counties to file investment reports and for county treasury oversight committees to meet.. The May Revision requests that these mandates be suspended rather than deferred. This will relieve the GF of repaying $3.5 million (GF) in future years.

2. Regional Housing Needs Allocation Process (Ch. 1143/80). Local governments are required to zone enough land at appropriate densities to meet all of their housing needs for each income group and to reduce barriers that prevent the identified sites from being developed. COGs are required to allocate to each community its share of the regional housing need and these costs are reimbursable. Cities and counties are compensated for the identification of sites in their housing element to meet the targets assigned to them by the COG. In addition, some local governments have received reimbursement for the costs of "review" of the proposed housing need allocations and for the costs of completing some recent additions to the housing element itself.

The state reimbursement for this mandated program ($867,000 GF) was deferred in 2002-03. The budget proposes to appropriate $1,000 so that the mandate continues but the reimbursement is deferred.

1760 Department of General Services

Issues

1. Rate Increase for the State Emergency Telephone Number Account (911 Account). Current law provides for a surcharge of up to 0.75 percent on intrastate calls. These funds can be used to pay refunds, administrative costs of the Board of Equalization and DGS for administering the surcharge, bills submitted to DGS by service suppliers or communications equipment companies for the installation and ongoing expenses for the 911 emergency phone number system, and claims of local agencies for approved incremental costs related to the 911 emergency phone number system.

The budget proposes trailer bill language to increase the surcharge on intrastate calls from 0.72 percent to one percent. This will increase revenues to this fund by $46.6 million to a total of $181.2 million. The use of the funds would be expanded to include the California Highway Patrol for providing 911 emergency assistance. The CHP is allocated $41 million from this fund in the proposed budget. These revenues would replace existing funding sources.

This increase in the surcharge is considered a “tax” and not a “fee” because there is not a logical, direct relationship between the use or purposes and the persons from whom it was collected. This trailer bill language is considered a “change in state taxes for the purpose of increasing state revenues” and would require a two-thirds vote.

2. State Printing Policy. *In 2002, AB 3000 provided that state printing procurement is not considered a personal service contract.*

AB 3000 also provided that that state departments would not be required to submit all printing projects to OSP, but instead could obtain printing services through a bidding process that would allow OSP to also bid on the project. This provision sunsets on the effective date of the 2003 Budget Act or June 30, 2003, whichever occurs later.

<u>The budget proposes trailer bill language</u> *to extend this sunset to the effective date of the 2004 Budget Act or July 1, 2004, whichever is later. The statute is repealed as of January 1, 2005.*

Should this language be adopted? Should this language be permanent?

3. Governor's Residence. The City of West Sacramento has offered to donate a piece of land to the state for a new Governor's residence, as well as a state park. DGS is working on the land transfer deal on behalf of the Department of Parks & Recreation. The Reclamation Board is reviewing at whether the residence can be built on the water side of the levee.

The Governor's Residence Account in the General Fund has a balance of $3.6 million. These revenues are from the sale of the Governor's residence that was never inhabited. The general belief is a new governor's residence would be built using money from this account combined with other private money.

DGS should provide the committee with a status of the current negotiations and the Reclamation Board's timeline on making a decision regarding the feasibility of building the residence on the water side of the levee.

- ***Will there be a cost for a land transfer and if so, who would pay for it?***
- ***Are there sufficient funds in the current account to pay the costs of the land transfer? For a new residence?***
- ***Are there restrictions on the expenditure of funds from the Governor's Residence Account?***
- ***How will the initial up-front costs be paid?***
- ***Who will have liability for the land once the transfer occurs?***
- ***Who will be responsible for insurance, maintenance and security and operations, before and after the residence is built?***

4. Finance Letter: Proposed New Control Section 5.50. This Control Section would authorize DGS to develop and implement a plan to generate savings of up to $100 million ($50 million GF) through various contract renegotiations.

Staff proposes an alternative to this Control Section:

> *SEC 5.50. (a) The Legislature finds and declares that it is in the best interest of the State to encourage state departments and agencies to engage in entrepreneurial practices to achieve savings related to statewide leasing, contracting, and procuring goods and services.*
>
> *(b) Notwithstanding any other provision of law, General Fund support appropriations in various state departments and agencies in this act may be reduced, as appropriate, to reflect a cumulative General Fund reduction of up to $50 million.*
>
> *(c) Any reduction that exceeds either (1) five hundred thousand dollars ($500,000) or (2) 10 percent of the amount available for expenditure in the affected program, project, or function may be authorized not sooner than 10 days after notification in writing to the chairperson of the committee in each house of the Legislature that consider the State Budget and the Chairperson of the Joint Legislative Budget Committee.*

<u>Consent Issues</u>

5. Finance Letter: Office of Administrative Hearings. This is a request for $800,000 (SRF) for court reporter services as administrative hearings.

6. Capitol Security. Augment the budget by $4 million (GF) for Capitol Security.

1111 Bureau of Automotive Repair

Issues

1. Smog Check II Program – Telephone Referral System for Test-Only Stations. BAR has a web site with information by zip code or city regarding test-only stations. The information is available only in English. The Department of Consumer Affairs (DCA) has an 800 number that provides a list of three randomly selected stations by zip code. From 8 a.m. to 6 p.m. on weekdays, you can talk to an individual in either English or Spanish.

The Subcommittee requested the Bureau to report on the telephone referral system.

<u>Consent Issues</u>

2. Loan from the Vehicle Inspection and Repair Fund. The budget act authorized a loan from the Vehicle Inspection and Repair Fund to the General Fund of $5 million in 2001-02 and $100 million in 2002-03. The budget proposes an additional loan to the General Fund of $5 million in 2003-04. This would leave an ending balance of $22.5 million on June 30, 2004.

Increase the loan to the General Fund from $5 million to $14 million.

1111 Office of Privacy Protection

OPP was funded at $755,000 (GF) in 2001-02 and $860,000 (GF) in the current year. The current year funding reflects a reduction of $212,000 included in SB 19X that was approved by the Senate on February 24. The proposed budget of $527,000 includes a reduction of $529,000 and 1.4 PYs. This is a reduction from 7.1 PYs to 5.7 PYs or nearly 20 percent.

Issues

1. Investigation. The budget proposes the elimination of the only investigator and 0.5 analyst position for savings of $99,000 (GF). The investigator serves as OPP's liaison to the Southern California High Tech Crimes Task Force.

2. Consumer Information and Education Programs. The budget proposes a reduction of $414,000 (GF) or 41 percent of OPP's total budget to reduce funding for consumer information and education programs. This budget was reduced by $212,000 in SB 19X. Assistance to identity theft victims and others with privacy concerns will be provided through the web site, public service announcements, e-mail, and a toll-free telephone line.

1120 Board of Accountancy

The California Board of Accountancy is responsible for regulating the practice of public accounting. The board currently regulates over 67,000 licensees, including individuals, partnerships and corporations. The board is unique in its authority to license and discipline not only individuals but also firms.

The California Accountancy Act authorizes the board to administer national examinations; certify and license CPAs and Public Accountants; register partnerships and corporations; investigate complaints; discipline licensees; and review work products of individuals and firms to ensure adherence to professional standards.

1. Implementation of New Legislation. In response to major audit failures of several corporations by auditing firms, the Legislature reconstituted the Board of Accountancy. Chapter 231, Statutes of 2002 [AB 270 (Correa)], increased the number of Board members from 11 to 15 and changed the composition of the Board so that a majority of the Board consists of public members. The Board currently has eight public members and five CPAs, with two vacancies. The bill also mandated the board to pass a series of new regulations by July 1 intended to enhance the board's enforcement program and increase reporting requirements by licensees (AB 2873, Frommer, Chapter 230, Statutes of 2002).

In 1996, the Joint Legislative Sunset Review Committee instructed the board to spend a larger percentage of its budget on enforcement than the 56 percent it spent in the 1995-1996 fiscal year. Since that time, the board has not increased this percentage. According to the Board, it spent approximately 50 percent of its budget on enforcement. Other professional boards, such as the medical board, spend closer to 75 percent of their budget on enforcement.

The Board expects this amount will be increasing significantly in the near future because of a reduction in examination costs. The transition to computer-based licensing examinations will result in a substantial reduction in the fees the board collects. This could have an adverse impact on staffing levels and could further diminish enforcement efforts. The board estimates that once California has fully transitioned to a computer-based examination, with a concurrent reduction in examination program funding, the enforcement program portion of the Board's budget will increase to approximately 59 percent. The full extent of this increase will not be felt until 2004-05, which will be the first full-year with computer-based testing.

The Board met on May 16 to vote on new regulations.

What impact will diminishing fees have on the board's ability to comply with its new regulations and with state law?

Are staffing levels expected to decline in 2003-04?

2. Finance Letter: Reduction to Reflect Decreased Administrative Costs. A Finance Letter requests a reduction of $999,000 (Accountancy Fund) to reflect decreased costs related to conversion of the Uniform CPA examination to a computer-based format.

0650 Office of Planning and Research

Issue

1. Cesar Chavez Day of Learning Grants. The December Revision proposed that the $5 million annual appropriation for Cesar Chavez Day of Learning Grants be reduced by $4,750,000 in 2002-03. This reduction was not implemented.

The budget proposes trailer bill language suspending the grants for the 2003-04 through 2005-06 fiscal years.

<u>Consent Issues</u>

2. Finance Letter: Transfer of Positions. This Finance Letter requests the transfer of eight positions from Teale Data Center to OPR. **<u>The LAO</u>** has no concerns with this request.

3. May Revision Finance Letter: This Finance Letter requests a reduction $247,000 to reflect a transfer of resources from the OPR to the Native American Heritage Commission.

9620 Payment of Interest on General Fund Loans

The budget contains two budget act appropriations for the payment of interest on intra- and inter-year internal borrowing. The current year estimate of internal borrowing interest costs is currently estimated at $45 million rather than the $30 million estimated in January.

There is also a continuous appropriation for the payment of interest on external borrowing. External borrowing includes Revenue anticipation Notes (RANs) and Revenue Anticipation Warrants (RAWs). The May Revision estimates that the General Fund interest cost for 2002-03 will be $302.6 million rather than the $211.5 million estimated in January. This increase is to cover additional costs related to the issuance of RAWS anticipated to occur in June 2003.

The budget year costs of external borrowing are now estimated to be $280 million, an increase of $120 million from the amount estimated in January. This is expected to cover the interest costs of the $11 billion of RAWS in June 2003.

1. Finance Letter: Reduction in Inter-year Internal Borrowing Interest Costs. This Letter requests a reduction of $554,000 (GF) to reflect a lower estimate of inter-year borrowing interest costs from $31.2 million to $30.6 million.

1700 Department of Fair Employment and Housing

Issues

1. Workload. The budget proposes to reduce the budget by an additional $3.1 million (GF) and 45 PYs, equal to about 20 percent of the staffing of the department. The department has a mandate to investigate cases within 365 days. After 365 days, DFEH loses jurisdiction. The complainant's only recourse is to obtain legal representation.

The budget proposes to close two district offices (San Bernardino and Ventura). It would also reduce staff from 21 to 13 at the Los Angeles district office.

8260 Arts Council

The California Arts Council budget was funded at $49.7 million ($47.9 million GF) in 2001-02 and $21.5 million ($19.6 million GF) in the current year. Most of this reduction ($20 million) was attributable to the elimination of funding provided for district-specific projects. In addition, local grants were reduced by $9 million. The January 10 budget proposes expenditures of $13.6 million ($12.0 million GF) in the budget year.

Issues

1. Arts in Education Program. Under the program, the state assists artists and arts organizations to enhance the capacity of California schools to teach the arts and to use the arts to teach other subject matters. The budget provided $6.8 million (GF) in grants for this program in 2001-02 and $6.2 million ($5.7 million GF) in the current year. The **January 10 budget** proposes to reduce this amount by $3.0 million (47 percent) to $3.3 million ($3 million GF) in the budget year. The **May Revision** proposes a further reduction of $1.4 million (GF) or a 72 percent reduction from the current year.

2. Organization Support Grants. This program provides matching grants that leverage local private and public dollars for over 800 arts organizations throughout the state. Grants for this program were funded at $9.7 million (GF) in 2001-02. The current year funding is $5.8 million, adjusted for the $102,000 reduction included in SB 19X.

The **January 10 budget** proposed to reduce funding by $2.8 million (47 percent) for grant funding of $3.0 million in 2003-04. The **May Revision** proposes a further reduction of $1.4 million (GF) or an 85 percent reduction from the current year.

3. Simon Wiesenthal Museum (Tools for Tolerance). This grant program was funded at $2 million (GF) in 2001-02. The current year funding is $1.9 million (GF), adjusted for the $100,000 reduction in SB 19X. This is the only program that contains a specific appropriation in the Arts Council budget.

The budget proposed to reduce the 2003-04 funding by $200,000 to $1.8 million (10% reduction). The **May Revision** proposes an additional reduction of $300,000 (GF).

4. Finance Letter: Reduction in State Operations. The **May Revision** proposes reductions of $532,000 (GF) and 17.7 PYs to reflect the above reductions.

5. San Francisco Mexican Museum. Adopt the following budget bill language:

> *Notwithstanding Provision 3(a) of 8260-103-0001 in the 1999-2000 Budget Act, funds appropriated to the San Francisco Mexican Museum may be used to enhance its programs.*

Consent Issue

6. Finance Letter: Restore Federal and Special Fund Authority. The budget proposed reductions to all local assistance funding for CAC. This Finance Letter requests restoration of $85,000 (federal funds) and $287,000 (Graphic Design License Plate Account).

2920 Technology, Trade and Commerce Agency

Issues

1. Film California First Program. This program subsidizes fees that movie and television production companies pay to local governments for on-site filming in California. The Program was established for three years commencing in 2000-01 and is funded from the Film California First Fund (FCFF). The funding source for the FCFF is an annual transfer of up to $15 million from the General Fund. Any remaining balance in the fund can be transferred to the General Fund.

The current year transfer of $10 million (GF) was reduced by $2 million in SB 19X for expenditures of $7.9 million (FCFF). The budget proposes a transfer of $8.2 million (GF) to the FCFF to be expended in 2003-04.

The LAO recommends elimination of the film permit subsidy program for savings of $8.2 million (GF).

2. Foreign Trade Offices

The budget proposes continued operation of all trade offices. The state operates trade offices in seven locations. The state-funded trade offices are in Mexico, Hong Kong, Japan, United Kingdom, Germany, Taiwan, and South Africa. Total funding was $ 6 million in 2001-02, $3.9 million in 2002-03 and $3.8 million in the budget year.

***The LAO recommends** that the Legislature eliminate the seven state-staffed foreign trade offices.*

***The Department of Finance** states that eliminating the state-staffed offices will not eliminate all costs for those offices in 2003-04 due to ongoing facilities obligations, employment contract requirements, etc. Assuming a July 1 budget, TTCA estimates that the maximum savings from closing foreign trade offices would be $2 million (GF).*

3. Finance Letter: Military Base Reuse and Retention Program. The budget proposes to eliminate funding for this program. This program was funded at $1.9 million in 2001-02 and $0.9 million in the current year ($190,000 General Fund and $720,000 Federal Grant). The **January 10 budget** suspended funding for the program. This Letter requests $180,000 (GF) for this program.

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4. Finance Letter: Manufacturing Technology Program (MTP). The mission of MTP is to improve the competitiveness of California small- and medium-sized manufacturers. The program requires one-third federal/two-thirds other funding requirement. In 2001-02, MTP grantees were funded through grants of $6.0 million (GF). The program was reduced to $2.7 million in the current year.

The January 10 budget proposed to suspend funding for this program. The **May Revision** requests an augmentation of $2.0 million (GF) for grants and reimbursements of $126,000 and 1 position.

5. Finance Letter: Tourism Marketing Contract Funds. The California Travel and Tourism Commission is funded by a self-assessment on the travel and tourism industry. The state has contributed $7.5 million (GF) and the industry contributed $6.8 million to fund a competitive advertising campaign, an international and domestic marketing presence, conduct research, and provide travelers with information on California as a destination.

The budget, as introduced, proposed to eliminate funding of $7.5 million (GF) for the Tourism Marketing Contract Funds. The **May Revision** requests an augmentation of $2.5 million (GF). It also requests $929,000 in reimbursement expenditure authority and 7.5 positions to restore collection activities for industry assessments on behalf of the Tourism Commission.

6. Finance Letter: California Main Street Program. The budget, as introduced, eliminated funding for this program. This Letter requests $126,000 and 1 position to provide assistance to cities through this program.

7. Finance Letter: Small Business Loan Guarantee Program. The budget, as introduced, proposed eliminating $548,000 (GF) for six positions that administer this program. This Letter requests an augmentation of $326,000 (SBEF) and 3 positions for this program. There is also proposed trailer bill language to authorize the use of funds from the Small Business Expansion Fund to support these administrative costs.

8. Finance Letter: San Francisco/Oakland Bay Bridge Contractor Surety Program. This letter requests $75,000 (SBEF) to assist small businesses owned by women and/or disabled veterans to participate in the construction of the Bay Bridge by providing surety bond assistance.

9. Trailer Bill Language Making Programs Permissive. This language provides that the programs of TTCA are to be performed subject to the receipt of state funds.

8380 Department of Personnel Administration

1. Finance Letter: Staffing to Implement a Layoff Plan. The budget, as introduced, included $1.7 million (GF) and 29 half-year positions in both the current and budget year for DPA to process 10,000 layoffs. The current year augmentation was changed to $290,000 and 5 half-year positions. The May Revision is requesting $1.5 million (GF) to provide DPA with adequate staffing and funding to implement a layoff plan that would reduce the state workforce by 10,000 positions.

2. Finance Letter: Rural Health Care Equity Program. This letter requests restoration of $11.3 million (GF) to fund health care costs of annuitants without access to HMOs. The letter reduces the request for state employees and annuitants due to a decrease in the number of counties without access to a CalPERS contracted HMO.

2100 Department of Alcoholic Beverage Control

Chapter 488, Statutes of 2001 increased liquor license fees in order to maintain funding of the Department of Alcoholic Beverage Control. The hiring freeze and Control Section 31.60 have resulted in the loss of 19 positions at ABC.

Should these positions be restored.

2180 Department of Corporations

1. Statewide Outreach on Predatory Practices (STOPP). The current year budget appropriated $1.1 million (SCF) for STOPP. The administration requested $10 million (SCF) and 25 one-year limited term positions to implement STOPP in the 2002-03 budget. The Legislature reduced this amount to $1.1 million and no positions. The program is intended to make consumers aware of the department's responsibilities, the extent of fraud and abuse in the investment and lending industries, and where to get information and submit complaints. DOC awarded the contract for 2002-03 in April 2003.

The **May Revision** requests an augmentation of $4 million to continue and broaden the STOPP program by reaching a larger target group of minority and elderly individuals. DOC is asking to conduct a statewide media campaign that was rejected last year.

2. Finance Letter: Restoration of Funding for Vacant Positions. This Letter requests $407,000 (SCF) to continue funding in the budget year for positions restored in the current year pursuant to Control Section 31.70.

3. **Finance Letter: Unanticipated Rent Costs.** This letter requests an augmentation of $229,000 (Corporations Fund) for unanticipated rent costs in Los Angeles and San Francisco.

4. Finance Letter: Transfer Settlement Funds to the General Fund. Revenues from settlements are deposited in the Corporations Fund along with fee revenues. The fee revenues must be used exclusive for departmental purposes, but the settlement revenues are considered civil penalties and can be transferred to the General Fund.

In the current year, the budget transferred $9 million in settlement revenues to the General Fund. DOC has received two major settlements totaling $45.6 million. Finance Letters propose transferring $39.6 million of this settlement revenue to the General Fund.

2310 Office of Real Estate Appraisers

The budget proposes to transfer the regulation, enforcement, and administration of the Office of Real Estate Appraisers (OREA) to the Department of Corporations (DOC) effective July 1, 2003. This proposal would require trailer bill language. The only savings identified with this proposal are $150,000 related to elimination of the director position for OREA. There would be one-time costs to OREA/Department of Corporations of $293,000.

Departments cannot be eliminated through an urgency bill, so this change could not be effective until January 1, 2004. No requests have been made to reflect a later effective date.

2240 Housing and Community Development –

Issues

1. Housing Preservation Research Contract.

The budget proposed to eliminate funding in the current and budget year for a $65,000 (GF) contract to maintain and update the statewide database on assisted housing units at risk of conversion.

HCD has an alternative funding proposal for this contract. This would spread the cost of the contract amongst various HCD funding sources. This program could thus be funded with a cost of $6,000 (GF) in the budget year.

2. Proposition 46 (Housing and Emergency Shelter Trust Fund Act of 2002). This November 2002 bond measure authorized $2.1 billion for various housing programs. Local project bond expenditures will be $285 million in the current year and $455 million in 2003-04.

The overall administrative costs of the bond funds are 3.92%. The only program with administrative costs more than 5 percent is the farmworker program, which has administrative costs of 9.9 percent.

The department should comment on why administrative costs for the farmworker program are higher than for other programs.

3. Emergency Housing Assistance Grants. The Emergency Housing and Assistance Program (EHAP) provides capital grants and operating funds for emergency shelters, transitional housing, and services for homeless individuals and families. In 2001-02, this program received $13.3 million. The current year grant is $5.3 million. The budget proposes to continue funding in 2003-04 at the $4 million level.

4. Office of Migrant Services Program.

a) Rent Increase Proposal. The budget proposes to reduce funding of the Office of Migrant Services (OMS) center support by $625,000 to be offset by a rent increase. This reduction is equal to 10.4 percent of state funding in this program.

OMS regulations provide that HCD shall seek funds from private, local, state and federal revenue source. The regulations further provide that HCD may either adjust the schedule of rents to fully fund the operating costs or by reducing any component of operating costs or the availability of units.

The residents currently pay from $7 to $8.50 per day, depending on the number of rooms. The proposed rent increases would be $60 per month or of 24 to –29 percent.

The budget bill contains the following control language: "*Notwithstanding any other provision of law, the Department shall revise the rents charged the residents of the migrant centers to reimburse the actual, reasonable, and necessary costs of operation as necessitated by the reductions included in this item. The department may apportion those reductions, and adjust rents, as it deems appropriate.*"

b) Settlement. The department and the Attorney General's Office are in settlement discussions with a farm workers' group regarding over-payment of rents at migrant camps run by OMS.

The department is asked to comment in general about the progress of the settlement discussions and how the department plans to pay for any settlement that is reached in this case.

5. Employee Housing Program. The budget proposes eliminating $721,000 (GF) and increasing regulatory fees on employers that provide housing. The fees would cover the cost of inspections. Fees would be increased from about $125 per employer to $1,000 per employer (800%) to cover the elimination of GF support. This fee increase requires trailer bill language.

6. Migrant Services Center Rehabilitation. The Planada facility is a migrant farmworker housing center in Merced County that needs approximately $6 million in renovations. This project was scheduled to be completed with General Fund moneys in the current year, but was deferred due to budget constraints. The budget proposes to also defer the project in the 2003-04 year.

The LAO proposes that part of the $25 million in migrant worker bond funds be used for this renovation.

7. Finance Letter: Funding Switch for Committed, but not Disbursed, Projects. The May Revision requests a transfer of $39.75 million from the Self-Help Housing Fund (SHHF) and the Housing Rehabilitation Loan Fund (HRLF) to the GF for projects that will now be funded from Proposition 46 Housing Bond Funds. There is trailer bill language clarifying HCD's authority to use the bond funds for this purpose.

8. Finance Letter: Reversion of Unused Housing Project Funds. The May Revision requests a transfer of $16.7 million from the SHHF and HRLF to the General Fund. The funds were for projects have been delayed and can compete for housing bond funds if they meet the necessary requirements.

9. Finance Letter: Loan from Multifamily Housing Program Funds. This request is for a loan of $31.68 million from the Housing Rehabilitation Loan Fund to the General Fund. The loan contains the standard repayment provisions including interest.

10. Finance Letter: Home Investment Partnerships Program (HOME). This is a request to increase $22.5 million (federal funds) and 4.8 PYs for the HOME program. This will fund increased support costs and awards to assist cities, counties, and nonprofit community housing development organizations to create and retain affordable housing.

11. Finance Letter: Technical Correction. This is a request to correct a technical error in the budget to appropriate $25.4 million in the budget act for the Jobs Housing Balance Incentive Grant/Workforce Housing Reward Programs. The budget accounted for this expenditure, but did not include an appropriation.

Control Section 4.10 Employee Compensation Savings Plan

1. Finance Letter: New Control Section. This proposed control section would provide DOF with the authority to adjust departmental appropriations in order to reflect the implementation of an employee compensation savings plan. There is related trailer bill language.

Proposed Consent Calendar
(Adoption of Finance Letters and Other Actions)

0110 Senate

1. Inflation Adjustment. Decrease by $176,000 (GF).

0120 Assembly

1. Inflation Adjustment. Decrease by $240,000 (GF).

0130 Legislative Analyst

1. Inflation Adjustment. Decrease by $10,000.

0750 Lieutenant Governor

1. Finance Letter: Technical Correction. The Finance Letter requests reinstatement of nine positions that were incorrectly deleted pursuant to the Control Section 31.60 (vacant positions).

0845 Department of Insurance

1. Finance Letter: Technical Correction. The budget was reduced by 31 vacant positions, but the budget inadvertently reduced 43 positions. This Finance Letter requests the authority for 12 positions to correct a technical error in the vacant position reduction.

0860 Board of Equalization

1. Finance Letter: Permanent Reclassification of Positions. The 2001 Budget Act authorized BOE to reclassify 50 tax auditor positions to tax collection positions in order to generate additional sales and use tax revenues through increased tax collections. This authority expires June 30, 2003. BOE asserts that the reclassification has resulted in increased revenues of $8 million (GF) and $2 million (local). The Finance Letter requests that this reclassification be made permanent.

2. May Revision Finance Letter: Interdepartmental Agency Agreement. This letter requests an augmentation of $249,000 (GF) for increased DMV charges for collecting use tax on behalf of the BOE. The BOE is statutorily required to reimburse DMV for its administrative costs for collecting the use tax at the time of registration.

0954 Scholarshare Investment Board

1. Finance Letter: Extension of Loan Repayment Period. To fund Scholarshare start-up activities, the 1999-2000 budget authorized a $829,000 loan from the General Fund to the Scholarshare Administrative Fund (SAF) for to be repaid by June 30, 2005. This Finance Letter requests a two-year extension to repay this loan due to insufficient revenues in SAF. The loan is repaid with interest at the rate earned by PMIA.

1100 California Science Center

1. Finance Letter: Reappropriation of Phase II Project Funds. This Finance Letter requests reappropriation of $96.9 million in expenditure authority for Science Center Phase II Construction due to delay in operational start-up of the project.

1130 Board of Architectural Examiners

1. Finance Letter: Increased examination Costs and Caseload. The Finance Letter requests $115,000 (Architectural Examiners – Landscape Architects Fund) for increased examination contract costs and caseload.

1340 Board for Geologists and Geophysicists

1. Finance Letter: Annuitant Health and Dental Benefit Costs. This Letter requests a reduction of $6,000 (SF) to offset increased annuitant health and dental benefit costs resulting from employees retiring under the Early Retirement Program. A corresponding increase is included in Item 9650 for Health and Dental Benefit Costs for Annuitants.

1390 Medical Board of California

1. Finance Letter: Program Enforcement Monitor. This is a request for $155,000 (SF) for a Program Enforcement Monitor contract per Chapter 1085, Statutes of 2002.

1450 Board of Psychology

1. Finance Letter: Decreased Administrative Costs. Requests a reduction of $365,000 (Psychology Fund) to reflect administrative cost savings for converting the Professional Practice in Psychology examination to a computer-based format.

1705 Fair Employment and Housing Commission

1. Finance Letter: Operating Expenses. This requests a shift of $125,000 from personal services to operating expenses to allow FEHC to fully fund its operating costs through the elimination of one position.

2320 Department of Real Estate

1. Finance Letter: Restoration of Funding through Control Section 31.70. This Letter requests $117,000 (RECF) to continue funding in the budget year for operating expenses due to Control Section 31.60 reductions. The Administration contends the change is technical.

2780 Stephen P. Teale Data Center

1. Finance Letter: Transfer of Positions. This Finance Letter requests the transfer of eight positions from Teale Data Center to OPR. **The LAO** has no concerns with this request.

9650 Support, Health and Dental Benefits for Annuitants

1. Finance Letter: Early Retirement Program. This is a request for an augmentation of $290,000 (GF) for the health benefits of annuitants that retired under the Early Retirement Program. The departmental budgets for each of the five affected departments have been reduced by an equal amount.

9800 Augmentation for Employee Compensation

1. Finance Letter: Augmentation. This is a request for $3.8 million (GF) to provide funding for Recruitment and Retention Differentials implemented after January 10, 2003. These funds were set-aside for this purpose in the January 10 Governor's Budget, so there is no impact on the General Fund.

Control Section 3.60 PERS Benefit Contributions

1. Finance Letter: Change in State Retirement Contribution Rates. This control section changes the contribution rates to PERS to accurately charge departments for retirement expenses. These contributions will be funded in the budget year by pension obligation bonds.

Senate Committee
on Budget and Fiscal Review
SUBCOMMITTEE 4

MAJOR ACTION REPORT

May 28, 2003

Senate Bill 53
2003-04 Budget Bill

Members
Joseph Dunn, Chair
Dick Ackerman
Denise Moreno Ducheny

Consultants
Alex MacBain
Judi Smith
Frank Vega

SUBCOMMITTEE NO. 4

LEGISLATIVE, EXECUTIVE, JUDICIARY,
TRANSPORTATION, and GENERAL GOVERNMENT

Transportation

State Administration

Judiciary

TRANSPORTATION

0520 SECRETARY FOR BUSINESS, TRANSPORTATION, AND HOUSING

- Rejected the Governor's proposal to consolidate the Office of Traffic Safety

2660 DEPARTMENT OF TRANSPORTATION

- Authorized a $938 million loan from the Transportation Investment Fund (TIF) to the General Fund.
- Approved General Fund repayment to the TIF by 2008-2009.
- Approved transfer of $87 million in "spillover" revenues from the Public Transportation Account (PTA) to the General Fund.
- Restored $207 million of Proposition 42 funds to the Traffic Congestion Relief Program.
- Restored $11 million (State Highway Account funds) to the Environmental Enhancement Mitigation Program.
- Rejected the Governor's proposal to consolidate the High Speed Rail Authority within Caltrans.

2720 CALIFORNIA HIGHWAY PATROL

- Approved the creation of a Public Safety Surcharge fee to provide $103 million in ongoing support for CHP protective and security services.

2740 DEPARTMENT OF MOTOR VEHICLES

- Approved the Governor's proposal to raise various fees for drivers licenses, identification cards, and vehicle registration. In total the fee increases will provide $333 million in annual revenues for the Motor Vehicle Account.

Trailer Bill Language

1. Amends provisions of SB 2084 (Polanco, Chapter 861, Statutes of 2000) to correct loopholes in the vehicle Truck Weight Fee. SB 2084 requires the new Truck Weight Fee schedule to be revenue neutral, however the State Highway Account has lost approximately $160 million since SB 2084 was enacted.

STATE ADMINISTRATION

0650 OFFICE OF PLANNING AND RESEARCH

- Augmented by $2 million for Cesar Chavez Day of Learning Grants.

0840 CONTROLLER

- Adopted alternative trailer bill language to eliminate interest on payments under the Unclaimed Property Program instead of charging a fee.

1120 BOARD OF ACCOUNTANCY

- Augmented by $270,000 (special funds) for 3 permanent investigator positions.

1700 FAIR EMPLOYMENT AND HOUSING

- Augmented by $3.1 million (GF) and 45 PYs to restore proposed 20 percent reduction.

1730 FRANCHISE TAX BOARD

- Augmented by $800,000 (GF) and increased revenues by $4.4 million (GF) by reducing the tax liability threshold from $200 to $100 in the Integrated Non-Filer Compliance Program.
- Approved trailer bill language to require tax professionals who file 100 or more personal income tax returns to e-file with a provision for taxpayers to opt out of the program. This would result in reduced savings of $443,000 and 15.5 PYs.
- Rejected trailer bill language to impose a fee on candidates and lobbyists at the time of filing statements with the Secretary of State to pay for compliance audits. The fee would have reduced a transfer to the FTB for this purpose of $1.36 million (GF).

1760 GENERAL SERVICES

- Adopted trailer bill language to increase the maximum 911 rate from 0.75 percent to 1.00 percent. Denied the proposal to dedicate increased funding to CHP.
- Augmented by $1.5 million, per DOF, to develop and provide a procurement training program.

2100 ALCOHOLIC BEVERAGE CONTROL

- Augmented by $650,000 (ABCF) to restore investigator and support positions that had been eliminated.

2180 CORPORATIONS

- Denied Finance Letter to augment STOPP program by $4 million (SCF) for a media campaign.
- Denied Finance Letter to restore $407,000 (SCF) to restore funding for vacant positions.
- Approved transfer of $39.6 million, per DOF, in settlement funds to the GF and increased the transfer by $4.4 million.

2240 HOUSING AND COMMUNITY DEVELOPMENT

- Augmented $65,000 (GF) to reinstate funding for Housing Preservation Research Contract.
- Augmented $1.3 million (GF) for the Emergency Housing and Assistance Program.
- Denied proposal to increase rents at migrant centers and instead adopted budget bill language revoking HCD's authority to raise rents in 2003-04 and augmented by $625,000 (GF).
- Augmented by $721,000 (GF) and adopted budget bill language prohibiting increase in regulatory fees on employers that provide employee housing for 2003-04.
- Adopted budget bill language authorizing payment through redirection of already appropriated funds for settlement costs in Vega case.
- Adopted trailer bill language allowing use of bond funds to pay for rehabilitation of the Planada Migrant Services Center in Merced County.
- Approved transfer of $39.75 million (GF) from Self-Help Housing Fund (SHHF) and Housing Rehabilitation Loan Fund (HRLF) to the GF and instead authorize the use of Proposition 46 bond funds for projects with GF appropriations. This transfer is conditional upon approval of funding augmentations for Housing Preservation, Research Contract, EHAP, Office of Migrant Services program, and Employee Housing Program.
- Approved transfer of $16.7 million, per DOF, from the SHHF and HRLF to the General Fund for delayed projects.
- Approved augmentation of $22.5 million (federal funds), per DOF, for Home Investment Partnership Program.

- Augmented $749,000 (GF) to reimburse COGs for the mandate for regional housing needs.

2310 OFFICE OF REAL ESTATE APPRAISERS

- Denied trailer bill language to eliminate the department and transfer the responsibilities to the Department of Corporations.

2920 TECHNOLOGY, TRADE AND COMMERCE AGENCY

- Reduced GF transfer and funding for Film California First program by $2.2 million (GF).
- Approved Foreign Trade Offices as budgeted.
- Denied Finance Letter to restore $480,000 (GF) for contract foreign trade offices. This funding was deleted in current year.
- Denied Finance Letter to restore $180,000 (GF) for Military Base Reuse and Retention Program.
- Restored $126,000, per DOF, for support of the California Main Street program.
- Restored $326,000 (GF), per DOF, to administer the Small Business Loan Guarantee Program.
- Approved $2 million (GF) for Manufacturing Technology Program, per DOF.
- Approved Finance Letter to restore $2.5 million (GF) for Tourism Marketing Contracts and augmented by an additional $2.5 million (GF).

8260 ARTS COUNCIL

- Approved funding for Wiesenthal Center at $1.5 million (GF) per DOF.
- Approved Finance Letter to delete $127,000 (GF) for special initiatives.
- Denied Finance Letter to reduce Arts in Education by an additional $1.7 million ($1.4 million GF).
- Denied Finance Letter to delete $932,000 (GF) for Artists in Residence Program.
- Denied Finance Letter to delete $932,000 (GF) for statewide projects.
- Denied Finance Letter to augment Performing Arts Touring program by $130,000 (GF).
- Denied Finance Letter to reduce Organization Support grants by an additional $1.4 million.

- Adopted budget bill language to specify that 50 percent of the funds for Organization Support grants must be spent for Multicultural Arts Development Program.
- Approved reappropriation for Wal-Las Memorias project.
- Denied Finance Letter to reduce state operations by $532,000 (GF).

8380 PERSONNEL ADMINISTRATION

- Approved Finance Letter to augment by $11.3 million (GF) to restore funding for Rural Health Care Equity program for annuitants. Adopted trailer bill language to limit payments to California residents only for annuitants.
- Denied Finance Letter to augment by $1.5 million (GF) and authority to hire limited-term staff to process layoffs.

8940 MILITARY DEPARTMENT

- Adopted trailer bill language requiring the department to contract with Orange County Fire Authority for fire protection services for their Los Alamitos facility.

9100 TAX RELIEF

- Restored $40.1 million (GF) for Open Space subventions (Williamson Act Contracts) per DOF.

9210 LOCAL GOVERNMENT

- Adopted trailer bill language to transfer $250 million for 2003-04 only from redevelopment agencies to ERAF using a proportional formula.

CONTROL SECTIONS

4.10 EMPLOYEE COMPENSATION SAVINGS PLAN

- Amended control section and adopted trailer bill language to adjust departmental appropriations to reflect implementation of an employee compensation savings plan.

5.50 CONTRACT RENEGOTIATIONS

- Adopted a new control section (alternative to DOF proposal) and trailer bill language to generate savings of up to $100 million ($50 million GF) through various contract renegotiations.

JUDICIARY

0250 JUDICIARY

- Reduced the GF unallocated reduction to the Judiciary from $17.7 million to $8.5 million with the reduction coming from state operations only.
- Rejected the proposal to increase the appellate filing fee to $630. Instead approved trailer bill language to increase the appellate filing fee to $485, the Supreme Court filing fee to $420, and the deposit for transcripts to $270 for a total revenue increase of $2.1 million. All new fees and the base fees ($1.6 million) to be deposited into the newly created Appellate Court Trust Fund. Imposition of the new fees is contingent upon the approved level of funding cuts.

0280 COMMISSION ON JUDICIAL PERFORMANCE

- Rejected the proposed 25 percent GF reduction ($1 million) and approved a GF reduction of 8 percent ($331,000).

0390 JUDGES' RETIREMENT SYSTEM

- Approved Finance Letter to reduce the appropriation by $10.3 million, leaving a fund balance of one month's worth of benefit payments.

0450 TRIAL COURT FUNDING

- Reduced the proposed GF unallocated reduction from $116 million to $85 million, with the following allocation: $59.8 million from trial court operations, $10 million from judicial salary savings, $10 million from the Improvement Fund, $4.3 million from the Modernization Fund, and $900,000 from the Assigned Judges program.
- Rejected the court security contracting out proposal and adopted trailer bill language directing the Judicial Council, in consultation with sheriffs and California State Association of Counties (CSAC), to establish common standards and requirements for court security services.
- Approved $31 million GF reduction to the Trial Court Trust Fund (TCTF) and approved trailer bill language to offset reduction with an increase of $31 million in undesignated fees that the counties currently retain.
- Rejected proposal to achieve $31 million in GF savings through the implementation of electronic court recording.

- Rejected trailer bill language to achieve $5.5 million in GF savings from court ownership of transcripts.
- Approved a GF decrease of $1.2 million from the TCTF and offset with new fee revenue from increasing the Trial Motion Fee from $23 to $33. Imposition of the increased fees (and all the new fee proposals in this item) is contingent upon the approved level of funding cuts.
- Approved a GF decrease of $28.9 million from the TCTF and offset with new fee revenue from increasing the filing fee for limited jurisdiction cases above $10,000 from $90 to $185.
- Approved a GF decrease of $1.6 million from the TCTF and offset with new fee revenue from an increase in the Small Claims filing fees from $35 to $50 for filers of more than 12 filings annually.
- Approved a GF decrease of $760,000 from the TCTF and offset with new fee revenue from an increase to the Summary Judgement Motion Fee from $100 to $150.
- Approved a GF decrease of $18.6 million from the TCTF and offset with new fee revenue from the imposition of a Continuance fee of $100 for all civil and family law cases.
- Approved a GF decrease of $34 million from the TCTF and offset with new fee revenue from a Security fee of $20 on all civil and criminal filings.
- Approved a GF decrease of $6 million from the TCTF and offset with new fee revenue from the enforcement of the fee for verbatim record keeping in civil matters.