SENATE BUDGET AND FISCAL REVIEW COMMITTEE

Governor's Budget:
A Compendium of the Subcommittee Analyses
March 2002 through May 2002

Volume 4

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Senate Budget and Fiscal Review—Steve Peace, Chair

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Wednesday, March 13, 2002
9:30 a.m.
Room 113

PROPOSED CONSENT CALENDAR

CONSTITUTIONAL AND EXECUTIVE

STATE AND CONSUMER SERVICES

CONSUMER AFFAIRS

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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 $58.1 million, of which $7.9 million is from the General Fund. This budget includes federal funding of $48.3 million for California's AmeriCorps program.

Issues

1. Cesar Chavez Grants – 15 Percent Reduction. The budget requests a reduction of a total of $861,000 from the $5 million in grants for Conservation Corps and AmeriCorps programs to create service events involving California' K-12 students. Of this amount, $730,000 is part of the Governor's 15 percent reduction in departmental budgets. The remaining reduction of $131,000 is pursuant to Control Section 3.90 of the 2001-02 budget, which required ongoing reductions to General Fund state operations of $50 million. Each department submitted plans for these reductions. The total state operations budget for OPR is $12.3 million in 2002-03.

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 provided annual grants of $5 million to engage school pupils in community service on Cesar Chavez Day.

OPR has approved 64 of the 74 applicants for $4.2 million in the current year. The programs served more than 300 schools statewide. The funds were allocated throughout the state as follows:

	Programs	% of Funds
Los Angeles/Orange County	16	23.0
Central Valley/Coast	13	22.5
Southern California	10	20.7
Bay Area	13	19.0
Northern California	12	14.8

OPR anticipates allocating the remaining funds.

Reducing funds by 15 percent will likely result in reducing the number of grants approved and students served by 15 percent. The BCP estimates that 200,000 students will participate in these events. OPR has indicated that the events serve differing numbers of students, but approximately 30,000 fewer students would be able to attend events.

The Department should report on the status of events held during the current year and include information on geographic location of events.

What areas will not receive funding because of the proposed reduction?

How does the department plan to address the problem of community-based organizations (CBOs) participating in these programs?

Does the Subcommittee wish to restore this funding?

Does the Subcommittee wish to adopt trailer bill language to broaden the eligible applicant pool for Cesar Chavez Day grants to include "at-large" CBOs?

Proposed language would:

> Authorize GO SERV to provide funding through a competitive process to CBOs with strong capacity to design and implement programs that provide high quality service and learning opportunities for K-12 students.
>
> Require eligible CBOs to provide evidence of 501(c) 3 tax-exempt status, evidence of strong financial management systems (e.g. clean audit, history of administering government grant programs), and experience designing and implementing youth service and learning programs.
>
> Establish a two-year pilot program to ensure that these changes are manageable, and
>
> Limit funding to "at large" CBOs not to exceed $1 million per year with individual grants not to exceed $100,000.

This funding would be within the funding currently available in the Cesar Chavez Day grant program. CBOs could still receive grants through partnership with AmeriCorps, Learn and Serve, National Senior Service Corps, or Conservation Corps programs.

2. State Planning and Policy Development. OPR plans to increase salary savings and reduce operating expenses and equipment by $660,000 to achieve the remainder of the 15 percent reduction.

CONSUMER AFFAIRS

1111 Bureau of Barbering and Cosmetology

The Bureau of Barbering and Cosmetology is a separate bureau within the Department of Consumer Affairs (DCA), which serves as an umbrella agency for semi-autonomous boards, commissions, and committees that regulate over 180 professions. The 2002-03 budget for the Bureau totals $11.6 million from the State Board of Barbering and Cosmetology Fund, an increase of $600,000 over the current year. The Bureau has 88.6 authorized positions.

Issues

1. Los Angeles Facility Relocation. Last year, the Bureau received a budget augmentation of $615,000 ($228,000 ongoing) for the Los Angeles Examination Site Relocation. The Bureau is requesting an additional $519,000 ($103,000 ongoing) for increased tenant improvement and rent costs. This increased cost is due to the expanded square footage, increased rent per square foot, and increased full-year ongoing rent costs. The Los Angeles site tests 20,000 of the 30,000 applicants tested annually.

A new Real Estate Services Division (RESD) review determined that a larger facility is required. RESD has narrowed the proposed sites to 3 sites in the Glendale/Burbank area. The Bureau anticipates moving into the new site in September. This new site is located in a safer area and has an airport, lodging, and restaurants nearby.

<u>The Bureau should report on the status of the move.</u>

2. Issuance of Licenses on Same Day of Exam. Regulations adopted by the board about 30 years ago require the Bureau to issue licenses on the same day the licensee passes the exam. In order to issue the license on the same day, the Bureau pre-prints a license for each individual scheduled to take the exam.

About 30,000 individuals take exams annually. Of this amount, there is a failure rate of approximately 30%. In addition, no-shows and other problems with the pre-printed licenses result in the necessity to destroy 50% of the licenses. The Bureau had to set up a secure system for destruction of the licenses. This practice has also resulted in violence at the testing sites when applicants learn they failed the exam.

The Bureau is currently working on regulations that would allow successful applicants to begin work right away, but would not require the Board to issue the actual license the day of the exam. The test results would be available the next morning either on-line or through an 800 number. The successful candidates could begin work immediately and would receive a physical copy of their license by mail within 3 to 5 days.

<u>The Bureau should report on same-day issuance of licenses and their plans to change the current procedures.</u>

GENERAL GOVERNMENT

8320 Public Employment Relations Board

The Public Employment Relations Board (PERB) administers and enforces the California public sector collective bargaining laws, including the Meyers Milias Brown Act (MMBA) that covers cities, counties, and special districts. The budget proposes expenditures of $4.8 million with 49 authorized positions.

The inclusion of MMBA commencing January 1, 2001, under PERB added approximately 650,000 employees to the 860,000 public sector employees already covered by PERB. From 1990-91 through 1996-97, PERB realized a 52 percent reduction in positions and a 39 percent reduction in total funding. The department was not subject to the 15 percent reductions that were imposed on most General Fund supported departments.

Issues

1. Augmentation to maintain current level of operation. The budget requests $122,000, an increase of 2.6 %, to support its current level of operation.

8380 Department of Personnel Administration

The Department of Personnel Administration (DPA) manages the nonmerit aspects of the state's personnel system. The role of DPA is to insure proper administration of existing terms and conditions of employment for state civil service employees. The State Employer-Employee Relations Act established a formal, bilateral process of employer-employee relations. The right to meet and confer in good faith requires DPA to review existing terms and conditions of employment subject to negotiation, to develop management" negotiation positions, to represent management in negotiations, and to administer negotiated memoranda of understanding (MOUs).

DPAs budget is proposed to decrease by $13.2 million, or 16.4 percent, to $67.0 million. The General Fund provides $42.5 million, $17.3 million is from reimbursements from other state departments, and $6.3 million is from the Deferred Compensation Plan Fund. The decrease over the current year is due to a decline in funding of $9.2 million for the Rural Health Program and $5 million from the Work and Family Program. The decline for the Rural Health Program is due to the fact that funds provided in 2001-02 covered two years of funding.

Issues

1. Collective Bargaining Agreements. Nine of the 21 Memoranda of Understandings (MOUs) have been approved by the administration and ratified by the Legislature. Of the remaining 12, 7 have reached agreements with the administration and await legislative approval and the remaining 5 still have not concluded negotiations.

The basic compensation package that most bargaining units have agreed upon (1) increase take-home pay by reducing employee retirement contributions and (2) pay for a portion of health insurance premium increases. The package reduces the retirement contribution from 5 percent paid by most employees to 2.5 percent in the current year and reduces the rate to zero effective July 1, 2002. On July 1, 2003, the previous retirement contribution will be reinstated and employees will receive a 5 percent increase in their base salary. All of the units have agreed to two-year packages. The administration approved similar increases for excluded employees.

The state has agreed to pay half of the health insurance premium increases that went into effect January 1, 2001 and two-thirds of the premium increases effective January 2002 and January 2003.

Statute directs the administration and employee representatives to endeavor to reach agreement before adoption of the budget act for the ensuing year. The act further specifies that provisions of MOUs requiring the expenditure of state funds be approved in the budget act before the provisions may take effect.

The budget includes funding of $209.7 million ($130 million GF) for employee compensation, which would cover the costs of all of the agreements if they are similar to the ones already approved. If the remaining units agree to two-year packages, the costs of employee compensation for the 2002-03 budget will be known before enactment of the budget.

There is no cost to the state budget for the retirement contribution portion until 2003-04. Assuming all units agree to a similar package, the estimated General Fund costs in 2003-04 are $325 million. This annual cost would increase to $900 million by 2006-07.

Why have MOUs not been completed in time to be included in the budget, as required by statute?

Has legislative staff been provided the 7 MOUs awaiting legislative approval?

What are the unresolved issues with the 5 outstanding MOUs? When are negotiations expected to be concluded?

Do you anticipate more salary adjustments for recruitment and retention, geography, or otherwise hard-to-fill positions?

2. Increased Workload Resulting from Collective Bargaining and Rural Health Program. The budget requests a permanent GF augmentation to retain 4.0 Staff Services Analyst positions to provide analytical support in the collective bargaining process and in implementing contract provisions including the Rural Health Program. These 4 positions were part of the 10.0 limited-term (half time) positions approved for two years in 2000-01.

The department should report on the status of the Rural Health Program.

Are claims for reimbursement being submitted at the rate expected?

3. Post and Bid Issue. DPA and the California State Employees Association (CSEA) Local 1000, SEIU, AFL-CIO reached a tentative agreement to establish a pilot program during the term of the new contract (January 2002 through July 2, 2003) to use a "post and bid" process to fill up to 50 percent of the vacant positions in selected classifications in Bargaining Units 1 and 4. A similar pilot process was also negotiated for certain classifications in Bargaining unit 11. Post and bid processes already exist in CCPOA, International Union of Operating Engineers and Bargaining Unit 15 (CSEA). The negotiated post and bid process provides that employees who meet all the qualifications for a particular vacant position may "bid" for the vacancy. Employees must meet all the qualifications of the job as required by the State Personnel Board (SPB) before they can be selected. If there are performance problems, the employee cannot bid on a job.

"Post and bid" can apply to time shift positions, geographic relocations, and vacation selection. The pilot projects described above allow post and bid based on seniority for selected classifications. Fifty percent of positions are open for bid and 50 percent are subject to management discretion.

The Director of SPB stated in a letter on January 14, 2002, that "under provisions of the 'post and bid' processes vacant positions in specified state job classes will be filled solely on the basis of seniority". The Director of SPB also states that the process negotiated by CSEA disadvantages minorities and women.

DPA states in a letter to Senator Machado on January 16, 2002, that "all 'post and bid' provisions that have been agreed to fully comply with existing civil service laws and rules and with practices already in place in other union agreements". DPA states in the same letter that "at the bargaining table, the union put forth exactly the opposite argument".

<u>The Department should report on the impact on the overall workforce of the 'post and bid' process.</u>

<u>The Department should report on the impact on the hiring of minorities and women.</u>

5. General Fund Reduction of 3 Percent. This BCP proposes a 3 percent, rather than the normal 15 percent, GF reduction of $211,000 and 2.0 positions. The reductions would be $144,000 from Policy Operations, $25,000 from Labor Relations, and $42,000 from Legal Services. These savings were achieved by redistributing Distributed Administration costs based on a methodology that shifted costs from General Fund programs to Reimbursement programs.

8620 Fair Political Practices Commission

The Fair Political Practices Commission (FPPC) has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974 and the California Political Reform Act of 1996. The budget proposes General Fund expenditures of $6.6 million and 76.9 authorized positions.

Issues

1. Restoration of Two Positions. The FPPC seeks to restore two positions eliminated pursuant to Government Code (GC) section 12439, which abolishes positions held vacant for six months. One of the positions is a half-time staff counsel position that was vacant due to a medical leave of absence by the employee. The other position is a political reform consultant position that meets the criteria for the "hard-to-fill" exception of GC section 12439.

PROPOSED CONSENT CALENDAR

CONSTITUTIONAL AND EXECUTIVE

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8910	Office of Administrative Law

STATE AND CONSUMER SERVICES

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1340	Board of Registered Geologists & Geophysicists
1350	Board of Guide Dogs for the Blind
1400	Acupuncture Board
1430	Physician Assistant Committee
1455	Respiratory Care Board of California
1460	Speech-Language Pathology and Audiology Board
1475	California Board of Occupational Therapy
1480	State Board of Optometry
1500	Board for Professional Engineers and Land Surveyors
1520	Court Reporters Board of California
1530	Structural Pest Control Board
1580	Board of Vocational Nurse and Psychiatric Technicians
1600	Psychiatric and Vocational Program

GENERAL GOVERNMENT

0850	State Lottery Commission
8385	CA Citizens Compensation Commission
8620	Fair Political Practices Commission
8640	Political Reform Act of 1974
8780	Commission on State Governmental Organization and Economy
8800	Members in Interstate Organizations
8820	Commission on the Status of Women

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SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Wednesday, March 20, 2002
9:30 a.m.
Room 113

STATE AND CONSUMER SERVICES

1100 Science Center

The California Science Center (CSC) presents exhibits and conducts associated programs centering on the scientific and industrial development of the state. The center also contains the California African-American Museum. The CSC budget is proposed at $18.6 million ($14.1 million GF), a decrease of $2.7 million (GF). This is an overall decrease in the budget of 12.3 percent and a GF reduction of 16.8 percent. The CSC has proposed personnel years of 190.7, a decrease of 15.2 from the prior year.

A nine member Board of Directors appointed by the Governor manages the CSC and oversees the state's interest in the park. The board appoints the Executive Director to supervise the operations of the Center and Exposition Park. The Executive Director supervises both CSC services staff and its foundation staff.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$19,637	$21,260	$1,623	8.3%	$18,598	($2,662)	-12.5%
Personnel Years	170.9	205.9	35.0	20.5%	190.7	-15.2	-7.4%

Issues

1. Phase II Expansion Project – Report Required by Supplemental Language. The budget provided $5.3 million for 2001-02 for Phase II Expansion. The state funds are for the completion of preliminary plans and begin working drawings. Nonstate funds will be used to complete the working drawings. The total future cost of this project is estimated at $99.3 million ($19.1 million in lease revenue bonds). . Supplemental report language required the CSC to report on the status of obtaining the necessary nonstate funds to undertake and complete this project by March 1, 2002.

<u>The report from CSC reports that $15.4 million in nonstate funds, as of February 8, had been contributed. Of this amount, $8 million was from contributions from three of the Phase II Co-Chairs. CSC reports that they feel confident the remaining funds will be raised in a timely manner.</u>

2. General Fund Reduction of 15 Percent. CSC reduced the following programs to achieve the 15 percent reduction in General Fund expenditures:

African American Museum - The proposed reduction of $435,000 (GF) is a 13.6 percent reduction from prior year funding. The African American Museum is closed for renovation now and the CSC believed this was the most logical place to reduce operating expenses related to development, repair, and maintenance of the exhibits. In addition, the reductions would eliminate five positions, of which 4 are vacant.

Education – The proposed reduction of $740,000, 6.1 percent, would reduce operating expenses by $303,000 and eliminate 11.0 positions. Seven of these positions are vacant and 3 will result in layoffs. The remaining position is pending outcome of appeal on a separate action.

Park Manager's Office – The proposed reduction of $225,000 would be offset the increasing Exposition Park Improvement Fund (EPIF) expenditure authority by $225,000. The EPIF funding would be funded by a January 2002 parking rate increase and salary savings. The daily parking was increased from $5 to $6. The parking rate is $12 per day on days when events, e.g. football games, are held.

<u>Does the CSC have any alternatives for families visiting the Science Center to pay the normal parking fees on event days?</u>

1700 Department of Fair Employment and Housing

The Department of Fair Employment and Housing (DFEH) is responsible for enforcing laws that prohibit discrimination in employment, housing, and public accommodations and protect persons from hate and violence.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$22,048	$22,125	$77	0.3%	$19,398	($2,727)	-12.3%
Personnel Years	269.8	302.7	32.9	12.2%	284.7	-18.0	-5.9%

Issues

1. Termination of Pilot Mediation Program. The department reduced the current year budget by $550,000 to reflect the provisions of Control Section 3.90 of the 2002-02 budget act. These reductions carry over into the budget year.

The Department's budget was increased by $1.0 million and 2.0 positions to establish a two-year Pilot Mediation Program commencing in 2000-01. This unit was intended to serve as an alternative to the traditional complaint and investigation process by using contracted mediators. The program was reduced by $327,000 in 2001-02 and future fiscal years as part of the reductions pursuant to Control Section 3.90 of the 2001-02 Budget Act. As part of the 15 percent reductions, the budget proposes to discontinue this project for savings of $720,000.

<u>The department should comment on how the elimination of this program will effect their ability to provide services.</u>

2. Elimination of Vacant Positions. The department proposes to eliminate 12 vacant positions and 6 temporary help positions for savings of $1.1 million. The department also proposes a reduction of in-state travel of $200,000 and $635,000 in operating expenses and equipment related to the reduction in authorized staff. The 2001-02 budget act eliminated 22 vacant positions.

<u>The department should comment on whether these reductions have created any increase in backlog.</u>

1880 State Personnel Board

The State Personnel Board (SPB) administers the state's civil service system including competitive examinations, classifications, probationary periods, and disciplinary action reviews. The SPB budget is proposed at $69.8 million, of which $56.7 million is from the General Fund. Of this amount, $50 million is for state-mandated local programs. This is a decrease of $1.4 million (2.4 percent) from the current year.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$18,713	$17,581	($1,132)	-6.0%	$16,130	($1,451)	-8.3%
Personnel Years	161.4	185.6	24.2	15.0%	176.4	-9.2	-5.0%

Issues

1. Fifteen Percent General Fund Reduction. The SPB plans to implement the 15 percent reduction of $1.2 million by extending the time frames for resolution of complaints and redirecting jurisdictional review of reasonable accommodation and discrimination complaints to the Administrative Law Judges (ALJs). The ALJs are funded through reimbursements from departments. SPB will also reduce travel expenses substantially by scheduling telephone hearings when possible.

In addition, SPB will eliminate the recruitment program and reduce service to all departments in terms of fewer exams and fewer service-wide exams.

<u>The SPB should comment on how they plan to reinstate the recruitment program once the hiring freeze is over.</u>

2. Report on Dymally-Alatorre Bilingual Services Act. Supplemental Report language required the SPB to report on its activities in support of the Act and its plan to monitor and assess the effectiveness of this law and to propose amendments as appropriate.

The intent of the Dymally-Alatorre Bilingual Services Act was to eliminate language barriers that preclude people of our State who either do not speak or write English or because their primary language is other than English from having equal access to public services.

The Act mandates that every state agency that serves a substantial number of non-English-speaking people and provides materials in English explaining services, shall also provide the same type of materials in any non-English language spoken by a substantial number of the public served by the agency.

The Act requires each state agency to survey each of their local facilities every two years to obtain information about the public that it serves. The results of the survey are compiled by the SPB and a report is filed with the Legislature.

What is the status of the SPB supplemental report? The SPB should comment on the results of their progress on the report and any proposed amendments.

3. Peace Officer Procedural Bill of Rights (POBOR) Mandate. THE SPB budget includes $50 million to reimburse local governments for the POBOR mandate in the budget year. The budget displays the costs under the SPB.

This issue should be heard as part of the Commission on State Mandates budget scheduled for May 1.

1900 Public Employees' Retirement System

The Public Employees' Retirement System (PERS) administers retirement and health benefits to past and present public employees in California. This includes administration of disability and death benefits, administration of Social Security coverage for state employees, and the development and negotiation of contracts with HMOs, group hospitals, and medical insurance plans.

PERS has the sole responsibility for administration of the system and retirement system investments. The PERS operating budget totals $248.9 million, an increase of $4.4 million, or 1.8 percent, from the current year. These figures represent baseline adjustments and are included in the Governor's Budget for informational purposes only. The budget is adopted by the PERS Board of Administration.

PERS' Health Benefits Program is governed by the Public Employees' Medical and Hospital Care Act (PEMHCA). The program purchases health care for state employees, annuitants, their dependents, and employees of other participating public agencies. PERS contracts with health care providers to offer a choice of health plans providing basic medical coverage, supplements to Medicare coverage for retired members, and long-term care. The PERS Board has broad authority to manage the program. Statute provides for a continuous appropriation of the state's contribution for health benefits. Control Section 3.50 requires a charge against the wage and salary appropriation for current employees for health benefits and Item 9650 appropriates General Funds for the health benefits for annuitants.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$221,293	$244,516	$23,223	10.5%	$248,936	$4,420	1.8%
Personnel Years	1376.6	1659.0	282.4	20.5%	1664.7	5.7	0.3%

Issues

1. Health Care Decision Support System (HCDSS). The budget proposes $3.5 million and three positions for PERS to develop HCDSS. The project would provide for the purchase of off-the-shelf software to establish a data warehouse consisting of information on the use of medical services and prescription drugs by those enrolled in PERS-administered health plans. One-time acquisition costs total $6.2 million over 3 years and on-going costs would be $3.3 million per year.

PERS plans to use this claims data to help improve patient care and limit healthcare costs and premium increases. PERS estimates that premium savings would exceed project costs. PERS estimates savings in premiums of $48 million over the first three years of operation.

LAO recommends budget bill language requiring PERS to prepare a complete risk management plan and a contract evaluation before obligating funds for the Health Care Decision Support System contract.

LAO also recommends budget bill language requiring an independent evaluation of the proposed contract.

The Department agrees to the language.

2. Overhead Costs. The 2001-02 budget included supplemental report language requiring PERS to report on their overhead costs and to compare them with other departments. Initial PERS information showed overhead costs of 40 percent.

The PERS report compared its allocation of costs with the allocation methods used by four other departments. This analysis found that the other departments count fewer types of expenditures as administrative than PERS does. For example, PERS has counted all Legal Division costs as administrative, whereas the other departments allocate legal costs as a program expense to the divisions for which the legal work was performed. When PERS allocated its costs in similar fashion, the department's administrative costs declined to 19 percent, which is much nearer the administrative costs reported by the four comparison departments.

PROPOSED CONSENT CALENDAR

1705 Fair Employment and Housing Commission

The Fair Employment and Housing Commission is a quasi-judicial body responsible for the enforcement of laws relating to unlawful discrimination in employment, housing and public accommodations and prohibiting hate violence. The Commission comprised of seven members, holds hearings and issues decisions on accusations prosecuted before it by the Department of Fair Employment and Housing. The budget is proposed to decrease by $147,000 (11.0 percent) to $1.3 million. The Commission was subject to the 15 percent reduction and is eliminating Advisory Committees, a vacant position, and operating expenses.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$1,311	$1,509	$198	15.1%	$1,343	($166)	-11.0%
Personnel Years	10.5	11.8	1.3	12.4%	10.8	-1.0	-8.5%

Senate Budget and Fiscal Review—Steve Peace, Chair

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Dick Ackerman
Joseph Dunn

Wednesday, April 3, 2002
9:30 am
Room 113

Item	Department	Page
	Public Safety	

0552 Office of the Inspector General

The Office of the Inspector General has the responsibility for oversight of the state's correctional system through audits and investigations of the boards and departments within the Youth and Adult Correctional Agency. Chapter 969, Statutes of 1998 changed and expanded the role of the Inspector General and re-established the Office as an independent entity reporting directly to the Governor. In addition, Chapter 338, Statutes of 1998 requires the Office of the Inspector General to review Level 1 and Level 2 Internal Affairs investigations of the boards and departments within the Youth and Adult Correctional Agency.

Budget Request. The budget proposes $10 million for operations of the Office of the Inspector General (OIG), which is a decrease of $1 million, or 9.3 percent below current year expenditures. This reduction is primarily due to 10 limited term positions expiring related to retaliation workload. The OIG indicates that the workload for these positions never materialized at the level estimated. In addition, the budget proposes reductions including $366,000 for the closure of the San Diego field office, travel reductions, and elimination of 2.5 clerical positions.

OIG – Summary of Program Expenditures

	(dollars in thousands)			Change	Percent Change
Program	**2000-01**	**2001-02**	**2002-03**	**01-02 to 02-03**	**01-02 to 02-03**
Office of the Inspector General	**$ 10,391**	**$ 11,007**	**$ 9,985**	**-$ 1,022**	**-9.3%**
Authorized Positions	**86**	**108**	**97**	**-11**	**-10.1%**

Workload. Duties of the OIG include the following:

- Perform a management review audit of any warden at CDC or superintendent at CYA who has held his or her classification for more than four years.
- Perform Management Audit Reviews of newly appointed wardens and superintendents.
- Review and oversight of CDC and CYA policies and procedures for conducting investigations.
- Conduct audits of CDC and CYA investigatory practices.
- Conduct other audits and investigations of CDC, CYA, YACA, BPT, BOC, YOPB, the Prison Industries Authority, and the Narcotic Addict Evaluation Authority as requested by the Governor, members of the Legislature, Secretary of the YACA, or the Inspector General.
- Conduct investigations of retaliation complaints filed against management and staff.
- Review all of the more serious Level II investigations performed by CDC and CYA Internal Affairs offices. Review a representative sample of the less serious Level I investigations performed by investigators at each institution. Reinvestigate, or recommend for reinvestigation, any case ythat the OIG deems appropriate.
- Maintain a toll-free phone system to facilitate the filing of complaints against management and staff of departments within YACA.
- Conduct audits or investigations, as deemed necessary, of complaints filed with the OIG.

Issues

Workload. The budget for the OIG has grown significantly since legislation expanded its role in 1998, from 40 positions and a budget of $6 million in 1999-00 to a proposed 97 positions and a proposed budget of $10 for 2002-03. As indicated above, the budget proposes elimination of 10 expiring limited term positions due to certain workload not having materialized.

During calendar year 2000, the OIG reported that it had completed 7 Management Review Audits, 11 Special; Audits and Reviews, received 1,572 intake cases, opened 299 investigations, and closed 291 investigations. At that time, the OIG also reported a backlog of approximately 200 cases. The Subcommittee may wish to get an update on the workload for the agency in 2001, and further workload justification for its budget.

<u>The Subcommittee may wish to get updated workload statistics from the OIG.</u>

0550 Secretary for Youth & Adult Correctional Agency

The Youth and Adult Correctional Agency (YACA) includes the Department of Corrections, Department of the Youth Authority, the Board of Prison Terms, the Youthful Offender Parole Board, Board of Corrections, Prison Industry Authority, the Narcotic Addict Evaluation Authority, and the Commission on Correctional Peace Officers' Standards and Training. The Agency provides communication, coordination, and budget and policy direction for the departments and boards.

Budget Overview - The total proposed budget for the Youth and Adult Correctional Agency is $1.2 million, which is a decrease of $51,000, or 4 percent, from estimated current year expenditures. Of this amount, General Fund support decreases by $51,000 to a total of $969,000. The remainder of the funding is from reimbursements. The proposed reductions include reductions in travel, general expense, consulting services, and overtime.

The budget for YACA decreased by $2 million between 2000-01 and the current year. This increase was due to funding to begin a five year epidemiological and treatment study in correctional institutions.

YACA – Summary of Program Expenditures

Program	2000-01 (dollars in thousands)	2001-02	2002-03	Change 01-02 to 02-03	Percent Change 01-02 to 02-03
Secretary for Youth and Adult Correctional Agency	**$3,222**	**$1,278**	**$1,227**	**-$51**	**4.0%**
Authorized Positions	**11**	**11**	**11**	**0**	**0.0%**

Issues

Mental Health Treatment Assessment and Implementation Plan? Last year, the Legislature approved $400,000 for the Youth Authority to contract for a comprehensive mental health treatment assessment and implementation plan. The report was to include a detailed assessment of the prevalence of mental health needs within the population, a proposal for screening and identifying treatment needs on an ongoing basis, recommendations for appropriate treatment programs based on best practices, and an implementation plan for cost-effective treatment services. Due to the importance of the proposal, the Legislature required the chosen consultant to provide the report to the Youth Authority by January 15, 2002. The report has still not been made available to the Legislature.

<u>What is the status of the report</u>?

CYA Technical Assistance Plan. In response to investigations of the Inspector General and recommendations from Secretary Presley, on September 24, 1999, the Governor directed YACA to conduct a comprehensive review of policies and procedures at the California Youth Authority.

In February 2000, YACA directed the Board of Corrections to create a Technical Assistance Plan (TAP) to aid the Youth Authority in improving conditions of confinement within its institutions. At the end of October, an Independent Steering Committee submitted a final report to YACA and the CYA. Since that time the CYA has been working internally to develop a recommended response to the report.

In a six-month status report from January 2002, the CYA indicates that has developed responses and resulting action steps for the 35 recommendations in the TAP, and had set up a process to handle the responses to the 149 proposed regulations in the TAP.

<u>What is the Agency's assessment of the progress CYA has made in implementing the recommendations of the report?</u>

Recent lawsuits at CDC & CYA. In the last two years, there have been several high profile lawsuits against the Youth Authority and the Department of Corrections, including a suit to compel compliance with state laws requiring licensing of inpatient medical and mental health beds at the Youth Authority, a civil rights suit alleging inhumane, discriminatory and punitive conditions at the Youth Authority, and *Plata* inmate healthcare lawsuit at CDC.

<u>What oversight role is YACA performing to prevent future problems that could lead to lawsuits?</u>

Oversight of Departments within YACA. YACA's responsibility as parent agency is to ensure coordination of resources and program among the departments within the Agency as well as performing risk management assessment.

<u>What oversight functions does YACA play in these areas?</u>

5430 BOARD OF CORRECTIONS

The Board of Corrections works in partnership with city and county officials to develop and maintain the standards for the construction and operation of local jails and juvenile detention facilities, as well as standards for the employment and training of local corrections and probation personnel. The board also disburses training funds, administers all County Correctional Facility Capital Expenditure Funds, the Repeat Offender Prevention Program, and the Juvenile Crime Enforcement and Accountability Challenge Grant Project. In addition, the board regularly conducts special studies in penology and corrections.

Board of Corrections - Source of Funds

Program	(dollars in thousands) 2000-01	2001-02	2002-03	Change 01-02 to 02-03	Percent Change 01-02 to 02-03
General Fund	142,887	42,674	88,600	45,926	107.6%
Corrections Training Fund	17,934	19,282	19,569	287	1.5%
1988 County Correctional Facility Capital Expenditure and Youth Facility Bond Fund	346	0	0	0	n/a
Federal Trust Fund	36,994	33,221	58,951	25,730	77.5%
Reimbursements	560	588	588	0	0.00%
Totals	**198,721**	**95,765**	**167,708**	**71,943**	**75.1%**

Budget Overview – The budget for the Board of Corrections (BOC) proposes total expenditures of $167.7 million which is an increase of $71.9 million, or 75 percent above estimated current year expenditures. This increase is due primarily to an increase in local assistance funding for grant awards determined in previous years for which funds will be dispersed in the budget year. For example, the department has scheduled disbursements of $10 million in the current year from the 1998-99 General Fund Construction Program, and $45 million in the budget year.

The proposed funding for state operations is $8.7 million, which is a decrease of $655,000 from the current year. The number of authorized personnel would decrease from 71 positions to 67 positions. The proposed local assistance budget is $159 million, which is $72.6 million greater than current year expenditures. As part of its reductions for the budget year, BOC proposes to eliminate 2.5 positions and a total of $176,000.

Board of Corrections - Summary of Program Expenditures

Program	(dollars in thousands) 2000-01	2001-02	2002-03	Change 01-02 to 02-03	Percent Change 01-02 to 02-03
Corrections Planning and Programs	$125,695	$59,443	$126,739	$67,296	113.2%
Facilities Standards and Operations	49,332	15,047	19,371	4,324	28.7%
Standards and Training for Local Officers	18,189	19,538	19,825	287	1.5%
Administration	323	324	324	0	0.0%
Distributed Administration	-323	-324	-324	0	0.0%
State-Mandated Local Programs	5,505	1,737	1,773	36	2.1%
Totals	**$198,721**	**$95,765**	**$167,708**	**$71,943**	**75.1%**
Authorized Positions	**63**	**71**	**67**	**4**	**-5.2%**

Issues

LA CLEAR. The budget proposes one-time funding of $3 million for the Los Angeles Community Law Enforcement and Recovery (CLEAR) program. LA CLEAR was established in 1997 as a multi-agency gang suppression and community recovery program that has expanded to six sites throughout Los Angeles County. The LAO indicates that the state has provided CLEAR with $14.2 million to date. In the current year the program is funded at $1 million. The CLEAR Executive Committee indicates that an additional $800,000 has been committed by the Governor in the current year for this program.

The LAO recommends deletion of the $3 million because they indicate that it is not clear whether the program reduces crime and there is no information as to how the funds are being used.

A program status update from December 2001 indicates that the CLEAR program has achieved its short-term objectives in terms of reductions in gang crime, effective collaboration among criminal justice agencies, and meaningful community engagement. The report also notes that there has been progress toward the longer-term goal of institutionalizing systems to support stable community recovery from gang violence.

<u>Does the Subcommittee wish to provide funding for LA CLEAR?</u>

5450 Youthful Offender Parole Board

The Youthful Offender Parole Board (YOPB) is the paroling authority for youths committed by the courts. First established by the Legislature in 1941, the Board consists of seven members, each of whom is appointed by the Governor and confirmed by the Senate for four year terms. The primary function of the YOPB is to recommend treatment programs, discharge of commitments, parole conditions for young offenders, revocation or suspension of parole, and the return of nonresident persons to the jurisdiction of the state of legal residence. It also gives each offender a classification based on category of offense.

Budget Request. The budget proposes total expenditures of $3.3 million from the General Fund, a decrease of $182,000 or 5.2 percent from current year expenditures. In order to achieve this 5 percent reduction, the YOPB is proposing to reduce the size of the Sacramento and Glendale offices and to eliminate two clerical staff positions.

YOPB – Summary of Program Expenditures

Program	2000-01	(dollars in thousands) 2001-02	2002-03	Change 01-02 to 02-03	Percent Change 01-02 to 02-03
Youthful Offender Parole Board	**$3,476**	**$3,471**	**$3,289**	**-$182**	**-5.2%**
Authorized Positions	**31**	**33**	**31**	**-2**	**-3.9%**

Issues

Workload. The YOPB has six board members and four board representatives that conduct board hearings. In addition, the chairman and the executive officer also conduct board hearings. The YOPB indicates that it holds approximately 20,000 hearings annually. This number has not reduced in the past several years, despite the fact that the Youth Authority population has decreased from over 10,000 in 1996 to a current population of approximately 6,300. Many of the types of hearings conducted by the YOPB such as the initial hearing, and the annual hearing for a ward are driven by the population of wards.

How many hearings does the YOPB holds annually, and why is this number is not reducing with the recent ward population reductions?

Length of Confinement Time. The length of stay for wards at the Youth Authority (YA) has increased substantially in the last few years. For less serious offenders, the length of stay has increased by 57 percent since 1998. When the Juvenile Court commits a ward to the YA, the court makes a calculation regarding the maximum confinement time for the youth, based upon the maximum time that an adult could face in prison. The number of wards that remain in the YA up to their maximum confinement time has increased dramatically in the last several years. In 1998, only six percent of the YA parole population had no confinement time left. By 2001, that percentage had doubled to 12 percent of the parole population, posing significant challenges to the mission of parole because parole officers hold little authority over parolees with no confinement time left. The length of stay at the YA continues to increase

<u>Why is the YOPB keeping so many wards in YA until they reach their maximum confinement time?</u>

5460 Department of the Youth Authority

The goals of the California Youth Authority (CYA) are to provide public safety through the operation of secure institutions, rehabilitate offenders, encourage restorative justice, transition offenders back to the community, and support local government intervention programs.

Youth Authority -- Funding Sources

Funding Sources	2000-01	2001-02	2002-03	Change 01-02 to 02-03	Percent Change 01-02 to 02-03
	(dollars in thousands)				
General Fund	$347,998	$357,319	$335,700	-$21,619.00	-6.1%
1988 County Correctional Facility Capital Expenditure and Youth Facility Bond Fund	240	346	0	-$346.00	-100.0%
Lottery Education Fund	646	510	792	$282.00	55.3%
Federal Trust Fund	1,471	1,471	1,453	-$18.00	-1.2%
Reimbursements	76,583	77,264	78,270	$1,006.00	1.3%
Totals	**$426,938**	**$436,910**	**$416,215**	**-$20,695.00**	**-4.7%**

Budget Overview. The Governor's Budget proposes expenditures of $416.2 million, a decrease of $20.7 million, or 4.7 percent from the current year. Of the total, $335.7 million is General Fund, which is a decrease of $21.6 million, or 6.1 percent below the current year. Of the General Fund appropriation, $38.1 million is General Fund- Proposition 98, a decrease of $1.2 million from current year expenditures. Authorized positions are proposed to be 4,959, which would be a decrease of 115 positions from the current year. The budget estimates that it will receive $78.3 million in reimbursement in 2002-03. These reimbursements primarily come from fees that counties pay for the wards they send to the CYA.

Ward Population Estimates. The proposed budget estimates that the ward population will decrease by 260 (4.1 percent) to 6,100 on June 30, 2003 from the currently estimated to 6,360 by the end June 2002. The amount estimated for the end of the current fiscal year is 380 wards below the level anticipated in the 2001 Budget Act. The ward population has reduced in recent years from 10,114 wards at the end of the 1995-96 fiscal year. This reduction corresponds with a decrease in juvenile court first commitments, which the department attributes to legislation that increased county fees for the CYA commitment (Chapter 6, Statutes of 1996, SB 681, Hurtt). Long range projections call for the institution population to fall to 5,975 by June 30, 2004 and then begin to increase again slowly in 2004-05, reaching 6,400 by June 2006. The department will be releasing Spring population estimates with the May Revise which will likely include further downward reductions in the ward population estimates.

Parolee Population Estimates. The proposed budget estimates that the parole population will decrease to 4,155 by the end of 2002-03, a decrease of 75 from the 4,230 projected at the end of the current year. The department attributes the expected decrease to the declining institution population that will result in fewer parole releases. The parole population has reduced in recent years from 6,249 at the end of the 1996-97 fiscal year. The fall population estimates project the parole population to gradually decrease to 3,879 by the June 2006.

Youth Authority Program Expenditures					
Spending by Program	(dollars in thousands) **2000-01**	**2001-02**	**2002-03**	Change **01-02 to 02-03**	Percent **01-02 to 02-03**
Institutions and Camps	$309,038	$318,081	$308,160	-$9,921.00	-3.1%
Parole Services	62,406	65,298	55,638	-9,660.00	-14.8%
Education Services	52,660	51,949	50,835	-1,114.00	-2.1%
Administration	27,154	30,200	28,888	-1,312.00	-4.3%
Distributed Administration	-24,320	-28,618	-27,306	1,312.00	-4.6%
Totals, All Programs	**$426,938**	**$436,910**	**$416,215**	**-$20,695.00**	**-4.7%**
Authorized Positions	**4,934**	**5,074**	**4,959**	**-115**	**-2.3%**

Issues

Population Projections. As indicated above, the proposed budget estimates that the ward population will decrease by 260 (4.1 percent) to 6,100 on June 30, 2003 from the currently estimated to 6,360 by the end June 2002. As a result of these projections, the department's caseload budget is proposed to decrease by $7.3 million. The Youth Authority indicates that some of the savings will be derived from the closure of some housing units. The budget projects that there will be a total of 23 units closed by the end of the budget year.

The LAO notes that in recent years, the population projections have tended to be higher than the actual population. Thus, the LAO recommends holding open this amount pending revised population estimates with the May Revision.

Sliding Scale Adjustment. Under current law, counties are required to share the cost of housing juvenile offenders in the YA. For many years, counties paid a flat fee of $25 per month per offender. Chapter 6, Statutes of 1996 (SB 681, Hurtt) made two major changes in the cost sharing arrangement. First, it increased the flat fee that counties pay from $25 per month to $150 per month to account for inflation. Second, it established a "sliding scale" fee structure which adjusts the amount that counties pay monthly based upon the classification of the juvenile offender.

The sliding scale legislation was intended to provide counties with a fiscal incentive to develop and use more locally-based programs for less serious juvenile offenders, thereby reducing their dependence on costly YA commitments. This fee structure was modified somewhat by Chapter 632, Statutes of 1998 (SB 2055, Costa). This measure froze the per capita costs on which the sliding scale fees are based at the levels in effect on January 1, 1997 ($2,600), thereby effectively capping the fees. Accordingly, counties pay 50 percent of per capita costs ($1,300 per month) for category V commitments, 75 percent ($1,950 per month) for category VI, and the full cost ($2,600) for category VII commitments monthly.

The LAO recommends adoption of Legislation to adjust the monthly fee for category I – IV commitments from $150 to $176, category V to $1520, category VI to $2,280, and category VII to $3040 to account for inflation. The LAO believes that this would maintain the fiscal incentive for counties to send their most serious offenders to the YA and offset a portion of the yearly cost increases incurred by the Youth Authority. The LAO estimates that the state could save $9 million in 2002-03 as a result of such action.

CYA Technical Assistance Plan. In response to investigations of the Inspector General and recommendations from Secretary Presley, on September 24, 1999, the Governor directed YACA to conduct a comprehensive review of policies and procedures at the CYA.

In February 2000, YACA directed the Board of Corrections to create a Technical Assistance Plan (TAP) to aid the Youth Authority in improving conditions of confinement within its institutions. At the end of October, an Independent Steering Committee submitted a final report to YACA and the CYA. Since that time the CYA has been working internally to develop a recommended response to the report.

Major findings of the TAP include the following:

- CYA should base its strategic planning around its emphasis on treatment training, and victim and community restoration. The report notes that the mission can not be fulfilled without adequate resources, and concluded that current resources are insufficient.
- CYA should have adequate staffing to meet its mission. In the report, the work group examining staffing issues concludes that there is insufficient staffing at each of its institutions. The report recommends that each institution prepare a staffing plan to determine the necessary level of personnel.
- CYA should develop policies and procedures for discipline to include (1) the personnel authorized to impose sanctions, (2) definitions of minor and major violations, (3) due process requirements, and (4) the levels of punishment, documentation, and review that are appropriate for violations. The report emphasizes that the disciplinary system provide a

continuum of graduated sanctions appropriate to each level of violation.

- CYA should develop policies for providing services to mentally ill wards including (1) mental health screening at intake, crisis intervention and stabilization, and (2) referral of acutely ill wards to a licensed mental health facility and assurance that any seriously ill wards will be assessed by licensed mental health clinicians.
- CYA should establish a multidisciplinary task force to develop a department-wide strategy to address the gang problem within institutions.
- CYA should immediately convene a special committee that includes members from the department and outside correctional consultants/subject matter experts to review the use of cages, with the focus on identifying viable alternatives.
- CYA should provide sufficient management direction and support to the facility Safety Committees, so they can function as an effective component of maintaining facilities in a manner that meets the statutory, regulatory, and department standards.
- CYA should establish a Task Force comprised of multidisciplinary subject matter experts to develop a comprehensive strategy for addressing the gang problem related to the department's population.
- CYA should assess existing academic and vocational opportunities for males and females, examining both the variety and relevancy of the course offerings, and implement modifications that assure all wards have sufficient opportunity to improve and develop their academic and vocational skills.

In a six-month status report from January 2002, the CYA indicates that has developed responses and resulting action steps for the 35 recommendations in the TAP, and had set up a process to handle the responses to the 149 proposed regulations in the TAP.

<u>What has been the CYA's progress in implementing the regulations and recommendations from the report?</u>

Correctional Treatment Center Bed Needs. In May 2000, a lawsuit (*Morris v. Harper*) was brought against YA for not complying with the state licensing requirements for inpatient medical and mental health beds. The lawsuit followed in the wake of news accounts of medical maltreatment of wards. The trial court ruled against the YA stating that although the YA had taken steps toward licensing three of its medical facilities, the licensing requirements were likely not to be completed without judicial intervention. The YA appealed the decision arguing that it was actively seeking licensure. The appellate court rejected the arguments and upheld the decision of the lower court.

YA's plans for licensure at 8 facilities and in their intensive treatment programs have been reduced to pursue licensing of 33 beds statewide at three facilities. As temporary measures, the YA has received DMH approval for 10 at its Southern Reception Center, and has contracted for 10 state hospital beds for acute and sub-acute mental health care of wards over 18.

In addition, the YA has conducted a needs assessment for these beds that will be validated by outside experts. Information from the needs assessment survey have not been made available to the Legislature at this time.
The Subcommittee may wish to get an update on the status of the completed survey.

Mental Health Treatment Assessment and Implementation Plan? Last year, the Legislature approved $400,000 for the Youth Authority to contract for a comprehensive mental health treatment assessment and implementation plan. Due to the importance of the proposal, the Legislature required the chosen consultant to provide the report to the Youth Authority by January 15, 2002. The report has still not been made available to the Legislature.

What is the status of the report?

Program Compliance Unit. The budget requests 5 positions and $725,000 for a program compliance unit, charged with providing management oversight and monitoring of staff compliance with policies and procedures. The overall goal of the unit is risk management and quality assurance.

Does the Subcommittee wish to approve this request?

Increased Energy Costs. The budget proposes $1 million to cover the costs resulting from rate increases for natural gas, electricity, propane gas, diesel fuel, and gasoline.

Does the Subcommittee wish to approve this request?

Cesar Chavez Holiday Pay. The budget proposes $171,000 for the costs related to the Cesar Chavez Holiday.

Does the Subcommittee wish to approve this request?

5460 California Youth Authority

Capital Outlay

The Department of the Youth Authority operates 11 institutions (including two reception centers) and six conservation camps throughout the state. The budget included $2.3 million from the General Fund and $16.7 million from lease revenue bonds for the department's capital outlay program in 2002-03. The budget included the following project proposals.

- $3.9 million from lease revenue funds for construction of a Correctional Treatment Center at Northern California Youth Correctional Center (NCYCC).
- $3.2 million from lease revenue funds for construction of 50 Specialized Counseling Program beds at Southern Youth Correctional Reception Center and Clinic (SYCRCC).
- $1.2 million from lease revenue fund for construction of a special education assessment center at Ventura Youth Correctional Facility.
- $8.5 million from lease revenue funds for construction of a new kitchen facility at Fred C. Nelles Youth Correctional Facility.
- $250,000 for budget package preparation and studies for future capital outlay projects.
- $2.2 million for minor capital outlay projects.

Issues

CTC at NCYCC and Specialized Counseling Program at SYCRCC. The budget includes $3.9 million in lease-payment bonds for construction of a new Correctional Treatment Center at the NCYCC and $3.2 million in lease-payment bonds for construction to house new specialized counseling program beds at the SYCRCC. Both of these projects would provide treatment, counseling, and staffing space for mental health services to wards.

The LAO notes thatto act on these specific proposals, however, the Legislature needs an implementation plan for mental health service delivery which addresses such issues as: (1) the type of services that need to be offered, (2) the estimated number of wards requiring such services, (3) the types of facilities needed to provide required services, and (4) the appropriate location of needed facilities throughout the state.

The department has commissioned an independent program study to identify ward mental health treatment needs and staffing. As discussed above, this study, is not yet available to the Legislature.

The LAO believes that the Legislature does not have the basic information it needs to assess the requests regarding these mental health facilities. Consequently, the LAO withholds recommendation on the two projects, pending receipt and review of the department's study.

<u>Does the Subcommittee wish to hold these two projects open pending receipt of additional information?</u>

Senate Budget and Fiscal Review—Steve Peace, Chair

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Wednesday, April 10, 2002
9:30 a.m.
Room 113

CONSTITUTIONAL AND EXECUTIVE

0650 Office of Planning and Research

Issue

1. Cesar Chavez Grants – 15 Percent Reduction. The budget requested a reduction of a total of $861,000 from the $5 million in grants for Conservation Corps and AmeriCorps programs to create service events involving California' K-12 students. The Subcommittee augmented $861,000 and rejected trailer bill language to reduce the grant.

- The Subcommittee adopted trailer bill language to broaden the eligible applicant pool for Cesar Chavez Day grants to include "at-large" community based organizations (CBOs).

The Subcommittee conceptually adopted supplemental report language requiring a report on expanding the program to CBOs by January 1, 2004.

<u>LAO should present their proposed supplemental report language.</u>

0845 Department of Insurance

The role of the Insurance Commissioner is to regulate the insurance industry, thereby protecting California consumers from abusive insurance practices. The Department of Insurance (DOI) regulates the largest insurance market in the U.S. with over $80 billion in direct premiums written in the state. DOI is charged with ensuring that operations are consistent with the requirements of the Insurance Code and that insurance companies are financially viable and able to meet their obligations to policyholders and claimants. DOI is responsible for investigating complaints and responding to consumer inquiries. The department also administers the conservation and liquidation of insolvent and delinquent insurance companies; reviews and approves insurance rates; and serves as a major contributor in combating insurance fraud.

The DOI budget for the budget year is $166.0 million, of which $162.3 million is from the Insurance Fund.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$155,695	$163,615	$7,920	5.1%	$166,021	$2,406	1.5%
Personnel Years	1107.9	1270.8	162.9	14.7%	1273.6	2.8	0.2%

Issues

1. Funding for Tax Collection and Audit Program. The Board of Equalization (BOE) issues assessments and hears appeals on the insurance tax; the State Controller (SCO) makes refunds and collects delinquencies and penalties; and DOI issues permits, processes returns, and audits taxpayers. The gross premiums tax takes the place of all other state and local taxes except those on real property and motor vehicles.

The gross premiums tax is estimated to generate revenues of $1.7 billion for the General Fund (GF) in 2002-03. Administrative costs for BOE are $404,000 (GF), SCO are unknown minor, and DOI are $1.1 million (GF).

The existing tax collection and audit program of DOI generates $9.5 million for the GF. Until 1996-97, this activity was funded from the Insurance Fund (IF). At that time, there was a shortfall in the IF and DOI eliminated the program. In 1997-98, the audits were reestablished with funding of $908,000 (GF). It would not require a statutory change to shift funding to the IF.

The budget also includes an augmentation of $636,000 (GF) and 7 positions to increase the number of tax audits that is expected to increase GF revenues by $4 million.

The LAO recommends shifting funding of the tax collection and audit program to the IF. The LAO also recommends not approving the $636,000 augmentation (GF) to enable DOI to audit more insurance companies on an annual basis. State policy is to fund the administrative costs of a tax from the fund that receives the revenues (in this case, the GF).

Does the Subcommittee wish to shift the base funding of $1.1 million from the General Fund to the Insurance Fund?

Does the Subcommittee wish to fund the augmentation of $636,000 and if so, from which fund?

2. Elimination of Requirement that DOI Audit All Tax Returns. The LAO also recommends enactment of legislation to eliminate the requirement that DOI audit all tax returns filed by insurance companies and brokers and direct the department to prioritize tax audits.

The LAO contends that it is unnecessary and not cost-effective to audit all tax returns within one year since DOI has four years to issue additional tax assessments. In addition, DOI should prioritize audits in the same manner that the Franchise Tax Board and Board of Equalization do. DOI contends they do prioritize audits.

Does the Subcommittee wish to add trailer bill language to eliminate the requirement that DOI audit all tax returns and instead ask DOI to prioritize tax audits?

3. Supplemental Report Language (SRL) Requiring a Report on Workers' Compensation Premium Fraud. The SRL required DOI to issue a status update on December 1, 2001 and a final report on April 1, 2002 on the department's 2001-02 request to redirect 12 positions to participate in the proposed Employment Misrepresentation Task Force. DOI was directed to report on task force activities; litigation, penalties, and recoveries due to the program; impact on the occurrence of workers' compensation premium fraud by employers; and impact on the Uninsured Employers' Fund.

<u>The Department should present their report.</u>

4. Supplemental Report Language Requiring a Report on Investigative Backlog. The 2001-02 budget required DOI to report no later than March 1, 2002 on the status of the backlog in the Investigations Bureau.

<u>The department should report on status of the backlog.</u>

5. Vacant Positions. The Governor vetoed 30 vacant positions and $1.6 million in the 2001-02 budget act. The budget also added language authorizing DOF to augment the budget by up to $4.9 million (Insurance Fund) to provide funding for personal services as the DOI is able to demonstrate progress in reducing the vacancy rate. The Governor modified the budget bill language to require 30-day notification to the legislature when augmenting the budget. There has been no augmentation to the budget as of the date this analysis was prepared.

The budget includes this same language this year. DOI had an excess vacancy rate of 262 positions in July 2000. Over the last 21 months, DOI reports that they have filled 233 vacant positions.

The department reduced the excess vacancies to 67 on June 30, 2001. On November 1, 2001, the department had 0.1 excess vacant position. The hiring freeze implemented on November 1 has resulted in the department having a more difficult time filling positions when someone leaves. In March 2002, the department had 29 excess vacancies.

<u>DOI should comment on their progress in filling vacant positions.</u>

<u>Does the Subcommittee wish to include the augmentation language in the budget year?</u>

6. Organized Crime Prevention and Victim Protection Act of 1999 Finance Letter. A March 29 Finance Letter requests $1,330,000 (IF) to authorize the first year of a three-year expenditure plan to provide resources to local prosecution offices for automobile insurance fraud interdiction. DOI has identified additional revenues of $3.9 million that can be expended for this program. Since the annual base program is $4.8 million, DOI contends that the funds would be better spent in a three-year expenditure plan. The local fraud investigations are funded by a $.50 fee on automobile insurance policies.

<u>Does the Subcommittee wish to approve this Finance Letter for the first year of a three-year program?</u>

STATE AND CONSUMER SERVICES AGENCY

1880 State Personnel Board

The State Personnel Board (SPB) administers the state's civil service system including competitive examinations, classifications, probationary periods, and disciplinary action reviews.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$18,713	$17,581	($1,132)	-6.0%	$16,130	($1,451)	-8.3%
Personnel Years	161.4	185.6	24.2	15.0%	176.4	-9.2	-5.0%

Issue

1. Post and Bid Issue. Department of Personnel Administration (DPA) and the California State Employees Association (CSEA) Local 1000, SEIU, AFL-CIO reached a tentative agreement to establish a pilot program during the term of the new contract (January 2002 through July 2, 2003) to use a "post and bid" process to fill up to 50 percent of the vacant positions in selected classifications in Bargaining Units 1 and 4. A similar pilot process was also negotiated for certain classifications in Bargaining unit 11.

Post and bid processes already exist in CCPOA, International Union of Operating Engineers and Bargaining Unit 15 (CSEA). The negotiated post and bid process provides that employees who meet all the qualifications for a particular vacant position may "bid" for the vacancy. Employees must meet all the qualifications of the job as required by the State Personnel Board (SPB) before they can be selected. If there are performance problems, the employee cannot bid on a job.

Traditionally "post and bid" has applied to time shift positions, geographic relocations, and vacation selection. The pilot projects described above allow post and bid based on seniority for selected classifications and for promotional positions.

SPB and DPA differ on the impact post and bid will have on the composition of the workforce. Based on Subcommittee direction supplemental report language was drafted:

Does the Subcommittee wish to approve this language?

BUSINESS, TRANSPORTATION AND HOUSING

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 fourteen departments with responsibility for maintaining the strength of California's infrastructure and the efficiencies of its financial markets. The department is funded at $2.7 million, of which $972,000 is from the Motor Vehicle Account and the remainder is reimbursements. There are no augmentations or reductions proposed for the budget year.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$2,744	$2,655	($89)	-3.2%	$2,655	$0	0.0%
Personnel Years	22.3	21.0	-1.3	-5.8%	21.0	0.0	0.0%

2100 Department of Alcoholic Beverage Control

The Department of Alcoholic Beverage Control (ABC) administers the provisions of the Alcoholic Beverage Control Act, which vests the exclusive right and power to license and regulate the manufacture, sale, purchase, possession, and transportation of alcoholic beverages within the state. The budget is funded from the Alcohol Beverage Control Fund.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$34,706	$36,862	$2,156	6.2%	$36,920	$58	0.2%
Personnel Years	435.4	446.7	11.3	2.6%	446.7	0.0	0.0%

Issue

1. Finance Letter for Vehicle Rent Increase. A March 29 Finance Letter is requesting $134,000 to provide funding for increased vehicle rental costs from the Department of General Services (DGS). The budget included $154,000 for increased mileage used by ABC, but did not include an increase in DGS rental rates.

<u>Does the Subcommittee wish to approve the Finance Letter?</u>

2150 Department of Financial Institutions

The Department of Financial Institutions (DFI) was established July 1, 1997 to regulate depository institutions, including commercial banks, savings associations, credit unions, industrial loan companies, and certain other providers of financial services. DFI also licenses and regulates issuers of payment instruments, including companies licensed to sell money orders and/or travelers checks. The budget is supported primarily by the Financial Institutions Fund and the Credit Union Fund. These funds receive revenues from the assessment of various industries, license and application fees, and charges for various other services.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$17,390	$19,152	$1,762	10.1%	$19,474	$322	1.7%
Personnel Years	187.8	207.0	19.2	10.2%	209.8	2.8	1.4%

Issues

1. Increased Workload in Examination of State-Chartered

Credit Unions (SCUs). A March 29 Finance Letter requests $621,000 and 4 positions to provide funding for audits of SCUs. Statute requires DFI to examine SCUs a minimum of once every two years. Currently, the average time is 18.2 months. DOF contends that the quality and thoroughness of examinations has suffered and staff has had to forego vacations in order to maintain this schedule.

The number of SCUs has increased from 193 in 1997 to 218 in 2001 (13 percent). Assets of SCUs have increased from $15.9 billion to $43.7 billion (174 percent) during that same period. The fact that larger federally chartered credit unions are converting to state-charter status accounts for the differential in the growth in number of SCUs and the growth in assets.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

2. General Fund Loan. The budget proposes a loan from the Credit Union Fund (CUF) to the GF of $2.7 million in 2002-03. The CUF has estimated revenues of $4.0 million and a beginning balance of $2.9 million in 2002-03. Estimated expenditures are $2.6 million. The loan would leave a reserve of $1.6 million in the fund. The fee is based on assets and has remained at $.75 per $1,000 in assets for the last three years. The cap on the fee amount is $2.20 per $1,000 in assets.

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. The fund is projected to have a reserve of $1.6 million after the loan. (If the Finance Letter in issue #1 is approved, this reserve will be reduced to $1 million.)

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

3. Augmentation for Predatory Lending Practices. The budget proposes $310,000 (Financial Institutions Fund) and 3 full-time permanent positions to monitor the compliance of banks, credit unions, and other financial institutions the provisions of Chapter 732, Statutes of 2001 [(AB 489 (Migden)], which prohibit certain lending practices. The bill requires lending institutions to consider the financial ability of borrowers to repay loans, with violation of this provision subject to a civil penalty.

This proposal complements augmentations of $10 million for the Statewide Outreach on Predatory Practices program in the Department of Corporations and $224,000 to enforce Chapter 732 in the Department of Real Estate.

The positions established in DFI for monitoring of predatory practices are permanent, those in Department of Corporations are one-year limited term, and those in the Department of Real Estate are three-year limited term.

<u>Does the Subcommittee wish to fund this augmentation?</u>

<u>Does the Subcommittee wish to make these positions permanent?</u>

<u>Does the Subcommittee wish to adopt supplemental report language asking for a report on the implementation of the program by February 1, 2004?</u>

2180 Department of Corporations

The Department of Corporations (DOC) administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. Activities include licensing, examination, investor and consumer education, and responding to public inquiries and complaints. Commencing July 1, 2000, the administration and the enforcement of health care laws were transferred to the Department of Managed Health Care. The DOC is funded from the State Corporations Fund (SCF), which receives revenues from the assessment of regulatory licenses and permits, renewal fees, and charges for various other services.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$23,413	$26,323	$2,910	12.4%	$35,320	$8,997	34.2%
Personnel Years	256.4	275.4	19.0	7.4%	291.8	16.4	6.0%

Issues

1. Statewide Outreach on Predatory Practices (STOPP). The budget proposes $10 million (SCF) and 25 one-year limited term positions to implement the STOPP program, which would target investment and lending fraud. The purpose of the program is to make consumers aware of the DOC's responsibilities, the extent of fraud and abuse in the investment and lending industries, and where to get information and submit complaints.

The one-year pilot program includes the following four components:

- $8.1 million for public education including fair exhibits mass mailings and statewide television commercials. The media campaign focus will be to help seniors, minorities, and other potentially vulnerable populations protect themselves from predatory lending and investments.
- $400,000 to establish an Outreach and Education Office to administer STOPP, develop brochures and public service announcements, organize outreach events, and contact community organizations.
- $800,000 to establish a Call Center, which would consolidate existing resources for responding to consumer complaints and the greater number of calls expected through the STOPP campaign.
- $700,9000 for additional enforcement staff.

The DOC currently has five staff members who respond to 40,000 consumer telephone complaint calls per year. The DOC expects the number of telephone calls to double to 80,000 in the first year and decline to 60,000 per year thereafter. The budget requests an additional $851,000 and 7 additional one-year limited term positions to handle additional consumer complaints.

The LAO recommends deletion of the funding based on experience with the Department of Managed Health Care (DMHC) when they ran a similar campaign. DMHC did not experience an increase in the number of consumer calls. DOC contends that this situation is different because the DMHC number had previously been printed on all medical notices.

The LAO recommends deletion of $720,000 and 17 positions for additional enforcement staff related to the proposed public education and outreach program. The 17 positions are approximately 45% more than currently budgeted. The positions include 4 counsel positions, 8 investigators, 2 examiners, 2 legal assistants, and 1 clerical support. The costs in 2003-04 are expected to be $489,000 because the positions will not be filled on July 1, 2002.

This proposal is complemented by augmentations of $310,000 in the Department of Financial Institutions (DFI) and $224,000 to enforce Chapter 732 in the Department of Real Estate (DRE). The positions established in DFI for STOPP are permanent, those in DOC are one-year limited term, and those in DRE are three-year limited term.

How does the department intend to handle calls in languages other than English?

Does the Subcommittee wish to fund the additional call center positions and dollars on a one-year limited term basis?

Does the Subcommittee wish to fund the additional enforcement positions and dollars on a one-year limited term basis?

Does the Subcommittee wish to adopt supplemental report language requiring the department to report on the implementation of the program by February 1, 2004?

2. Loan to the General Fund. The January budget proposed a loan from the SCF to the GF of $20 million in the budget year. 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. The fund is estimated to have a reserve of $7.1 million after the loan.

A March 29 Finance Letter requested reducing this loan to $11 million and amending the budget to transfer $9 million received from settlements to the GF. Receipt of the settlement funds go back as much as 10 years, although the majority is from a very recent settlement. For each settlement, DOC retains some funds for follow-up.

DOC has indicated that legal settlement funds are civil penalties and are therefore available to both the DOC and the GF. The other revenues in the SCF are examination fees and are to be used exclusively for administering its programs. This would have the impact of reducing the future liability of the GF to the SCF by $9 million and the GF would still receive $20 million from the SCF.

<u>Does the Subcommittee wish to approve the Finance Letter, which would reduce the loan to the GF from $20 million to $11 million?</u>

<u>Does the Subcommittee wish to approve the Finance Letter to transfer $9 million in civil penalties to the GF?</u>

3. Fund Balance Trailer Bill Language. Trailer bill language last year [SB 742 (Peace)] requires DOC to reduce or suspend fees to achieve no more than a 25 percent fund balance by June 30, 2007 and thereafter. Fee levels are to be set at a level to cover anticipated costs, including the maintenance of a prudent reserve, but not to exceed the maximum fees that may be levied on July 1, 2003 pursuant to statute.

DOC reduced notice filings fees for smaller businesses raising capital using non-public filing securities from $300 to $150 effective January 1, 2002. About 10,000 business filers will save between $1.2 and $1.5 million per year.

The fund balance on June 30, 2001 was $27.1 million or 118.2 percent of 2000-01 expenditures. On June 30, 2002, the fund balance is estimated at $30.9 million or 119.5 percent of 2001-02 expenditures.

If the budget did not propose a loan/transfer to the General Fund of $20 million or increased expenditures of $10 million for the STOPP program for 2002-03, the fund balance would be $37.1 million or 105.0 percent of budget year proposed expenditures. Including both the loan and the STOPP program, the reserve would be $7.1 million or 20.1 percent of the budget year expenditures.

The trailer bill language also required DOC to report to the Legislature by February 1, 2002 on the fees to be reduced and the projected revenue and fund balance impact on the State Corporations Fund through the 2006-07 fiscal year. DOC is also required to submit a status update report by November 1 each year from 2002 through 2007.

<u>The department should present their report and comment on their plans to reduce fees in the future.</u>

2240 Housing and Community Development

The Department of Housing and Community Development (HCD) is charged with the responsibility to promote and expand housing opportunities for all Californians. HCD is responsible for implementing and enforcing building standards and a variety of housing finance, economic development, and rehabilitation programs. Of the proposes budget of $208 million, $117.6 million is from the Federal Trust Fund and $37.6 million is from the General Fund (GF). The budget for HCD decreased by 23.7 percent in 2001-02 and 40 percent in the budget year.

In the current year, SB 1 of the Third Extraordinary Session transferred funds from the Jobs Housing Balance Incentive Grants of $59.7. On-going reductions commencing in 2001-02 include $3 million for Downtown Rebound project loans and grants and $45.1 million for the Multifamily Housing Program.

Commencing with the 2001-02 budget, some unencumbered funds appropriated in earlier years were transferred back to the GF. The following table prepared by the LAO shows these transfers, transfers adopted in SB 1 of the Third Extraordinary Session (November Revision), and additional transfers proposed in the budget year. The Governor's budget largely preserves funding for the Farmworker Housing Grant Program ($14 million) and the Emergency Housing Assistance Program ($11.3 million), while eliminating funding for many other department programs. The Governor also proposes a $6 million loan to the GF from the Mobilehome Park Purchase Fund. These programs are discussed in more detail in the issue section of this agenda.

Transfer of Housing Fund Back to the General Fund
(In Millions of Dollars

	2001-02 Enacted Budget	2001-02 SB 1 3X Session	2002-03 Proposed
Homeownership			
Homebuyer's Downpayment Assistance	18.0	--	--
Multifamily Housing			
Base Program	--	45.0	--
Downtown Rebound	--	4.1	--
Other Programs			
Jobs-Housing Balance Incentive Grants	40.0	59.7	0.2
Child Care Facilities	11.0	--	1.4
Totals	69.0	108.9	1.6

(In millions)	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$451.8	$347.1	(104.7)	-23.2%	$208.1	($139.0)	-40.0%
Personnel Years	488.2	496.8	8.6	1.8%	495.9	-0.9	-0.2%

Issues

1. Child Care Facilities Financing Program. This program provides direct loans and loan guarantees for child care facility purchases, expansions, or renovations. In 2000-01, the budget appropriated $16 million for this program. Last year, the budget transferred $11 million of that amount to the GF.

The budget proposes to transfer an additional $1.4 million to the GF in 2002-03. The LAO contends that the amount available for transfer is actually $2.6 million because the budget has not taken into account the ability of one appropriated dollar to guaranty four dollars in loans. Thus since only $500,000 of the $3.1 million in appropriated funds have been committed to guarantees, the available funds for transfer to the GF is actually $2.6 million ($1.2 million higher than the proposed amount).

Staff discussed budget bill language that would provide that if unanticipated expenses related to these outstanding guarantees occur, the Director of Finance is authorized to use Section 27.00 of the budget act to address the deficiency.

<u>Does the Subcommittee wish to augment the transfer to the General Fund by $1.2 million with budget bill language?</u>

2. Mobilehome Ownership. The 2000-01 budget included a $10 million set-aside within the CalHome homeownership program to fund local programs that allow homeowners to repair or replace manufactured housing. $4.2 million of that appropriation remains available. Budget bill language proposes making those remaining funds available for expenditure under the broader Cal-Home program for various homeownership purposes, including mobilehome ownership.

<u>Does the Subcommittee wish to adopt the language?</u>

3. Farmworker Manufactured Housing. The 2000-01 budget set-aside $3 million in the farmworker housing grant program for sites using manufactured housing for 12 or fewer agricultural employees in a cooperative arrangement between the employer and a nonprofit organization. HCD has not received any eligible applications and budget bill language proposes allowing these funds to be granted under the base farmworker program.

Does the Subcommittee wish to adopt the language?

4. Restoration of Vacant Positions. The budget proposes the re-establishment of 2 positions abolished because they were vacant for six months. Both positions are currently filled. One of the positions is in the Interregional Partnership Pilot program that was established in 2000-01. This program awards grants to councils of governments for collaborative work designed to mitigate inter-regional impacts of imbalances of jobs and housing. The other position is in the Housing Element Compliance unit. HCD contends this position is necessary to meet the workload associated with reviewing and approving housing elements.

Does the Subcommittee wish to restore the positions?

5. Employee Housing Plan Check Program Report. Supplemental report language required HCD to report to the Legislature by February 1, 2002, regarding the number of employee housing plan check requests received in 2001 as a result of Chapter 702, Statutes of 2000. That bill imposed specific planning and zoning requirements on local jurisdictions regarding rehabilitation of employee housing for agricultural employees. The report was to include the outcome of each plan check, the status of the review prior to state involvement, the entity that contacted HCD to perform the plan check, and the state cost of performing each plan check.

HCD should present the report.

7. Finance Letter related to Redirection of Positions. A March 29 Finance Letter requests a redirection of two positions and $226,000 from the Jobs/Housing Balance Incentive Grant Program to the Emergency Housing Assistance Program (EHAP). Funding for the Jobs/Housing Balance Incentive Grant Program was reverted in SB 1 of the Third Extraordinary Session, but these positions were not eliminated.

EHAP received a one-time appropriation of $25 million and two limited-term positions that expire June 30, 2002, to make loans for capital development projects. HCD contends that workload for these loans will extend into the budget year.

Does the Subcommittee wish to approve this Finance Letter?

2320 Department of Real Estate

The Department of Real Estate (DRE) protects the public in offerings of subdivided property; ensures that licensed individuals conducting real estate transactions are competent and qualified; prevents fraud, deceit, and misrepresentation; and enforces standards of legal conduct establish for such licenses. The department receives funding from the Real Estate Commissioner's Fund (RECF).

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$28,321	$29,716	$1,395	4.9%	$30,401	$685	2.3%
Personnel Years	308.9	301.4	-7.5	-2.4%	304.3	2.9	1.0%

Issues

1. Loan to the General Fund. The RECF had a beginning balance of $19.5 million on June 30, 2000. DRE has the following revenue and expenditures (in millions of dollars) over the last 3 years:

	2000-01	2001-02	2002-03
Balance	19.5	14.6	14.5
Revenues	23.4	28.9	27.7
Expenditures	27.6	29.0	29.7
Transfer to GF			9.9
Ending Reserve	14.6	14.5	2.7

The DRE has been spending more each year than they receive in revenues. Real estate licenses are issued for four years, thus the number of new and renewal licenses varies by year and causes a fluctuation in revenues.

Business and Professions Code Section 10226.5 provides that if funds are transferred from the RECF to the GF by the Budget Act, fees shall be reduced to the same level as 1982. If this occurred, the rollback of fees would hamper the ability of DRE to operate.

The budget proposes a loan (not a transfer) from the RECF to the GF of $9 million in the budget year. 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. The fund is projected to have a reserve after the loan of $2.7 million.

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

2. Augmentation for Predatory Lending Practices. The budget proposes $224,000 and 3 three-year limited term positions to monitor the compliance of banks, credit unions, and other financial institutions the provisions of Chapter 732, Statutes of 2001 [(AB 489 (Migden)], which prohibit certain practices in the mortgage lending industry.

This proposal complements augmentations of $10 million for the Statewide Outreach on Predatory Practices program in the Department of Corporations and $310,000 to enforce Chapter 732 in the Department of Financial Institutions.

The positions established in DRE to monitor predatory practices are three-year limited term permanent, those in Department of Corporations are one-year limited term, and those in the Department of Financial Institutions are permanent.

<u>Does the Subcommittee wish to fund this augmentation?</u>

<u>Does the Subcommittee wish to fund the augmentation on a limited-term or permanent basis?</u>

GENERAL GOVERNMENT

8380 Personnel Administration

The Department of Personnel Administration (DPA) manages the nonmerit aspects of the state's personnel system. The role of DPA is to insure proper administration of existing terms and conditions of employment for state civil service employees. The State Employer-Employee Relations Act established a formal, bilateral process of employer-employee relations. The right to meet and confer in good faith requires DPA to review existing terms and conditions of employment subject to negotiation, to develop management'' negotiation positions, to represent management in negotiations, and to administer negotiated memoranda of understanding (MOUs).

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$43,234	$80,193	$36,959	85.5%	$67,029	($13,164)	-16.4%
Personnel Years	244.3	279.6	35.3	14.4%	276.9	-2.7	-1.0%

Issue

1. Post and Bid Issue. See issue #1 under 1880 State Personnel Board.

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. To support the operations of a force of 23,000, the department maintains a headquarters complex in Sacramento, 127 armories, 33 equipment maintenance facilities, and 10 air bases throughout the state.

The $95.9 million budget is primarily funded by $57.6 million from the Federal Trust Fund and $34.3 million from the General Fund. Additional federal funding of $464 million supports the Military Department, but those funds are not deposited in the State Treasury.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$84,972	$103,312	$18,340	21.6%	$95,939	($7,373)	-7.1%
Personnel Years	689.3	781.8	92.5	13.4%	824.8	43.0	5.5%

Issues

1. Turning Point Academy. The Turning Point Academy (TPA), which was established by SB 1542 (Schiff) in 2000, is a residential military academy at Camp San Luis Obispo. To be eligible for the TPA, the juvenile must be 15 years of age or older and a first-time offender for having possessed, sold, or furnished a firearm on a school campus or at a school activity. TPA operates a six-month program.

SB 1979 (Costa), sponsored by the Administration, would extend the sunset date from July 1, 2002 to July 1, 2004 and expand the eligibility to include juveniles whose records include one previous offense. It would expand the eligible offenses to include assault with a knife; selling or possession of a controlled substance; possession of a knife, explosive, imitation firearm, or other dangerous object; assault or battery upon a school employee; damage or stealing of school property; harassment of a complaining witness; or caused, threatened, or participated in an act of hate violence. The bill is set for hearing in Public Safety Committee on April 16.

Enrollment in TPA has fallen significantly below projected levels. TPA originally expected to enroll 360 cadets (180 for each six-month term). In the current year, the projected enrollment at TPA was 160 cadets (80 per six-month term). In 1999-2000, there were only 154 students expelled for a firearms-related offense according to the Department of Education (DOE). The number of firearms–related offenses have decreased since DOE began collecting data in 1997-78.

There are currently eight cadets enrolled (two arrived in the last two weeks). Five cadets have graduated since inception of the program. With funding of $2.9 million, the state is spending an average of about $350,000 per cadet. This average would come down substantially with higher enrollment since some of the costs are fixed.

SB 1 (Peace), of the Third Extraordinary Session, reduced the current year appropriation of $5.8 million (GF) for the TPA by

$2.1 million due to lower than projected cadet population. The budget proposes a reduction of $4.4 million for 2002-03, leaving funding of $2.9 million.

A report to the Legislature on the effectiveness of this program is due July 1, 2002. The report is required to include :

- Information regarding management of daily operations.
- A statistical description of the participating youth.
- Number of cadets successfully completing the program.
- The arrest, re-incarceration, and probation violation rates of wards or former wards who successfully completed the academy.
- Cost of the program per participant.
- A description of the programs and services provided.
- A description of any allegations of staff misconduct.
- Any additional data or information that the Military Department deems relevant to an objective assessment and evaluation of the operation of the program.

An independent researcher recommended by the LAO performed the evaluation of the academy.

<u>The Department should comment on the program and give a progress report?</u>

<u>Does the Subcommittee wish to refer the issue of the sunset date and the program expansion to Public Safety Committee?</u>

<u>Does the Subcommittee wish to fund this program at $2.9 million given the lower than anticipated participation and sunset date of January 1, 2003?</u>

2. Bridge Security. DOF requested increased costs of $3.9 million (federal funds) to deploy security personnel to guard the Golden Gate, San Francisco-Oakland, Vincent Thomas, and Coronado bridges on November 2, 2001. The Governor issued the directive to guard the bridges and funding is a state responsibility unless the federal government decides to provide funding.

The original request was through a Section 28 letter, which allows DOF to request increased authority to expend unanticipated funds made available to the state for specific purposes. The LAO indicated that it would be more appropriate for DOF to submit a Section 27 letter requesting authority to expend funds from the GF, since no federal funds had been received. The Chair of the JLBC requested that DOF submit a request for funding once the source of funding is clear. On January 24, 2002, DOF submitted a Section 27 letter requesting $3.9 million (GF) for bridge security. In this letter, DOF indicated that they will "actively seek federal fund reimbursement for any GF resources utilized for this security mission".

The Governor has also requested $6 million in federal funds for bridge security in 2002-03. There is no indication that the state will receive federal funds for this purpose.

<u>The Military Department and DOF should comment on their progress in obtaining federal funds for this purpose both in the current and budget year.</u>

<u>Does the Subcommittee wish to fund the bridge security costs in the budget year?</u>

3. National Guard Border Patrol. In the current year, the National Guard is providing assistance to the Border Patrol and INS at the request of the President. This assignment is expected to continue for 6 months while the federal government hires more Border Patrol agents to replace the National Guard troops. Because this is a presidential order, these troops are on federal active duty and are paid by the federal government.

Federal agents at the border in each state have determined whether the guardsmen will be armed. California is the only state where guardsmen are not armed at this time.

<u>The department should comment on the status of the National Guard providing assistance to the U.S. Border Patrol.</u>

4. State Honor Guard/Military Funerals. The budget provides $1.3 million (GF) and 27 temporary help positions to provide military funerals to California veterans of all armed services. According to the U.S. Department of Defense Authorization Act of 1999, all veterans are entitled to a military funeral and one must be provided upon request. The California National Guard is designated to perform these services. The federal government has chosen to underfund this mandate.

Budget bill language was adopted directing the Military Department to seek federal funds to implement requirements of federal law that entitle veterans to military funerals. The Military Department was to report by December 1, 2001 on its progress in obtaining permanent federal funds. Last year, the Adjutant General reported that he was involved in ongoing talks with the federal government on this issue, but nothing definite had been decided.

In 2001, the Legislature adopted supplemental report language asking the Military Department to report on:

- The status and nature of the federal requirements and the department's compliance with them;
- Any federal funds made available for this purpose;
- Any funds secured by the department; and
- Its progress in obtaining permanent federal funds to support these activities. This report was due December 1, 2001.

<u>The department should present the report.</u>

5. Capital Outlay. The budget requests $9.5 million (GF) for the following proposals:

- $6.1 million for design and construction of a new armory in Azusa.
- $2.3 million for design and construction of a new armory in Lancaster.
- $225,000 for design to replace the electrical distribution system at the Los Alamitos Airfield.
- $855,000 for minor capital outlay projects.

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

The LAO withheld recommendation on funding the capital outlay program pending receipt and review of the department's phase II facility master plan because absent this information, the Legislature cannot assess the department's facility needs and priorities.

Last year, the Legislature appropriated $545,000 for the Military Department to complete the phase II portion of their facility master plan to identify deficiencies in, and assess the condition of, the department's facilities, and identify solutions. The goal was an automated 20-year Master Plan Report that provides specific objectives recommendations for which facilities to build, renovate, or expand.

<u>The LAO and the Military Department should comment on the facility master plan and the proposed capital outlay expenditures in the budget year.</u>

6. Santa Ana Armory. Defer issue until May 8 hearing.

PROPOSED CONSENT CALENDAR

2120 Alcoholic Beverage Control Appeals Board

The Alcoholic Beverage Control Appeals Board consists of three members appointed by the Governor. The Board provides a forum for appeal to persons who are dissatisfied with ABC's decision to order penalties or issue, deny, condition, transfer, suspend, or revoke any alcoholic beverage license. The Board receives funding from the Alcoholic Beverage Control Appeals Fund, whose source of funds is a surcharge on ABC license fees.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$678	$759	$81	11.9%	$758	($1)	-0.1%
Personnel Years	8.7	8.8	0.1	1.1%	8.8	0.0	0.0%

2310 Office of Real Estate Appraisers

The Office of Real Estate Appraisers (OREA) administers a program for licensing of real estate appraisers in federally related loan transactions. Persons licensed by OREA must conduct all appraisals for federally regulated real estate financing transactions. The department receives funding from the Real Estate Appraisers Regulation Fund.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$3,169	$3,741	$572.0	18.0%	$3,349	($392)	-10.5%
Personnel Years	35.2	36.6	1.4	4.0%	29.0	(7.6)	-20.8%

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Monday, April 22, 2002
1:30 p.m.
Room 113

PROPOSED CONSENT CALENDAR

CONSTITUTIONAL OFFICERS

STATE AND CONSUMER SERVICES AGENCY

CONTROL SECTIONS

CONSTITUTIONAL AND EXECUTIVE

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.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$22,398	$31,554	$9,156	40.9%	$26,340	($5,214)	-16.5%
Personnel Years	216.7	233.6	16.9	7.8%	232.2	-1.4	-0.6%

Issues

1. Additional Positions for Tobacco Securitization. The budget requests $220,000 for two new permanent positions to implement and manage the Tobacco Securitization Bond Program. The budget proposed to borrow against future Master Tax Settlement payments by issuing a bond to generate a one-time increase in General Fund revenues of $2.4 billion. This proposal would require legislation.

The LAO recommends that the funding for the two new permanent positions and $220,000 (GF) be deleted because the great majority of the workload will be handled through contracts with financial advisors, bond counsel, and underwriters. Those costs are generally paid from the bond proceeds.

<u>Does the Subcommittee wish to leave this issue open until the May Revision?</u>

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.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$2,012	$2,702	$690	34.3%	$2,481	($221)	-8.2%
Personnel Years	17.7	24.1	6.4	36.2%	24.1	0.0	0.0%

Issues

1. General Fund Loan. The budget proposes a loan from the Occupancy Compliance Monitoring Account (OCMA) to the GF of $20 million in 2002-03.

The OCMA has estimated revenues of $7.5 million and a beginning balance of $30.4 million in 2002-03. Estimated expenditures are $1.0 million. The loan would leave a reserve of $16.8 million, or 16 times 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>

2. General Fund Loan. The budget proposes a loan from the Tax Credit Allocation Fee Account (TCAFA) to the GF of $20 million in 2002-03.

The TCAFA has estimated revenues of $4.9 million and a beginning balance of $25.5 million in 2002-03. Estimated expenditures are $1.5 million. The loan would leave a reserve of $8.9 million, or about 6 times 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.

Does the Subcommittee wish to approve the loan?

0974 Pollution Control Financing Authority

The California Pollution Control Financing Authority (CPCFA) was established in 1972 to provide California businesses with a reasonable method of financing pollution control facilities and to foster compliance with government imposed environmental standards and requirements. The CPCFA consists of the State Treasurer, the State Controller, and the Director of Finance.

Issues

1. General Fund Loan. The budget proposes a loan from the California Pollution Control Financing Authority Fund (CPCFAF) to the GF of $20 million in 2002-03.

The CACFAF has estimated revenues of $2.7 million and a beginning balance of $49.7 million in 2002-03. Estimated expenditures are $17.6 million. The loan would leave a reserve of $14.7 million, or 84 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.

The State Treasurer contends that there is a need to repay this loan by October 1, 2004 because the fund expends about 5 times more than it takes in annually, so the reserve is a funding source.

Does the Subcommittee wish to approve the loan?

STATE AND CONSUMER SERVICES AGENCY

1111 Department of Consumer Affairs

The Department of Consumer Affairs (DCA) serves as an umbrella agency for semi-autonomous boards, commissions, and committees that regulate over 200 professions. DCA is responsible for providing consumer protection while promoting a fair and competitive marketplace. The 2002-03 budget for Consumer Affairs, boards, bureaus, and divisions totals $337.2 million. The budget also proposes 2,928.1 personnel-years (PYs), which reflects a decrease of 20.3 PYs over the current year.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$371,281	$434,707	$63,426	17.1%	$337,212	($97,495)	-22.4%
Personnel Years	2754.9	2948.4	193.5	7.0%	2928.1	-20.3	-0.7%

Issue

1. Rent Increase. A Finance Letter requests an augmentation of $445,000 ($186,000 one-time reconfiguration costs and $259,000 rent increase). This will result in ongoing costs of $518,000 to support rent increases for its headquarters building located at 400 R St. in Sacramento. This request is funded from special funds of the various bureaus and board of the Department of Consumer Affairs (DCA).

Does the Subcommittee wish to approve the Finance Letter?

2. Controlled Substance Utilization Review and Evaluation System (CURES) Finance Letter. Request for $124,000 (GF) for the Department of Justice (DOJ) would continue the CURES program. The Finance Letter also asks for an additional $125,000 in reimbursement from DCA from the Medical Board, Pharmacy Board, Dentistry Board and Osteopathic Board. CURES is an electronic monitoring of the prescribing and dispensing of Schedule II controlled substances by all practitioners authorized to prescribe or dispense these substances.

Subcommittee 4 will not act on the DOJ portion of this issue until their May 6 hearing. Does the Subcommittee wish to conform the action on this item to the action on the DOJ portion of the Finance Letter?

1111 Bureau of Automotive Repair

The Bureau of Automotive Repair (BAR) administers the Automotive Repair Program and the Smog Check Program. Both programs are intended to protect consumers in the automotive repair marketplace, promote consumer education, and discipline unethical service dealers and technicians.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$120,976	$120,900	($76)	-0.1%	$116,244	($4,656)	-3.9%
Personnel Years	648.5	624.0	-24.5	-3.8%	606.5	-17.5	-2.8%

Issue

1. Program Reduction in Consumer Assistance Program (CAP). BAR is responsible for administering CAP, which provides qualified consumers financial assistance toward the repair or the retirement of a vehicle that fails its biennial Smog Check inspection. The program has been funded from the High Polluter Repair or Removal Account (HPRRA) through the Smog Impact Fee and the Smog Abatement Fee. The $94 million in revenue from the Smog Impact Fee deposited in HPRRA was transferred to the GF in the current year. Because CAP must mow relay solely on the Smog Abatement Fee, the budget proposes to abolish 18.5 positions and reduce expenditures by $26.5 million on an ongoing basis. The reserve in the fund is projected to be $1,000 on June 30, 2003.

Program expenditures in 2000-01 were $47 million. The transfers in 2001-02 resulted in expenditures being reduced to $29.5 million. Funding is proposed at $21 million in the budget year.

BAR proposes to allocate more resources to the Repair Assistance portion of the program than the retirement option. Funding for this program will be reduced from $24.2 million to $12 million. Since California will be directing more vehicles to test-only stations, there will be more consumers eligible for CAP services.

BAR proposes to reduce funds available for vehicle retirement from $15.1 million to $4.5 million. This would be partially achieved by reducing the maximum state expenditure per vehicle from $1000 to $500. This change can be made through regulation.

BAR also proposes to reduce administrative costs from $8.2 to $4.5 million. Part of this reduction will be to reduce public awareness expenditures from $800,000 to $0. BAR plans to rely on its own internal mechanisms, such as its web site and the Consumer Information Center, as well as its partnerships with community based organizations, Test-Only stations, and DMV to educate consumers about CAP.

<u>The Bureau should comment on their changes to the public awareness program.</u>

2. General Fund Loan. The budget proposes a loan from the Vehicle Inspection and Repair Fund (VIARF) to the GF of $70 million in 2002-03. There was a transfer from this fund of $5 million in the current year.

The VIARF has estimated revenues of $113.8 million and a beginning balance of $95.4 million in 2002-03. Estimated expenditures are $105.3 million. The loan would leave a reserve of $35.9 million, or 34 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.

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

1111 Bureau of Barbering and Cosmetology

The Bureau of Barbering and Cosmetology is a separate bureau within the Department of Consumer Affairs (DCA), which serves as an umbrella agency for semi-autonomous boards, commissions, and committees that regulate over 180 professions. The 2002-03 budget for the Bureau totals $11.6 million from the State Board of Barbering and Cosmetology Fund, an increase of $600,000 over the current year. The Bureau has 88.6 authorized positions.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$9,345	$11,037	$1,692	18.1%	$11,634	$597	5.4%
Personnel Years	92.7	91.1	-1.6	-1.7%	91.1	0.0	0.0%

Issue

1. Los Angeles Facility Relocation. Last year, the Bureau received a budget augmentation of $615,000 ($228,000 ongoing) for the Los Angeles Examination Site Relocation. The Bureau is requesting an additional $519,000 ($103,000 ongoing) for increased tenant improvement and rent costs. This increased cost is due to the expanded square footage, increased rent per square foot, and increased full-year ongoing rent costs. The Los Angeles site tests 20,000 of the 30,000 applicants tested annually.

A new Real Estate Services Division (RESD) review determined that a larger facility is required. RESD narrowed the proposed sites to 5 sites in the Glendale/Burbank area.

<u>The Bureau should report on the status of their progress in finding a site east of the 605 Freeway.</u>

<u>The Bureau should present information about where the applicants for cosmetology licenses reside.</u>

1140 Athletic Commission

The Athletic Commission (AC) sets standards for boxing and full-contact karate matches to ensure the contestants are properly matched. The AC enforces these standards through examinations, regulatory inspections, and attendance by Commission representatives at all matches, exhibitions, and closed circuit events. The majority of funding for the AC is from the General Fund.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$865	$1,058	$193	22.3%	$926	($132)	-12.5%
Personnel Years	10.6	13.4	2.8	26.4%	11.0	-2.4	-17.9%

Issue

1. Mixed Martial Arts. In 1999, a new form of full-contact martial arts that has been held “underground” and at Indian Reservations. This fighting is also known as submission fighting (Mixed Martial Arts).

Business and Professions Code Section 18640 provides that this type of event falls under the auspices of the State Athletic Commission. It is unclear whether further statutory changes are necessary to authorize these events.

Mixed martial arts is mainly a grappling sport, where techniques such as joint manipulation and choke holds are used to force an opponent to submit. Chokeholds to the front of the throat are not permitted; however, chokeholds are permitted to the carotid artery. The carotid artery is located on the side of the neck. It would cut off blood flow to the brain to cause black out or death if a participant were choked for an extended period. Because of the danger of this sport, it is imperative that this sport be regulated to prevent fighters from being injured or killed.

Regulating Mixed Martial Arts would require an augmentation of $200,000 (GF) to the Athletic Commission. This augmentation would cover the costs for two permanent full-time staff and two intermittent inspectors to supervise events. The Commission currently has about 2,000 licensees in boxing and martial arts and it projects that it will have 7,000 licensees alone in mixed martial arts.

New Jersey and Nevada have implemented Mixed Martial Arts regulations and used the California proposed regulations as a model.

This proposal is estimated to result in revenues of about $700,000 (GF) from license fees and gate tax.

<u>Does the Subcommittee wish to augment the budget by $200,000 (GF) to regulate Submission Fighting?</u>

<u>Does the Subcommittee wish to adopt trailer bill language to clarify the Athletic Commission's authority over Mixed Martial Arts?</u>

1230 Contractors' State License Board

The Contractors' State License Board (CSLB) licenses and regulates contractors in more than 40 license classifications that constitute the construction industry. Currently there are approximately 300,000 licensed contractors in California. The CSLB also registers home improvement salespersons.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$45,324	$50,248	$4,924	10.9%	$49,203	($1,045)	-2.1%
Personnel Years	438.2	454.9	16.7	3.8%	454.9	0.0	0.0%

Issue

1. General Fund Loan. The budget proposes a loan from the Contractors' License Fund (CLF) to the GF of $5.0 million in 2002-03. The CLF has estimated revenues of $45.4 million and a beginning balance of $19.3 million in 2002-03. Estimated expenditures are $48.8 million. The major source of revenue to the fund is renewal fees of $31.5 million.

The loan would leave a reserve of $11.6 million, or 24 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.

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

1250 Dental Board of California

The Dental Board establishes qualifications for licensure as a dentist, hygienist, assistant, expanded function auxiliary or professional corporation. The Board also approves dental schools and training programs; sets requirements for continuing education; receives complaints and investigates possible violations of the Dental practices Act; and enforces policies against unlicensed practice.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$7,447	$9,076	$1,629	21.9%	$8,774	($302)	-3.3%
Personnel Years	56.1	61.1	5.0	8.9%	61.1	0.0	0.0%

Issue

1. General Fund Loan. The budget proposes a loan from the State Dentistry Fund (SDF) to the GF of $5.0 million in 2002-03. The SDF has estimated revenues of $7.5 million and a beginning balance of $7.6 million in 2002-03. Estimated expenditures are $6.9 million. The major source of revenue to the fund is renewal fees of $5.6 million.

The loan would leave a reserve of $3.1 million, or 46 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.

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

2. Finance Letter for Enforcement Program Monitor. The Dental Board is requesting an increase of $100,000 in the budget year and $75,000 in 2003-04 to implement the mandates of SB 26 (Figueroa) of 2001. This bill requires the board to pay for all costs associated with the employment of a dental board enforcement program monitor. This monitor must submit an initial written report of findings and conclusions to the Legislature by September 1, 2002 and every six months thereafter through March 31, 2004.

<u>Does the Subcommittee wish to approve the Finance Letter?</u>

1490 California State Board of Pharmacy

The Board of Pharmacy regulates individuals and firms that ship, store, and dispense prescription drugs and devices to the state's health care providers and patients. The Board sets requirement for the licensure of pharmacists and health and safety standards for the licensure of pharmacies, drug wholesalers, clinics, and other licensees.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$6,765	$7,745	$980	14.5%	$7,330	($415)	-5.4%
Personnel Years	49.6	54.9	5.3	10.7%	54.9	0.0	0.0%

Issue

1. Finance Letter to Establish and Enforce a New License to Compound Sterile Injectable Drugs. The Finance Letter requests $309,000 in the budget year and $272,000 ongoing to fulfill the mandates of SB 293 (Torlakson) of 2001 that established a new license class that requires annual inspections by pharmacy inspectors before a license to compound sterile injectable drugs is issued or renewed. The Board is requesting 2.2 additional positions and operating equipment and expenses.

Does the Subcommittee wish to approve the Finance Letter?

1510 Board of Registered Nursing

The Board of Registered Nursing (BRN) licenses registered nurses; enforces violations of the Nursing Practice Act; provides a diversion program to intervene with chemically dependent or mentally ill nurses; oversees nursing school programs; and provides public information.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$13,921	$15,090	$1,169	8.4%	$17,937	$2,847	18.9%
Personnel Years	86.7	91.9	5.2	6.0%	91.9	0.0	0.0%

Issue

1. Increased Enforcement Authority. The Board requests a two-year limited term augmentation of $1,631,000 (Board of Registered Nursing Fund) for Attorney General (AG) costs, Office of Administrative Hearings (OAH) costs, and to pay evidence and witness fees. This proposal is intended to address the growing backlog and the increase in the number of new cases referred to the Board for enforcement. The backlog in cases has increased from 318 cases in 1997-98 to 550 at the end of 2000-01. This is a 73 percent increase in backlog in three years. Without this augmentation, the AG estimates the backlog will grow to 787 by the end of the budget year.

Cases referred have increased from 227 in 1997-98 to 320 in 2000-01, an increase of 40 percent.

<u>Does the Subcommittee wish to approve this augmentation?</u>

2. Finance Letter for Governor's Nurse Workforce Initiative. The focus of this request is to recruit and retain Registered Nurses (RNs) in California in light of a severe nursing shortage. This proposal is one component of a comprehensive proposal that funds from the Workforce Enforcement Act and would not entail General Fund money. The proposal is being coordinated by the Health and Human Services Agency and includes plans for training positions in hospitals, community colleges or the CSU system; expansion of five regional workforce collaboratives to train 2,400 license nurses through the Community Colleges and CSU system; and expansion of the Central Valley Health Care Training Program to train an additional 300 licensed nurses. The BRN is working with the Health and Human Services Agency on this proposal.

This request is $354,000 on a two-year limited term basis and a one-time brochure design and development of $10,000 in the budget year.

BRN is absorbing the following workload:

- Streamlining licensing procedures.
- Online application process
- New nursing programs and expansion of existing programs.

The following are components intended to be funded from this Finance Letter:

- Nursing Workforce Survey Research. This research will focus on current workforce information, information from RNs who have inactive or lapsed licenses, and information from employers of RNs. This component will cost $206,500 per year for two years.

- Expert Advisory Committees: An Education Advisory Committee and a Nursing Workforce Advisory Committee will be established with total costs of $40,381.

- Recruitment Outreach through Brochures. A brochure would be included with the 12,000 renewal notices that are sent to RNs each month. The brochure is intended to encourage non-practicing RNs to return to active practice and to enlist the help of thousands of RNs at the grassroots level to encourage students to go into nursing. This component will cost $67,400 over two years.

Does the Subcommittee wish to approve this Finance Letter?

3. General Fund Loan. The budget proposes a loan from the Board of Registered Nursing Fund (BRNF) to the GF of $5.0 million in 2002-03. The SDF has estimated revenues of $14.4 million and a beginning balance of $17.8 million in 2002-03. Estimated expenditures are $16.9 million. The major source of revenue to the fund is renewal fees of $10.0 million.

The loan would leave a reserve of $10.3 million, or 38 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?

1760 Department of General Services

The Department of General Services (DGS) provides support services to operating departments.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$889,412	$913,736	$24,324	2.7%	$853,530	($60,206)	-6.6%
Personnel Years	3848.0	4119.6	271.6	7.1%	4124.3	4.7	0.1%

Issue

1. Finance Letter Related to School Renovation and Repair Program. This Finance Letter requests $136,000 in reimbursements from Item 6110-202-0890 to be scheduled in Item 1760-001-0666. It also requests two, two-year limited-term positions for workload and program management at the Office of Public School Construction associated with the new federal program.

This issue is a very small part of what is primarily an education issue that will be heard in Subcommittee No. 1.

Does the Subcommittee wish to defer this issue until after the Subcommittee No. 1 hearing?

2. State Building Seismic Retrofit Program. The voters passed Proposition 122 in 1990, which provided $300 million in G.O. bonds for Earthquake Safety and Public Buildings Rehabilitation Bond Act. This provided $250 million for state buildings (excluding higher education) and $50 million for matching grants for local government buildings. Currently only about $23 million of the state's share of bond proceeds have not been expended.

The budget proposes not to start any new seismic projects in the budget year. The budget does include $21.1 million to either complete or continue design and construction for ten previously authorized projects. These projects have a future cost for completion of $47.3 million (mostly in 2003-04). The remaining 19 projects on the department's current list would cost $60 million to construct.

The LAO believes that this proposal is reasonable, but would like to caution the Legislature that approval of the seismic proposal would commit the state to a General Fund cost of up to $47.3 million in 2003-04. An alternative would be to fund a more limited number of projects that could be completed within the existing bond funds.

The LAO recommends adopting Supplemental Report Language (SRL) directing DGS to prioritize future seismic retrofit projects using actual occupancy rather than code occupancy. This will more accurately reflect the risk to life posed by the seismically deficient buildings.

> The SRL should state "The department shall use risk level and then actual building occupancy to prioritize future seismic retrofit projects rather than code occupancy".

<u>The Department should comment on this issue.</u>

3. Finance Letter related to Reappropriation of Local Seismic Grant Funding. This Finance Letter would reappropriate up to $3.9 million for nine local seismic grants that were reappropriated by Item 1760-491, Budget Act of 2001. Proposition 122, the Earthquake Safety and Public Building Rehabilitation Bond Fund of 1990 authorized this funding.

<u>Does the Subcommittee wish to approve the Finance Letter?</u>

4. Capitol Security. There is an increased need for security at the State Capitol. It is proposed that DGS be augmented by $4.5 million (GF) for this purpose.

<u>Does the Subcommittee wish to approve this augmentation?</u>

5. Inmate Telephones. Telephone service providers install equipment in prison facilities on which only collect calls can be made. The state collects a commission on these calls and the calls are costly for inmate family members.

Inmates currently can only make collect calls. Collect calls are charged a $3.00 connection fee and the call recipient is charged $0.50 per minute. The call is automatically disconnected after 15 minutes resulting in an additional collect call if the recipient wishes to continue the conversation (with another $3.00 connection fee). The average 11-minute call received within California is $8.50.

Over the course of the past few years, concerned members of the Legislature have suggested alternatives to the collect call costs. One proposal would allow inmates to make pre-paid station-to-station calls. Inmates would pre-pay their calls by using calling cards or by charging calls to an inmate phone account, similar to the inmate trust account from which funds are drawn for purchases at the canteen.

Under this concept, the California Department of Correction's (CDC) telephone security practices would continue to operate as they do now. Conversations would still be monitored; automated announcements and warnings would still be given; and access to telephones by inmates would still be controlled. CDC would potentially have more control over inmate access under this concept because it could require inmates to register a pre-approved list of telephone numbers that they might call using their pre-paid account. This would significantly reduce the concern that inmates might use their telephone privileges to contact victims or conduct criminal activities.

A pre-pay system would significantly drop the cost to the many family members with whom inmates keep in contact. In addition, the number of uncollectibles, which is a major complaint of service providers, would virtually disappear.

DGS plans to go to a new system similar to the federal system where each inmate would have a pre-paid account with a limited number of telephone numbers the inmate could call. This system will take about three years to implement.

In the interim, DGS signed a contract in February with existing vendors that will result in significant reductions to inmate families. Calls from the Youth Authority (YA) and State Hospitals (SH) are expected to be reduced by 78 percent and from the CDC by 25 percent. The cost of an 11 minute call within California will range from $3.15 to $5.08 depending on whether the inmate is at CDC, SH or YA. These lower costs should continue or be lower when the new system is in place in three years.

There will still be a General Fund revenue stream from surcharges of about $26 million per year.

The department should comment on the status of inmate telephone service.

6. State Printing Policy. In the 1995 budget act, a provision was added providing that the Office of State Printing (OSP) may 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. The only mandated printing was for the Governor's Office, the Legislature, and ballots. Thus, state agencies could get 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.

On October 23, 2001, DGS reclassified agency print purchases as "personal service contracts". A state agency is required to send all printing projects to OSP. "OSP will offer to produce all printing that conforms to the OSP's facility equipment capacity and ability. Printing projects that do not conform to the OSP's equipment capacity and ability may be procured through the OSP procurement unit. Printing services cannot be contracted with an outside vendor unless there is a valid Government Code Section 19130 justification for doing so. "

Some of the provisions of Section 19130 include cost-savings with no displacement of state employees and does not adversely affect the state's affirmative action efforts.

The Printing Industries of California has indicated concern on this issue.

The budget proposes trailer bill language that would require departments to first offer the printing project to OSP for any project over $5,000. The section would sunset the later of the effective date of the Budget Act of 2003 or June 30, 2003.

The Department should comment on this issue.

Does the Subcommittee wish to approve trailer bill language?

7. Finance Letter for Various Increases from the Service Revolving Fund. This Finance Letter requests the following increases from the Service Revolving Fund.

- CAL-Buy eProcurement System - $12,754,000 to expand the existing capabilities of the CAL-Buy system by adding on-line capability for the California Multiple Award Schedules, Master Agreements, and the Request for Proposal/Request for Qualifications processes.

  The LAO withholds recommendations on this proposal until they have more information. The LAO states that they have not seen savings from this system. DGS contends the system will save at least $50 million per year.

- California Enterprise IT Project (State Bar of California) - $74,000 to fund the ongoing costs of maintaining the State Bar's presence on the State Portal.

  LAO has no issues with this component of the proposal.

- Deferred Maintenance/Special Repair Projects - $3,754,000 at DGS's standard rental rate office buildings, the Attorney General Building, the Elihu Harris Building, the Junipero Serra Building and the Riverside Towers.

  LAO has no issues with this component of the proposal.

- Lease Revenue (Cal EPA Building) - $301,000 for the increased cost of lease revenue payments and insurance on the lease revenue bond for the Cal EPA Building. Since this is not a State-owned building, it is being addressed outside of the traditional lease revenue update Finance Letter.

LAO has no issues with this component of the proposal.

Does the Subcommittee wish to approve the Finance Letter?

8. Trailer Bill. The administration is proposing trailer bill language that would exempt DGS, for a one-year period, from various current law provisions. These exemptions would allow: The purpose of this language is 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. In short, this language helps DGS provide its services on a cost-competitive basis.

This trailer bill does the following:

- Delegates the authority to approve Architectural Revolving Fund transfers to DGS,
- Exempts the department from filing an application of discharge with the State Controller's Office when it has been determined it is no longer cost effective to pursue collection efforts,
- Gives the department the option to procure goods usually purchased from the Prison Industry Authority from the private sector when it is cost beneficial to do so,
- Allows the Director of DGS to certify funds are available in the case of the department's liability for a legal settlement,
- Allows DGS to accept advertising for the promotion of sales in State publications,
- Authorizes the Director of DGS to approve the deposit of checks into the Architectural Revolving Fund,
- Authorizes the Director of DGS to certify funds for payment for all legal court settlements for projects funded from the Architectural Revolving Fund.

Ask the Department to comment on why they are requesting these exemptions.

Does the subcommittee wish to adopt the proposed trailer bill language?

9. Asset Planning and Enhancement (APE) Branch. The APE requests $2 million (Property Acquisition Law Money Account) to fund consultant services to assist in the sale of various properties to ensure optimum use for state operations and maximize potential revenue for the state. The sale of these assets is expected to result in General Fund revenue of $85 million in 2002-03.

The properties affected include:

- Agnews Developmental Center
- California Institution for Men- Chino
- Bay Area Research and Extension Center (Winchester Property)

The Administration is proposing trailer bill language allowing the state to sell, lease, or exchange the real property known as the Bay Area Research Extension Center.

<u>Does the Subcommittee wish to adopt this trailer bill language?</u>

10. State Emergency Telephone Number Account (SETNA). Supplemental Report Language (SRL) required DGS to analyze the appropriateness of 911 surcharges to California telephone subscribers. This analysis shall take into consideration the growing number of cellular telephone subscribers, need to maintain current 911 operations, and enhance 911 wireless services, and the need to maintain an adequate reserve in SETNA.

Cellular telephones do not have the same capabilities as landlines. Wireless 911 cannot selectively route emergency calls to the most appropriate public safety agency. 911 calls are directed to the California Highway Patrol (CHP) who must interview the caller to determine the most appropriate agency to handle the emergency. Current changes to the wireless system requirements adopted by the FCC and state law now require 911 wireless services to be similar to the services on the landline system. This "enhanced network" requires wireless carriers to incur equipment and network costs associated with the enhanced wireless service. This proposal would reimburse local service providers for their increased costs.

The State Emergency Telephone Number Account is funded through a 911 surcharge that is placed on customers' monthly telephone bills, including cellular telephone service. Local agencies that provide 911 services request funds from this account as necessary to maintain 911 operations.

The budget transferred $63.2 million from this account to the GF in the current year.

11. Native American Grave Protection and Repatriation Act (NAGPRA). SRL last year stated intent that DGS comply with all terms of the NAGPRA. DGS was required to report by November 1, 2001 on the extent to which its museums, galleries, and other programs that contain Native American artifacts have complied with NAGPRA. DGS shall also provide a copy of all inventories that have been submitted to the federal government in compliance with NAGPRA.

CONTROL SECTIONS

4.40 E-Business Center

This control section provides that DOF shall augment any special fund budget item to fund the cost of payments to DGS for services provided by the e-Business Center related to Licensing, e-Marketplace, e-Jobs, and Online Bidding. An augmentation by DOF may be made no sooner than 30 days after notification to JLBC. In no case may a fee increase be imposed to support an augmentation pursuant to this section.

Issue

1. Finance Letter. A March 29 Finance Letter requests to expand the capabilities of the e-Business Center by eliminating e-Marketplace projects and adding four new projects:

- How to Open a Business in California.
- Active Forms Pilot.
- Online Filings.
- Online Assistance for Customers.

These additions were recommended by the Business Needs Survey and the Government Business Process Review.

<u>Does the Subcommittee wish to approve the Finance Letter?</u>

CONSENT CALENDAR

CONSTITUTIONAL AND EXECUTIVE

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.

0959 California Debt Limit Allocation Committee

The California Debt Limit Allocation Committee (CDLAC) oversees the state's allocation system for the issuance of "private activity" bonds. "Private activity" generally refers to industrial development bonds, housing bonds, and exempt facilities bonds for solid waste disposal.

0965 California Industrial Development Financing Advisory Commission

The California Industrial Development Financing Advisory Commission is a five member commission chaired by the State Treasurer. The other members are the Director of Finance, the State Controller, the Secretary of the Trade and Commerce Agency, and the commissioner of Corporations. The enabling legislation for this commission allowed cities and counties to issue industrial development revenue bonds, which are subject to the state's "private activity" bond ceiling. The Commission is funded by fees collected from applicants and from bond proceeds.

0971 California Alternative Energy and Advanced Transportation Financing Authority

The California Alternative Energy and Advanced Transportation Financing Authority provides an alternative method of financing the construction and installation of facilities using alternative methods and sources of energy.

STATE AND CONSUMER SERVICES AGENCY

1111 Registered Veterinary Technicians
1111 Hearing Aid Dispensers
1120 California Board of Accountancy
1170 Board of Behavioral Science
1250 Committee on Dental Auxiliaries
1420 Physical Therapy Board
1440 California Board of Podiatric Medicine
1450 Board of Psychology
1485 Osteopathic Medical Board
1550 Veterinary Medical Board

GENERAL GOVERNMENT

8500 Board of Chiropractic Examiners

The Board of Chiropractic Examiners licenses chiropractors, sets educational standards for recognized chiropractic colleges, reviews complaints, and investigates violations of the Chiropractic Act.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$1,845	$2,226	$381	20.7%	$2,301	$75	3.4%
Personnel Years	10.5	12.5	2.0	19.0%	12.5	0.0	0.0%

8530 Board of Pilot Commissioners

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun licenses and regulates pilots for vessels entering or leaving the bays.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$706	$1,185	$479	67.8%	$1,185	$0	0.0%
Personnel Years	2.0	2.0	0.0	0.0%	2.0	0.0	0.0%

8855 Bureau of State Audits

The objective of the Bureau of State Audits is to provide independent audits of the programs and fiscal operations of state government. The Bureau performs financial, performance, and investigative audits.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$10,426	$11,384	$958	9.2%	$11,349	($35)	-0.3%
Personnel Years	125.0	145.0	20.0	16.0%	144.0	-1.0	-0.7%

CONTROL SECTIONS

4.80 State Public Works Board Interim Financing

This control section provides that in the event, bonds authorized for issuance by the State Public Works Board are not sold and interim financing costs have been incurred, departments shall pay those costs out of their support budgets.

6.00 Project Alteration Limits

No more than $100,000 of the funds appropriated for support purposes may be encumbered for preliminary plans, working drawings, or construction of any project for the alteration of a state facility unless the Director of Finance determines that the alteration is critical and it is necessary to proceed.

9.50 Minor Capital Outlay Projects

Provides that for minor capital outlay projects, a department is authorized to carry out its own project and the costs shall be determined in accordance with the Government Code.

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Dick Ackerman
Joseph Dunn

Wednesday, April 24, 2002
9:30 a.m.
Room 3191

5480 Commission on Correctional Peace Officers' Standards and Training

The objective of the Commission on Correctional Peace Officers' Standards and Training (CPOST) is to enhance the training and professionalism of California's state correctional peace officers through the development of sound selection practices and effective, competency-based training programs.

CPOST is composed of six commissioners serving four-year terms. Two commissioners are appointed by, and represent, the management of the Department of Corrections, and one commissioner is appointed by, and represents, the management of the Department of the Youth Authority. Three Commissioners are appointed by the Governor upon recommendation by, and representing the membership of, the California Correctional Peace Officers' Association. Since of July 1, 2000, the CPOST has been separate from the Youth and Adult Correctional Agency, functioning as an independent entity within this agency.

Budget Request. The budget proposes total expenditures of $2.2 million from the General Fund and 20 positions to develop, approve, and monitor selection and training standards for California's correctional peace officers. This amount is a decrease of $142,000, or 6 percent from current year expenditures.

No issues have been raised.

<u>Does the Subcommittee wish to approve CCPOST as budgeted</u>?

5240 DEPARTMENT OF CORRECTIONS

The Department of Corrections (CDC) is responsible for the control, care, and treatment of men and women who have been convicted of serious crimes and entrusted to the department's Institution and Community Correctional programs. In addition, the CDC maintains a Health Care Services Program to address inmate health care needs, and a civil narcotics treatment program for offenders with narcotic additions.

Budget Overview. The budget proposes $4.8 billion for the CDC, which is a decrease of $28.3 million, or 0.6 percent, below the estimated current year budget. As the table below shows, General Fund expenditures are proposed to decrease by $2.1 million, or less than 0.1 percent from current year expenditures. The decrease is due primarily to cost factors related to the projected decrease in inmate and parole populations, the elimination of five expiring private Community Correctional Facility (CCF) contracts, and the cancellation of an additional 425 Community Correctional Reentry Center beds.

CDC – Source of Funding

	***Expenditures** (dollars in thousands)*				***Percent***
Fund	**2000-01**	**2001-02**	**2002-03**	**Change**	**Change**
General Fund	$4,525,648	$4,693,262	$4,691,144	-$2,118	0.0%
Federal Trust Fund	2,565	1,934	2,017	83	4.3%
Inmate Welfare Fund	45,157	45,994	45,825	-169	-0.4%
Special Deposit Fund	626	0	0	0	n/a
Reimbursements	91,239	89,658	63,601	-26,057	-29.1%
Totals, Programs	**$4,665,235**	**$4,830,848**	**$4,802,587**	**-$28,261**	**-0.6%**

Authorized Positions. Authorized positions for the department are proposed to decrease by 81, or less than 1 percent, from the current year numbers to 45,024. The primary reason for the decrease is due to declines in the estimated inmate and parole populations.

CDC – Summary of Program Expenditures

	***Expenditures** (dollars in thousands)*				***Percent***
Program	**2000-01**	**2001-02**	**2002-03**	**Change**	**Change**
Institution Program	$3,451,211	$3,627,679	$3,600,388	-$27,291	-0.8%
Health Care Services Program	675,597	734,718	735,225	507	0.1%
Community Correctional Program	535,548	463,025	464,975	1,950	0.4%
Administration	128,695	137,996	140,969	2,973	2.2%
Distributed Administration	-128,695	-137,996	-140,969	-2,973	2.2%
State Mandated Local Program	2,879	5,426	1,999	-3,427	-63.2%
Total	**$4,665,235**	**$4,830,848**	**$4,802,587**	**-$28,261**	**-0.6%**
Total Authorized Positions	**43,406**	**45,024**	**44,943**	**-81**	**-0.2%**

Population Projections. At the time of the budget's introduction in January, the department's total inmate population was projected to decrease from 156,409 on June 30, 2002, to 155,721 by June 30, 2003, a decrease of 688 inmates, or 0.4 percent. The spring 2002 projections estimate that the inmate population will decline from 157,881 on June 30, 2002 to 157,331 on June 30 2003, a decrease of 550 inmates, or 0.3 percent.

Parole Population Projections. At the time of the budget's introduction in January, the department's parole population was projected to decrease from 120,523 on June 30, 2002, to 116,811 by June 30, 2003, a decrease of 3,712 parolees, or 3.1 percent. The spring 2002 projections estimate that the parole population will decline from 119,636 on June 30, 2002 to 117,233 on June 30 2003, a decrease of 2,403 parolees, or 2 percent.

Issues

1. Population Estimates. In the current fiscal year, the inmate population has decreased more slowly than previously projected. The LAO notes that during the first half of the year, the inmate population was projected to decrease by 5,300 inmates from the prior year, but that it had only decreased by 4,300, approximately 1,000 inmates higher than estimated in the spring 2001 projections. As of March 31, the total inmate population was 157,035 – about 730 inmates above the fall projections. The population has reduced by about 3,500 inmates (or 2 percent) from than the population one year ago.

The CDC will issue updated population projections for spring 2002 that will form the basis for the department's May Revise proposal. Those population projections are consistent with the trend in the current fiscal year – a slight increase from previous estimates, and a continuing decline in actual population . The CDC and the BPT indicate that some portion of the increase from previous estimates is due to inmate processing delays in the reception centers related to Proposition 36, and internal paperwork processing delays.

The LAO withholds recommendation on CDC's caseload funding request pending the May Revision.

<u>Does the Subcommittee wish to hold open CDC's caseload funding pending the May Revision?</u>

2. Current Year Deficiency. The CDC has had General Fund deficiencies for several consecutive years, due largely to ongoing structural problems with the department's budget.

The CDC has a pending $52.5 million deficiency for the prior year. The CDC has indicated that their most recent monthly budget projections estimate a shortfall of approximately $277 million in the current year.

According to CDC, the budget deficits are the result of unfunded merit salary adjustments, court orders that drive program expansions, and high vacancy rates which drive up overtime costs.

At the Subcommittee hearing on April 8, the LAO recommended that the CDC report at budget hearings on its efforts to address its structural budget problems in the current year and the budget year.

What is CDC doing to reduce its deficiency?

3. Delano II. Chapter 54, Statutes of 1999 (AB 1535, Florez) provided authority for $311.5 million in lease revenue bonds in order to construct a new 2,248 bed maximum security prison at Delano. Construction was scheduled for full completion in early 2004, with occupation of certain parts of the prison to begin in late 2003. Construction of the prison had been halted as a result of legal actions surrounding environmental impact reports. The CDC reports that the court has recently approved moving forward with the project.

The CDC reports that the project schedule has slipped about three months from the time of the January 10 budget proposal. The CDC indicates that previously bid contracts were placed on hold and will not need to be rebid.

The budget proposes $957,000 from the General Fund for a total of 12.7 activation positions which are proposed to begin at various times in the budget year. Based on the new schedule for the project, the CDC estimates that approximately 4.2 additional positions and an additional $488,000 would be needed to activate the institution in November 2003. The CDC indicates that a adjustment will occur at the May Revise.

What is the current schedule of the project?

4. Community Correctional Facilities. The CDC currently contracts with public and private entities for the operation of 16 Community Correctional Facilities (CCFs) throughout the state. Generally, the inmates sent to these minimum security facilities are deemed low risk by the CDC and are within a year of their release. The Governor's budget proposes to deactivate five private CCFs in the budget year and transfer approximately 1,435 inmates to other prison facilities for a net General Fund savings of $5.1 million in 2002-03. The affected facilities are Mesa Verde in Bakersfield; McFarland CCF in Kern County, Leo Chesney Center in Live Oak, Baker CCF in Baker, and Eagle Mountain in Riverside County. At the end of the fiscal year, the contracts for these facilities will expire.

Revised estimates, based on the CDC's overcrowding rate of $14,797 per year would reduce the budgeted savings to $2.8 million. Under the proposal, contracting costs would be reduced by $24 million and an additional $21.2 million and 239 positions would be allocated among CDC's institutions, based upon per capita allotments.

Given the deficiencies that CDC is running, the overcrowding rate may not be sufficient to cover the actual costs for housing additional inmates at CDC. In the current year, CDC estimates that its costs may exceed budget authority by as much as $277 million. To the extent that the overcrowding rate understates the costs CDC faces, any potential savings may be significantly reduced. In addition, the increase of 239 positions may worsen the CDC's structural budget problems related to vacant positions and overtime.

<u>Does the Subcommittee wish to deactivate five private CCFs?</u>

5. Closure of a Women's Facility. CDC is experiencing a decline in its female inmate population. Between June 30, 1999 and June 30, 2001, the female population dropped by 771 inmates, or about 7 percent. Based on the spring 2002 projections , the female inmate population is expected to drop by another 1,091 inmates, or 10 percent, between June 30, 2001 and the end of the budget year.

According to data provided by the CDC, the Northern California Women's Facility (NCWF) is one of CDC's most expensive institutions to run. In 2001-02, the average cost per inmate at state institutions was $27,796 in 2001-02, while the average cost for an inmate at NCWF was $38,593. NCWF has a budget of $19.9 million, but incurred a deficit of nearly 4 million, or 20 percent.

At the time of its *Analysis*, the CDC estimated potential savings of $8.5 million in the budget year as a result of closure of NCWF. Due to the time lag in achieving savings the CDC now estimates savings of $4.5 million in the budget year, and $8.7 million ongoing. The LAO notes that there may be additional savings related to costs avoidance for overtime at nearby institutions that could also result from the closure of NCWF. The CDC estimates that the overtime cost avoidance may be over $1 million.

<u>Does the Subcommittee wish to close a women's facility?</u>

6. Medical Co-Payment. In a Bureau of State Audits (BSA) report from January 2000, BSA estimated that CDC could save $2.5 million by eliminating the $5 co-payment that prisoners are now required to make for most prison health services. BSA found that the $654,000 generated on average a year by prisoner co-payments was much less than expected and exceeded the administrative coasts of the program. Co-payments are used to offset the costs for medical care.

The program was originally implemented in order to deter inmates from making unnecessary healthcare visits. When the program was initiated, CDC's General Fund allocation was reduced by $1.7 million and replaced with an equal amount of reimbursement authority. No new positions were authorized for this workload. The CDC indicates that the co-payment forms are processed by existing staff and that the program has increased the data entry backlog for its accounting divisions. The CDC has indicated that it has experienced an approximate deficit of $900,000 per year for this program.

The Department of Finance indicates that the elimination of the program would create a deficit in the healthcare budget for CDC unless the amount previously collected was backfilled with General Fund.

<u>Does the Subcommittee wish to eliminate the medical co-payment program</u>?

7. Personnel Management Issues. In January 2000, a BSA audit concluded that the CDC had failed to effectively manage sick leave usage and its holiday and leave programs, and as a result was incurring high overtime costs that are largely driven by the use of sick leave by custody staff. Additionally, the report highlighted that CDC had allowed excess vacation and annual leave accrue to a liability of $79 million. At the time, BSA estimated that allowing these balances to accrue will cost an additional $62 million in four years.

CDC indicates that it has taken a number of steps to improve personnel management practices, including developing better personnel management information systems, reviewing leave policies and practices, establishing Overtime Avoidance Pools, and taking progressively aggressive disciplinary actions against employees that abuse sick leave.

Last year, the Legislature approved $36.5 million to realign the current budgeted relief pattern for existing posted positions to accurately cover vacation accrual and sick leave usage rates.

In order to determine the effectiveness of CDC's ability to reduce overtime and the significant liability of accumulated leave balances, the Legislature adopted supplemental report language directing CDC to report annually by January 10 on its effectiveness in reducing sick leave usage and in increasing the appropriate usage of budgeted vacation and other leave time, and to report on the net fiscal effect of these changes on the department's personnel expenditures.

In addition, the BSA released a second audit report in November 2001 regarding CDC's fiscal management which raised many of these same issues.

<u>What is the status of the Personnel Management Report?</u>

8. Workers' Compensation Request. The budget proposes an ongoing $22.4 million to address the CDC's workers' compensation shortfall. Specifically, the budget proposes $21.3 million for workers' compensation claims and $1.1 million for increased service fees from the State Compensation Insurance Fund (SCIF).

The CDC attributes the increase to increases in salaries and the number of budgeted positions. The CDC notes that between 1997-98 and 1999-00, the total claims filed as a percentage of positions remained level at 31 percent. In addition, CDC notes that according to data from the SCIF, the costs of CDC's claims as a percentage of total payroll is lower for CDC (4.8%) than the CHP (7.8%), DMH (5.5%), and CYA (6.4%).

Expenditures for workers' compensation have nearly doubled from 67.6 million in 1995-96 to an estimated $134.2 million in the current year.. The current base budget for workers compensation is $91.1 million.

Last year the Legislature provided an additional $21.8 million in one time funds for this purpose. In addition, the Legislature approved the creation of a Workers' Compensation Fraud Program, and adopted Supplemental Report Language directing CDC to report on workers' compensation expenditures and CDC's plan for reducing expenditures.

<u>What is the status of the report on workers' compensation?</u>

9. Patton State Hospital DMH Population Increase. The budget proposes $427,000 from the General Fund and seven positions to establish additional security in the areas of medical guarding, perimeter security, patient visiting, and transportation for Patton State Hospital due to the scheduled increase of the CDC population at Patton. The request is for a two-year limited-term, pending completion of the Sexually Violent Facility at Coalinga.

The LAO raised issues concerning the need for this expansion given a slowdown in CDC's need for additional hospital beds. The CDC has indicated that it is reviewing this proposal as part of its analysis for the May Revision.

Does the Subcommittee wish to approve this request?

10. Abolished Vacant Positions. The budget proposes to reestablish 82 positions that were abolished pursuant to Government Code 12439. A total of 139 such positions were abolished. The funding for these positions has remained in the CDC's budget.
The CDC is seeking reestablishment of 34 positions related to safety and security and 48 positions related to court mandates and direct patient care. Under the proposal, CDC would retain the funding attached to 57 positions which would remain abolished.

Does the Subcommittee wish to reestablish these positions?

11. IVP Position Activations. The budget propose $5.1 million associated with the costs for activation of 99 positions from Institution Vacancy Plans (IVPs). The previous bargaining contract allowed for up to 12.5 percent of posts to be held vacant and included in an institutions IVP. The savings from these vacancies helped the institution offset other personal services costs. The new bargaining contract calls for CDC to reach a statewide average of 5 percent for its IVPs. The CDC indicates that the agreement to bring these positions online results in an additional cost which cannot be redirected or absorbed given its current deficit.

Does the Subcommittee wish to approve this request?

12. Compliance Audit Teams. The Subcommittee chair has observed that there appears to be a "disconnect" between what is stated as policy at Headquarters, and the policy actually implemented at each facility, in many substantive areas. The most recent example of this is in implementing the proposed regulations related to visiting - many prisons began to enforce the proposed regulations even though they weren't yet finalized by HQ.

There has been discussion of establishing Compliance Audit Teams who would be charged with going to institutions regularly and randomly to ensure that HQ policies are being appropriately followed.

Have these Compliance Audit Teams been established?

13. Fiscal Impact of the Recent MOU with Bargaining Unit 6. The CDC's recently MOU signed with Bargaining Unit 6 will be in effect until July, 2006. Preliminary estimates of the impact of that agreement on the department's budget appear significant.

What is the fiscal impact of the recent agreement?

14. Personnel Disciplinary System. The Inspector General's Office recently completed an audit of the Department's Personnel Disciplinary System. Among other things, the audit found that:

- The needless complexity of the employee disciplinary process causes delays that impair the ability of the CDC to take appropriate action against employees found to have engaged in misconduct.
- The CDC has no clear guidelines for defining the prescribed one-year period for investigating alleged misconduct and imposing disciplinary action against peace officers.
- Employee relations officers are not provided with adequate training, and lack the necessary experience to handle employee disciplinary actions.
- The CDC legal staff only gets involved after the cases go to the State Personnel Board

What is the CDC's response to the OIG's findings?

15. Gang Management Policy. The CDC has recently undertaken a review of its gang management policy, as it pertains to inmates who are given an indeterminate sentence to SHU, and to the way that inmates are segregated by race.

What is the status of this review?

16. Elderly Inmates. As part of its options for addressing the state's fiscal crisis, the LAO raised as a potential option the release to parole for certain non-serious, non-violent offenders age 60- and older.

What is the potential cost savings?

17. Respiratory Protection Program. The budget proposes $620,000 for a respiratory protection program. The CDC indicates that this request would provide appropriate resources to allow it to address the medical evaluation portion of CAL/OSHA requirements.

Does the Subcommittee wish to approve this request?

HEALTHCARE SERVICES

18. Pharmacy Costs. The CDC's medical expenditures have increased significantly in recent years. The budget proposes total expenditures of $735.2 for the Health Care Services Division, which is an increase of $169.3 million since the 1999-00 budget year. In a January 2000 report commissioned by the Legislature, the BSA found that the CDC does not fully or adequately use many standard managed care practices that could help hold down CDC's medical costs. In particular, BSA found that the CDC uses only limited methods to contain costs and ensure uniform care and that medical operating costs vary widely among the prisons providing medical care. The BSA also determined that rapidly growing CDC pharmacy costs could be reduced if the department employed more effective contracting methods.

Last year, the Legislature approved an augmentation of $56.9 million for medical/psychiatric supplies. The base budget for medical/psychiatric supplies is $68.1 million. The CDC had indicated that the costs for these supplies had increased from $26.6 million to $77.5 million in the previous 5 years. The CDC notes that the costs are increased primarily due to the increasing prevalence of seriously mentally ill inmates, and new expensive drug therapies for HIV.

The Legislature adopted budget bill language restricting the use of these additional funds until the CDC has developed a plan for implementation of the recommendations from a pharmacy services report for which the Legislature had appropriated $400,000 in 2000-01.

What is the status of the pharmacy services report?

19. BSA Audit on Medical Care/Pharmaceuticals. The Bureau of State Audits issued a report in January 2002 regarding the containment of drug costs and management of medications for adult inmates. The BSA recommends that the Health Care Services Division of CDC:

- Update its formulary and monitor compliance so that it can identify prescribing practices that are not cost-effective.
- Ensure that prisons receive monthly contract compliance reports and use them to monitor noncontract purchases.
- Prepare an analysis to determine whether it has the appropriate division of responsibilities between its pharmacists and pharmacy technicians.
- Accelerate the acquisition and implementation of the Strategic Offender Management System (SOMS) and its health care management component.

What steps has the CDC taken to implement the recommendations from the BSA audit?

20. Implementation of Plata. CDC had entered into a settlement agreement with The Prison Law Office regarding the Plata v Davis class action lawsuit related to improvements to the delivery of medical services at CDC institutions. No funds have been requested in the budget year for implementation of the health care improvements from the Plata settlement agreement.

Last year, the Legislature approved $15.9 million and 162 positions for Phase II implementation of improvements to the delivery of medical services at four institutions. This funding was intended to expand improvements to the chronic care and sick call programs intended to improve access to emergency, urgent, and routine medical care, similar to those implemented at institutions housing female inmates.

What is the status of the Administration's plan for implementing improvements to healthcare delivery?

21. DMH Hospital Caseload. In order to ensure CDC's compliance with a federal court order for the appropriate care of seriously mentally ill inmates, the CDC contracts with the Department of Mental Health (DMH) for intermediate care beds. The LAO recommends a reduction of $7.1 million because CDC will use fewer beds than projected in state mental health hospitals operated by DMH. The LAO indicates that the budget for such beds is 255, but it projects CDC to use only 180 beds.

The CDC indicates that it has completed a bed needs survey which is being reviewed by the Coleman Special Master.

Does the Subcommittee wish to reduce the budget for DMH hospital caseload?

22. Mandated Patient Information Management System. Last year, the Legislature approved a Finance Letter for $7.9 million to procure and implement a patient information management system at Pelican Bay State Prison in response to a federal court order.

The CDC is a defendant in class action litigation entitled Madrid v Gomez, which determined that there was inadequate delivery of health care services to patients at Pelican Bay State Prison (PBSP). In the court's order of January 24, 2001, the court states that the current system for scheduling and tracking patient appointments at PBSP is inadequate and ordered the replacement of the current system with a patient management system that provides for the management and control of patient appointments concerning essential elements related to the Remedial Plan.

The budget proposes to reappropriate $7.2 million for this project. CDC indicates that the project is moving forward on schedule. Does the Subcommittee wish to approve this reappropriation?

PAROLE SERVICES

23. Accountability for Parole Agents – Role in ensuring successful reintegration. Parole agent decisions drive a large part of the Department's budget. According the CDC's latest numbers, 54% of all parolees are returned to prison for a parole violation (not a new crime). There are over 121,000 parolees in California. Thus, over 65,000 are returned to prison every year for a violation. The average cost to incarcerate an inmate is over $27,000 per year. If 65,000 parolees are returned every year for an average of 4 months, it is costing over $ 1/2 billion every year to house them.

What incentives does CDC have to encourage parole agents to keep parolees successfully engaged in the community instead of violating them?
Does the Subcommittee wish to cap the number of parolees that can be sent back to prison every year?

24. Employment Training Programs. The CDC has 3 employment training programs - EDD, JobsPlus, and Offender Employment Continuum (OEC). A recent Bureau of State Audits report found that a job placement through the OEC program cost $1,439 vs. a placement through Jobs Plus, which cost $615, including administrative costs. The report stated "the department could have saved over $700,000 and provided jobs for over 500 more parolees by expanding [Jobs Plus] and eliminating [OEC]."

Why does the CDC keep a program that appears to not be cost-effective?

25. Reimbursement Rate for CCRCs. The CDC currently contracts for 1,100 Community Correctional Re-entry Center beds. Non-violent inmates are allowed to be placed in a CCRC if they are within 120 days of release. Inmates receive transitional, reintegration services while in a CCRC, such as job skills training, anger management, substance abuse treatment, life skills, and other services necessary to ensure a successful transition to parole. Current contracts provide for an average reimbursement rate of $43.71 per day for these inmates. The actual cost to provide all the necessary services is closer to $52 per day, depending on the geographic location. Last year, this subcommittee included budget bill language to increase the rate of reimbursement for 500 beds to $56 per day. That language was taken out of the budget.
No CCRC operator has ever had a cost of living adjustment.

<u>Does the subcommittee wish to authorize an increase in the rate of reimbursement for CCRCs</u>?

26 Elimination of CCRCs. In 1999, the Legislature authorized the CDC to contract for 500 additional CCRC beds. To date, those beds have not been activated. The proposed budget calls for eliminating the authority to contract for 425 of those beds.

<u>Why haven't those beds been activated</u>?

27. Parolee PAC orientations. The CDC requires parolees who parole to any of 10 participating parole districts to attend this program within a week of being paroled. The program brings together local law enforcement, parole agents, and community providers in one place, to provide information and services to parolees just released from prison.

<u>How much would it cost to expand this program to every parole district and how much would it save the state in lesser parole revocation costs and parolee-at-large costs?</u>

28. Foreign-Born Parolees. Over 5,000 parolees are undocumented residents that can be deported and transferred to the INS caseload. The annual cost to supervise a parolee is approximately $2,600. If all the parolees were deported, the state would save $14.1 million.

<u>Should the committee take action to require CDC to pursue this option?</u>

29. More Community Based Placements for Non-Violent Offenders. Currently, it costs approximately $2,600 to supervise a parolee. Placement in a residential treatment facility costs $6-8,000/year. The department estimates that if all non-violent inmates who have less than 12 months to serve on their sentence were placed in the community on a high-supervision parole caseload, there would be a cost savings of $82 million in the budget year.

In light of the above discussion about the cost of the revolving door of parolees into the institutions, does the subcommittee want to recommend this option?

30. Mandatory Pre-Release and/or Halfway House placement – successful reintegration. Currently, only 5 percent of inmates participate in the Department's 3-week pre-release program. The pre-release program gives inmates some basic skills and resources to survive once released.

As previously discussed, CDC contracts for 1,100 re-entry facility beds. Every year, over 100,000 inmates are paroled. The vast majority of them have not received any type of pre-release or re-entry services prior to being released into the community. The recidivism rate is close to 70%. Research shows a correlation between inmates who go through a re-entry program that prepares them for successful reintegration into the community and a low recidivism rate.

Should the CDC require all inmates to go through a pre-release program that provides appropriate information about resources to assist in their reintegration to society? What would this cost?

Should all inmates be required to spend the last 6 months of their sentence in a secure, re-entry facility where they learn skills to keep them successfully in the community and less likely to return to prison? What would this cost?

FINANCE LETTERS

31. Move Grade B Condemned Inmates. This Finance Letter requests an increase of $185,000 from the General Fund to provide security upgrades and custody to move five Grade B condemned inmates from San Quentin to California State Prison-Sacramento pursuant to Chapter 934, Statutes of 2001 (AB 1460).

Does the Subcommittee wish to approve this Finance Letter?

32. Telephone Maintenance and System Upgrades. This Finance Letter requests an increase of $1.7 million from the General Fund to upgrade telecommunications hardware and software in eight institutions. These eight institutions are currently using discontinued hardware and software that is set to be abandoned by the manufacturer. The CDC indicates that these institutions are currently using discontinued PBX systems and that in the event of failure, repair costs may be costly.

This proposal would allocate $1.7 million in the budget year and $1.7 million in 2003-04. The CDC would secure a loan estimated at $3.2 million for project work to be completed in the budget year that would be repaid over two years.

The CDC identified another alternative to repay the loans over six years, with a budget year cost of $674,000 and annual costs of $620,000 for the following five years.

<u>Does the Subcommittee wish to approve this Finance Letter</u>?

33. Distributed Data Processing System Hardware and Software. This Finance Letter requests an increase of $2.5 million for replacement and upgrade of the hardware and software that support the Distributed Data Processing System (DDPS). The DDPS system is comprised of Hewlett Packard minicomputers and is located in all institutions and HQ. The CDC indicates that the information systems dependent upon these database servers compromise the backbone of CDC's mission critical information technology. The manufacturer is discontinuing support of the software and hardware that run the system.

<u>Does the Subcommittee wish to approve this Finance Letter</u>?

34. Interim Parolee Tracking System. This Finance Letter requests $972,000 from the General Fund for the replacement of hardware and software that support the applications of the interim Parolee Tracking System/Statewide Parolee Database. The CDC indicates that this upgrade is necessary because the manufacturer has discontinued the hardware and is no longer supporting most of the software that compromise the system.

The proposed solution would provide one-time funding for a centralized processor and database using a UNIX/ORACLE database, and on-going funding of $1.1 million for Teale Data Center Support.

<u>Does the Subcommittee wish to approve this Finance Letter</u>?

35. Standard Automated Preventive Maintenance System Upgrade. This Finance Letter requests $984,000 from the General Fund to provide a system upgrade for the Standard Automated Maintenance System. This system tracks all necessary facility and equipment maintenance. The CDC indicates that these upgrades are necessary because the current contract with the vendor has expires and the CDC must upgrade to a new version of the software.

Does the Subcommittee wish to approve this Finance Letter?

36. Federal Victims of Crime Act Grant. This Finance Letter requests $114,000 in reimbursement authority to reflect an increase in the federal Victim of Crime Act Fund available from the OCJP. The funding is proposed for the Victim Services Communication Project.

Does the Subcommittee wish to approve this Finance Letter?

5440 Board of Prison Terms

The Community Release Board was established in 1977 and renamed the Board of Prison Terms (BPT) in 1980. The Board considers parole release and establishes the length and conditions of parole for all persons sentenced to prison under the Indeterminate Sentence Law, persons sentenced to prison for specified terms of less than life, and for persons serving a sentence for life with possibility of parole. The Board is also responsible for parole revocation hearings and for reviewing applications for clemency.

Budget Overview. The Governor's Budget proposes $30.6 million from the General Fund for the Board of Prison Terms. The proposal represents a decrease of $1.7 million, or 5.2 percent below current-year expenditures. Total authorized positions are proposed to be 249, which is a decrease of 16 positions from the current year.

Board of Prison Terms -- Program Expenditures

	Expenditures *(dollars in thousands)*				***Percent***
Program	**2000-01**	**2001-02**	**2002-03**	**Change**	**Change**
Board of Prison Terms	**$25,802**	**$32,389**	**$30,617**	**-$1,679**	**-5.2%**
	,				
Total Authorized Positions	**179**	**265**	**249**	**16**	**-6.0%**

Issues

1. Proposition 36. In November 2000, California voters approved Proposition 36, the "Substance Abuse and Crime Prevention Act of 2000." The measure changed state law so that certain first- and second-time adult offenders that use or possess illegal drugs receive treatment and intensive supervision in the community rather than being sent out to county jail or state prison. The measure also changed state law so that certain addicted parolees that use or possess illegal drugs receive drug treatment and more intensive parole supervision instead of being sent back to prison.

Last year, the Legislature approved 26 new positions to handle the additional Proposition 36 workload. The BPT indicates that 3 positions have been filled, in part, due to the hiring freeze, and that 4-5 positions have been redirected. The budget proposes to eliminate 8 of the proposed positions.

The CDC has indicated that there has been an increase in the inmate population in its reception centers in the current year. Part of this increase in reception center population is attributable to problems with the implementation of Proposition 36, and with paperwork delays and software problems with the revocation tracking system. To the extent that these delays result in additional population at the CDC, the delays could be costly. The BPT and the CDC indicate that they are working to reduce the delays.

What is the BPT's plan for handling the Proposition 36 workload and what actions are being taken to ensure that the delays at the reception centers are addressed?

2. Hearings for Life-Term Inmates. Certain offenders in California prisons, particularly those punished for murder, are serving so-called indeterminate sentences in which the period of time to be served in prison before release to parole is not fixed in advance by the court. These indeterminately sentenced offenders are often called "lifers" even though most are eventually legally eligible for release. The BPT is the state agency primarily responsible under state law for deciding when those lifers who have served the minimum required prison time, and thus are now eligible for parole, will actually be released to the community.

The budget proposes a reduction of $443,000 and 3.1 positions for hearing workload projections for life parole consideration hearings and parole revocation hearings based on the CDC fall population parole projections. This amount is likely to change due to updated population projections from the CDC at the time of the May Revise.

Last March, the OIG issued a report that made note of the growing backlog of life-term cases. At hearings last year, BPT reported that the backlog was approximately 2,000 cases. Because of the backlog, most of the hearings were delinquent by more than six months.

Last year, the Legislature approved SB 778 as a temporary measure to assist the BPT in reducing the growing backlog of cases. The legislation allows BPT to hold two-person panel hearings.

The OIG issued a recent follow-up report on its 2000 audit of BPT, indicating that except for the implementation of SB 778, BPT's efforts to improve efficiency and increase hearing capacity has been minimal. Due to the fact that the two-person boards are a temporary measure, the OIG report noted concerns that once they expire, the backlog may begin to grow again. The OIG notes that the board has not implemented measures from its own plan submitted in response to the OIG's first audit, including;

- Increasing the number of scheduled hearings per week from 22 to 26 (BPT has reduced scheduled hearings from 22 cases per week to 18 cases per week);
- Holding its monthly Board meeting on Monday rather than Tuesday to give commissioners an extra day to schedule hearings;

- Development of a supplemental hearing list.

The OIG also noted in this most recent report that the BPT's estimate for the elimination of the hearing backlog by May 2002 is unrealistic.

The BPT indicates that the current backlog is 739 cases and it will be reduced by the end of July.

<u>What is BPT doing to reduce the backlog of cases and what measures has it taken to ensure that the backlog will not grow again?</u>

3. Backlog of Appeals from Inmates and Parolees. In its follow-up audit on the BPT, the OIG reports that the BPT's processes are not adequate to handle appeals in a timely manner. As a result there is a backlog of over 2,200 appeals from inmates and parolees.

The BPT has no time limits to respond to appeals, although inmates and parolees must submit an appeal within 90 days of receiving written confirmation of a board decision. The BPT indicates that it has set an internal goal for a response to an appeal in 120 days. Subcommittee staff has no information as to how often the BPT meets its internal goals.

The OIG reports that the BPT's inability to process appeals in a timely manner has resulted in three court decisions mandating that the board meet fixed timelines for specific appeals. The BPT is required to meet 120 day timelines for appeals that originate from RJ Donovan Correctional Facility, and appeals filed by a specific inmate in San Quentin. Also, <u>Armstrong v Davis</u> requires the BPT to complete any appeal related to ADA issues within 30 days. The OIG notes that the BPT was recently fined by the courts for failing to meet the court established timeline for a case filed from Donovan.

In order to clear the excessive backlog of appeals, the OIG report recommends that BPT take the following actions:
- Consider transferring responsibility of its legal section from deputy commissioners to eliminate a duplication of efforts and a potential conflict.
- Develop an operations manual and written guidelines on processing appeals.
- Cross-train staff from other units on processing appeals as a backup in the event of staff absence or shortage.

<u>What is BPT doing to reduce the backlog of appeals</u>?

4. Foreign Prisoner Transfer Program. The United States has signed treaties with a number of foreign countries, allowing for the transfer of foreign born prisoners to their home countries. All of the treaties require the consent of the prisoner, the transferring country, and the receiving country. The CDC estimates that the number of foreign born inmates currently in CDC from countries with a treaty is 15,302. Of this amount, CDC indicates that 14,778 are from Mexico.

The Penal Code charges the BPT with administering the state's foreign prisoner transfer program. Section 2912 requires the BPT to actively encourage each eligible undocumented felon to apply for return to his or her county of origin, and requires quarterly reports to the Chair of the Joint Legislative Budget Committee.

The CDC indicates that it notifies inmates of their right to request transfer initially at the reception centers, and annually thereafter. The BPT has indicated that it has processed 344 applications from prisoners wishing to transfer since December 1995. There are 219 backlogged active cases that are currently being processed.

Last year, the Legislature approved Supplemental Report Language directing the BPT to report on the effectiveness of the Foreign Prisoner Transfer Program. The initial due date for the report was December 2002, however members of the Legislature requested that the BPT provide the information by January 2002. The BPT indicates that the report is undergoing final administrative review.

What is the status of the report?

5. Finance Letter re: Armstrong Implementation. The BPT has submitted a Finance Letter requesting $57,000 to reprint 64 forms currently being used by the BPT. These funds are requested to meet the requirements of a court injunction related to the Armstrong v Davis lawsuit regarding the Americans with Disabilities Act.

Does the Subcommittee wish to take action on the Finance Letter?

Senate Budget and Fiscal Review—Steve Peace, Chair

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Monday, April 29, 2002
1:30 p.m.
Room 2040

CONSTITUTIONAL AND EXECUTIVE

0505 Department of Information Technology

The Department of Information Technology (DOIT) is responsible for ensuring that appropriate plans, policies, and procedures are in place to guarantee successful implementation of state information technology projects.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$11,411	$11,061	($350)	-3.1%	$9,561	($1,500)	-13.6%
Personnel Years	55.8	76	20.2	36.2%	63.7	-12.3	-16.2%

Issues

1. Overview of the Responsibilities of DOIT.

What was the primary task assigned to DOIT in February 1999, at the time the current Administration took over? Were these assignments agreed to or directed by the Legislature?

What were the evaluations of DOITS Y2K programs? Were the programs considered successful?

When did DOIT transition from solely focusing on Y2K to exercising oversight of the state's IT projects?

How many projects has DOIT reviewed and approved since January 2001? What was the total and average value of the projects?

How many projects are now under review and what is their total and average value?

What is the range of values for the projects that DOIT has either already approved since January 2001 or has under review?

What happens after DOIT approves a project? Does DOIT still have a role? Please describe it.

Since January 2001, how many projects has DOIT cancelled, disapproved, discontinued review of, suspended, or requested that agencies withdraw from consideration? How much were these projects worth? Describe why DOIT did this.

What is the size of the DOIT staff that does all these reviews, monitors, and oversees the approved projects? How do you keep track of all this information? Do you use any contractor assistance? Describe your process for managing this effort.

So, in summary, what is your estimate of the cost-benefits to the state since January 2001? In sum, what do you estimate the state has saved?

2. Clarification of DOIT's Responsibilities. DOIT's Responsibilities. As noted earlier, many of DOIT's activities overlap other department's responsibilities or are unclear as to legislative intent.

The LAO recommends that the Legislature:

- Can strengthen DOIT's role by clarifying specifically what DOIT is expected to perform in its role, thereby reducing overlap and confusion between departments.

- Direct other departments to work with DOIT in meeting its mandates and set specific timeframes in which these tasks must be accomplished.

- Clarify DOIT's mandates so there is no ambiguity about legislative intent.

- Establish clear priorities, requirements, and timeframes in which DOIT must meet its mandated activities.

Does the subcommittee wish to adopt the LAO's recommendations?

3. Sunset of DOIT. The authority for DOIT sunsets on June 30, 2002. The LAO recommends extension of the sunset for two years and that the Bureau of State Audits conduct an audit evaluating DOIT's performance and the extent to which DOIT has met its mandated responsibilities by December 2003 to provide the Legislature with the information it will need when considering DOIT's 2004 reauthorization.

Does the Legislature wish to adopt the LAO recommendations?

0750 Lieutenant Governor

The Lieutenant Governor chairs the California Commission for Economic Development and serves as a member of the State Lands Commission, California State World Trade Commission, State Job Training Coordinating Council, and the California Emergency Council.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$1,820	$2,604	$784	43.1%	$2,511	($93)	-3.6%
Personnel Years	16.9	31.6	14.7	87.0%	30.6	-1.0	-3.2%

0840 State Controller

The State Controller is responsible for the receipt and disbursement of public funds, administering tax programs and enforcing unclaimed property laws.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$103,166	$103,475	$309	0.3%	$99,416	($4,059)	-3.9%
Personnel Years	1088	1149.2	61.2	5.6%	1149.2	0.0	0.0%

Issue

1. Reduction in the Interest Rate Paid on Corporate and Estate Tax Overpayments. The state pays interest on overpayments of the corporate tax or estate tax if the refund is not made within 45 days of the due date. The current interest rate paid on corporate and estate tax overpayments and charged on underpayments is the federal short-term rate plus 3 percentage points (currently 7 percent).

The budget proposes to reduce the rate on overpayments to the lesser of the three-month Treasury bill rate or 5 percent. Sales tax overpayments are treated similarly. This proposal would result in savings of $25.4 million (GF) in 2002-03.

Does the Subcommittee wish to adopt this trailer bill language?

0890 Secretary of State

The Secretary of State acts as the chief election officer of the state and thus administers and enforces the election laws.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$84,672	$84,953	$281	0.3%	$75,756	($9,197)	-10.8%
Personnel Years	439.2	458.4	19.2	4.4%	451.4	-7.0	-1.5%

Issues

1. Business Programs Automation Project. The budget proposes $5.7 million from the Business Fees Fund to continue funding for Phase II of the Business Programs Automation Project. This project is intended to address significant problems that exist in the processing of corporate and other business registration programs for which the Secretary is responsible. Problems include inefficient processing of corporate filings, backlogs of documents, and record-keeping errors.

The current year budget funded Phase II of this program at $7.3 million and 10 personnel under the condition that the Department of Information Technology (DOIT) and the Department of Finance (DOF) approve a Feasibility Report.

Does the Subcommittee wish to continue the funding for this project?

2. Native American Grave Protection and Repatriation Act (NAGPRA). The budget contained supplemental report language requiring the California State Archives to report by November 1, 2001 on the extent to which its museums, galleries, and other programs that contain Native American artifacts have complied with NAGPRA.

The State Archives should comment on the report.

STATE AND CONSUMER SERVICES AGENCY

0510 Secretary for State and Consumer Services

The State and Consumer Services Agency Secretary oversees a diverse array of state departments including the Department of Consumer Affairs, the Department of Fair Employment and Housing, the Fair Employment and Housing Commission, the Franchise Tax Board, the Department of General Services, the State Personnel Board, the Public Employees' Retirement System, and the State Teachers' Retirement System. In addition, the Agency includes the Office of the Insurance Advisor that provides expertise to the governor on insurance-related issues including legislative bill analysis, constituent services, and the development of policy initiatives.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$5,295	$8,510	$3,215	60.7%	$1,267	($7,243)	-85.1%
Personnel Years	9	13.0	4.0	44.4%	12.8	-0.2	-1.5%

BUSINESS, TRANSPORTATION & HOUSING AGENCY

2780 Stephen P. Teale Data Center

Teale Data Center (TDC) provides state agencies information technology services to customer organizations through four functions: Data Center Services, Enterprise Systems, Large Systems, and Customer Relations and Marketing.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$88,023	$87,677	($346)	-0.4%	$93,882	$6,205	7.1%
Personnel Years	362.2	386.9	24.7	6.8%	386.8	-0.1	0.0%

Issue

1. Mainframe Processing Capacity Finance Letter. This Letter requests $1.1 million in increased expenditure for additional mainframe computer system capacity for its government organization customers. Workload is expected to increase by 15 percent through 2002-03. The LAO has no issues with this Finance Letter.

<u>Does the Subcommittee wish to approve the Finance Letter?</u>

TECHNOLOGY, TRADE, AND COMMERCE AGENCY

2920 Technology, Trade, and Commerce Agency

The Technology, Trade, and Commerce Agency (TTCA) is intended to be a business advocate for the State of California. Its programs consist of the California Infrastructure and Development Bank; Science, Technology and Innovation; Economic Development; International Trade and Investment; Marketing and Communications; Tourism; Contracts, Grants and Loans; Economic Research and Strategic Initiatives; and Administration.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$197,351	$216,068	$18,717	9.5%	254,868	38,800	18.0%
Personnel Years	314.8	339.0	24.2	7.7%	318.5	(20.5)	-6.0%

Issues

1. California Space Industry Development Programs. The budget requests $1 million (GF) for the space technology program. This would provide $675,000 in local grants, $248,000 for a nonprofit organization to administer the grants and advocate for federal grants, and $77,000 for state operations to provide support. The proposal would fund about 4 grants of $169,000 annually.

AB 1382 (Liu) of 2001 established a process for selecting the nonprofit organization. The organization is to be selected through a solicitation process established by TTCA with criteria for selection of the corporation, which shall include, but not be limited to, demonstrated experience in the space industry and the ability to perform the space industry development activities

For the fiscal years 1998-99, 1999-2000, and 2000-01, $3.35 million (GF) was available for three competitive grant programs related to the Space Commerce program. In the current year, the only funding for the Space Commerce program was for two support positions.

Cumulatively from 1997-98 through 2000-01, the state has provided $11.8 million (GF) for this program. This amount has been used to leverage funding of $73.7 million, of which $19.1 million was non-state funds and $54.6 million was federal funds. The TTCA argues that the state grants provide essential "seed money" for burgeoning space industry start-ups and small companies that trigger other private and public investments. The state's major competitor, Florida, spends more than $22 million on space industry development.

One of the options presented by the LAO for addressing the state's fiscal problem is to eliminate funding of $1 million (GF) for this program in the budget year.

<u>Does the Subcommittee wish to fund this program as budgeted at $1 million (GF)?</u>

2. Federal Funding Augmentation for the California Small Business Development Center (CSBDC) Program. The budget includes a $1,197,000 increase in federal funds. This would result in an increase in $1,047,000 (federal funds) in local assistance to small businesses through the Small Business Development Centers and a $150,000 (federal funds) increase in state operations for professional development training. The funding would be used to help small business community cope with the energy crisis, utilize technology to make businesses more efficient and cost effective, and improve program management. The budget also proposes a reduction of $150,000 (GF) and 3.0 positions to offset the increase in federal funding for state support.

These federal funds require a state or local match. The budget proposes that the local match be increased rather than the state match, because of the GF condition.

In the current year the total funding for CSBCD is $13.2 million: $8.7 million in federal funds, $3.3 million (GF), and $1.2 million in the CSBCD fund. There was $1 million in 2000-01 of unused federal funds due to lack of state or local match. In the current year, there are only $167,000 in unused federal funds.

<u>The Agency should comment.</u>

<u>Does the Subcommittee wish to commit more GF money to this program so that no federal funds are unused?</u>

3. Transfer from the Small Business Expansion Fund (SBEF) to the General Fund. The Finance Program with the Office of Small Business provides direct and indirect small business financial assistance primarily through local Small Business Financial Development Corporations. The Small Business Loan Guarantee Program provides guarantees on loans made by financial institutions to small businesses, which cannot otherwise obtain loans without the guarantees.

The budget proposes an $8 million transfer from the SBEF to the GF. The SBEF has revenues of $2.6 million in 2002-03 and a beginning balance of $14.8 million. Estimated expenditures are $2 million. The fund condition statement in the budget shows a reserve of $7.4 million after the transfer. The fund condition statement does not indicate encumbrances/commitments totaling $7.3 million for Disaster Relief Program, Century Freeway, Child Care, and New Business Enterprise Incubator Program. Most of these encumbrances are for the Disaster Relief Funding with $5.6 million in guarantees outstanding. After these encumbrances, the fund has an uncommitted fund balance of $244,6778.

Does the Subcommittee wish to make this a loan to the GF rather than a transfer?

Does the Subcommittee wish to adopt trailer bill language ensuring that the loans will be repaid from the GF in case the funds are needed?

4. Military Base Retention and Reuse Augmentation. The budget requests a one-time $100,000 (GF) augmentation for additional technical assistance to military bases to provide expertise on developing retention efforts.

This program has funding of $1.7 million (GF) without this augmentation. At the time, this base level of funding was provided the next round of base realignment and closures (BRAC) were scheduled for 2003, but that has now been postponed to 2005.

TTCA argues that any reduction in funding would result in continued loss of defense contracts, jeopardize the remaining 61 Department of Defense bases/installations during the 2005 round of BRAC, jeopardize future opportunities to secure more

Joint Strike Fighter contracts, result in immediate loss of $720,000 federal grant funding for the Phase I encroachment study, forfeit an estimated $1 million federal grant funding for the remainder of the study, and damage California's reputation with the Department of Defense and the defense industry.

Since the first BRAC process in 1988, California has lost 29 bases and between $60 and $90 billion in defense contracts annually.

One of the LAO's options for addressing the state's fiscal problem is to eliminate this program in its entirety for a savings of $1.8 million (GF). This would require trailer bill language.

Does the Subcommittee wish to fund as budgeted with a $100,000 (GF) augmentation or to reduce or delete funding of $1.9 million (GF) as recommended by the LAO?

5. Reduction to Biomass Energy Grants. This three-year program provides grants to operators of plants that convert biomass fuels to energy. This program was created in 2000 with intent language that the program be funded at $10 million per year for three years. In 2000-01, grants were awarded to 12 plants for $8.9 million.

The Energy Commission also administers a renewable energy program. The Commission had $135 million for existing power plants fueled by biomass, waste tires, and solar thermal power. There is an additional $241 million available for new facilities powered by various sources including biomass.

This program was funded at $8 million (GF) in the 2001-02 budget. SB 64 (Costa) of the Second Extraordinary Session transferred an additional $3.5 million (one-time) to TTCA for this purpose.

The budget proposed reverting $5.5 million (GF) of the current year grants in SB 1 of the Third Extraordinary Session. That reduction was deleted from the bill because the biomass industry contended that they had already signed contracts for the entire year.

The budget proposes to fund this program at $6 million (GF) in the budget year, which is $4 million less than the original legislative intent.

One of the LAO's options for addressing the state's fiscal problem is to reduce this program by an additional $6 million (GF).

Does the Subcommittee wish to fund as budgeted or eliminate or reduce funding for savings of up to $6 million (GF)?

6. Reduction to 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.

In the current year, this federal program provides subsidized consulting services to small businesses. Funding in the current year totals about $30 million in state, federal, in-kind, and fee-based funding. 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. This amounts to the following share of funding: GF –21 percent, federal funds –37 percent and local/private funds – 42 percent. The local/private match has increased from $8.7 million in 1996-97 to $15.5 million in the current year. The state contribution has stayed relatively stable increasing from $5 million in the first year to $6 million in the current year. 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 budget proposes to reduce this grant amount by approximately 10 percent or $600,000 (GF) to $5.4 million (GF).

One of the LAO's options for addressing the state's fiscal problem is to eliminate this program for savings of $5.4 million (GF). Reducing state funding could reduce federal funding because of the match requirements. If other nonstate funds (local and private) are not available to provide a match to federal funds, this could reduce overall funding from $30 million to $20 million.

<u>Does the Subcommittee wish to fund this program as budgeted with a 10 percent reduction or eliminate funding of $5.4 million as recommended by the LAO?</u>

7. Reduction to Next Generation Internet Centers. This program was created in 2000 to fund administrative costs for the centers at UC San Diego and UC Berkeley and to provide grants for the development of small business-oriented software applications. The program provides a mixture of state, federal, and private funding. Current year state funding is $2 million (GF). In 2000-01, the Centers received $5 million in state grants, $5.3 million in federal funds, and $10 million from private nonprofit sources. State funding in the current year was reduced to $2 million and federal funds are estimated to be $2 million and private funds of about $4 million. Funding was intended to continue for three years through 2002-03.

The budget proposes a $1 million (GF) reduction in state funding (50 percent reduction). This reduction could result in reduced federal funds.

One of the LAO's options for addressing the state's fiscal problem is to eliminate this program for additional savings of $1 million (GF). This would eliminate federal and private match. The LAO contends that if the program is worthwhile and effective the Centers should be able to seek increased private sector funding or university funding.

<u>Does the Subcommittee wish to fund as budgeted at $1 million (GF) or eliminate funding for this program as recommended by the LAO for a savings of $1 million (GF)?</u>

8. Reductions to Rural E-Commerce Grant Program. This program was created in 2000 to match federal, local, and private funds for projects to increase the use of telecommunications and computer technologies among small businesses in rural areas.

In 2000-01, $2 million (GF) in grants were awarded to 9 nonprofit corporations and public entities. These grantees provided their own match of $.7 million and received a federal match of $1.1 million and other matches of $1.3 million. This was a match of $3.1 million for a GF grant of $2 million.

Grants of $2 million (GF) were awarded in 2001-02 to 17 nonprofit corporations and public entities. These grantees provided their own match of $1.6 million and received a federal match of $2.7 million and other matches of $1.7 million. This is a match of nearly $6 million for a GF grant of $2 million.

The budget proposes to reduce funding by 50 percent to $1 million. One of the LAO's options for addressing the state's fiscal problem is to eliminate this program for additional savings of $1 million (GF).

<u>Does the Subcommittee wish to fund this program as budgeted at $1 million (GF) or to eliminate funding for this program for savings of $1 million (GF) as recommended by the LAO?</u>

9. Reduction to California Export Finance Office (CEFO). CEFO seeks to expand California employment and income opportunities by promoting increased exports of California goods and services, including agricultural commodities by providing California exporters, particularly small- and medium-sized manufacturers, exporters, and agricultural enterprises with information and technical assistance.

CEFO provides working capital loan guarantees to private sector financial institutions on behalf of small- and medium-sized California companies in support of export transactions. CEFO's program is specifically designed to promote California goods and services internationally.

The current year budget provides $1.2 million (GF) and 12.3 positions. The budget proposes reducing the program by $400,000 (GF) and 6.3 positions. The intent is to further reduce the program in the following year.

<u>Does the Subcommittee wish to approve this program as budgeted with a reduction of $400,000 (GF)?</u>

10. Transfer of $8 million from the California Export Finance Fund (CEFF) to the General Fund. The budget proposes a transfer of $8 million from the CEFF to the GF in conjunction with issue no. 9 above.

Although BCPs submitted indicated that no new loans would be issued after January 2002, the TTCA has continued to make loans. CEFO has encumbered $12.2 million in outstanding loan guarantees and four additional transactions, totaling $1.9 million will be heard by the credit committee in the near future. This brings the total amount of existing and pending loan guarantees to $14.1 million.

According to TTCA, in the 16 years CEFO has existed they have issued close to 1,000 guarantees worth over $350 million. This program has assisted in financing the export sales of California goods and services in excess of $1.7 billion, helped create over 23,000 jobs, and generated over $10.5 million in fees and interest.

When the budget was introduced, CEFF was estimated to have a reserve of $3.3 million at the end of 2002-03 after the transfer of $8 million. Due to the increase in loans authorized, that reserve is now estimated at $1.6 million.

<u>Does the Subcommittee wish to approve the budgeted transfer of $8 million to the GF?</u>

11. International Trade and Investment Offices (ITIO). The intent of ITIOs is to promote California exports and attract investment into the state. The offices work with other International Trade and Investment programs through seminars and conferences to assist California small- and medium-sized firms have adequate access to knowledge about foreign markets and services necessary to compete in international markets.

TTCA has two types of ITIOs – offices staffed by state employees and contracted offices. SB 1 of the Third Extraordinary Session reverted $457,000 (GF) to open foreign trade offices in India and the Philippines. The budget has savings of this same amount in the budget year. The current year and budget year also shows savings of $244,000 for the unopened Calgary office.

The budget proposes funding of $6.1 million for the following offices:

Foreign Trade Offices – ($4,872,000)

- South Africa - $414,000
- Germany - $560,000
- China - Hong Kong - $838,000
- Japan - $1,052,000
- United Kingdom - $522,000
- Mexico - $1,155,000
- Taiwan - $331,000

Contract Foreign Trade Offices – ($1,196,000)

- South Korea - $261,000
- China – Shanghai - $270,000
- Singapore - $200,000
- Argentina - $265,000
- Israel - $200,000

The Bureau of State Audits reported in their audit released in December 2001 that lengthy vacancies for appointed positions at some of the International Division units weakened planning and operations. Vacancies at foreign offices, which provide overseas support for the division's export and foreign investment activities, resulted in a lack of plans and focus during two recent years. One example is that almost half the positions at the Mexico office were vacant for a year or more, causing the office to function at a minimal level. In addition, the World Trade Commission, which advises the state on trade policy, did not even meet for more than a year because it lacked a chairperson.

TTCA now reports no vacancies in the Mexico Trade Office. Of the 38.0 authorized positions for international trade offices, 28.0 are filled as of April 25, 2002. The largest number of vacancies occur in the Hong Kong office where 4 out of 5 positions are currently vacant.

One of the LAO's options for addressing the state's fiscal problem is to eliminate or reduce the number of trade offices program for additional savings of up to $6.1 million (GF).

<u>The Agency should comment on the lengthy vacancies in the International Division.</u>

<u>Does the Subcommittee wish to fund the International Division as budgeted?</u>

12. Regional Trade Office in Armenia to Serve Eastern Europe and Western Asia. SB 1657 (Scott): (1) requires the establishment of an international trade and investment office in Yerevan in the Republic of Armenia; (2) requires the Technology, Trade, and Commerce Agency to report to the Legislature on the success of this trade office by March 1, 2005 on specified items, and (3) sunsets on January 1, 2006.

There is a legislative proposal to augment by $149,000 (GF) for purposes of establishing, on a pilot basis, a regional trade office to promote trade relations in developing areas of the world that show emerging market potential. This regional trade office would be located in Armenia, and would serve the developing economies of Eastern Europe and Western Asia.

In November 2001, TTCA and the Republic of Armenia signed a Memorandum of Understanding (MOU) to develop deeper social, economic, educational and political ties. The agreement confirms each party's commitment to foster and promote technology, develop and support educational exchanges, and encourage mutual business development and investment opportunities.

The proposed regional trade office builds upon the MOU, and would include an evaluation of the success of the office. Technology and agriculture are among the areas seen as opportunities for trade and investment.

<u>Does the Subcommittee wish to augment the budget by $149,000 (GF) to fund this trade office?</u>

13. Reductions to Economic Research and Strategic Initiative (ERSI) program. ERSI provides analyses, policy recommendations, and economic development initiatives in response to California's complex and changing economy. Through its strategic initiatives, ERSI develops, monitors, and ensures implementation of the Agency's strategic plan.

ERSI consists of three offices – the Office of Economic Research (OER), the Regulation Review Unit (RRU), and the Strategic Planning Office (SPO). The program is currently funded at $1.6 million (GF) and 12.0 positions. The budget proposes a reduction to the OER of $50,000; RRU of $300,000 and 3.0 positions; and SPO of $488,000 and 2.5 positions.

The Bureau of State Audits completed an audit of the TTCA in December 2001 which recommended the Agency take the following actions:

- Develop an agency-wide strategic plan covering at least five years in order to better integrate program efforts and to highlight current state priorities. The agency should also ensure that short-term plans for programs are aligned with the agency-wide strategic plan.

- Include in its strategic planning process the elements this report identifies as missing in many of the agency's program plans. These elements include goals and targets for all significant aspects of its vision and mission; outcome goals that focus efforts on results where they matter most; targets that are challenging; and outcome goals and related targets in agreements with third parties who deliver program services.

- Compare targets and results in internal and external reports to evaluate success and use this information to revise goals and targets.

- The Agency should report to the Legislature biennially on its progress in implementing a strategic approach to its planning, including specific recommendations.

<u>The Bureau of State Audits should comment on their recommendations.</u>

<u>The Agency should comment on the Bureau of State Audits recommendations.</u>

<u>Does the Subcommittee wish to approve the budget with the reduced funding for strategic planning</u>?

<u>Does the Subcommittee wish to approve trailer bill language asking for annual reports to the Legislature on the Agency's strategic plan?</u>

14. California Technology Investment Partnership (CalTIP). CalTIP provides matching funds for federal grant money to small- and medium-sized businesses to assist in the development of marketable technologies. Grants are typically $150,000 to $200,000 and used to match federal funds, although matching funds can come from other sources including private funds. Eliminating state funding could result in fewer federal funds for these projects. From 1993-94 through the current year, the state has provided $45.6 million (GF). The state investment has been matched by $250.6 million in federal funds and $249.6 million in private funds.

Federal and private matches do not seem to correlate strongly with the level of state grants over the years. The <u>highest</u> year for federal and private grants was 1996-97. In that year, the state provided $5.7 million, the federal government provided $53.4 million and private funds were $64 million for a total of $123 million. The <u>lowest</u> year was 1999-2000; the state provided $4.6 million, the federal government provided $21.9 million and private grants were $17.3 million.

The leverage of state to federal and private match varies from the state providing 4.6 percent of the total funding in 1996-97 ($5.7 million out of a total of $123.1 million) to 12.8 percent in 2000-01 with the state providing $6.5 million out of total funding of $50.9 million. The state averages providing 8.4 percent of the total funding.

The budget proposes $6 million (GF) in the budget year, *which is $2 million more than provided in the current year.

One of the LAO's options for addressing the state's fiscal problem is to eliminate or reduce this program for savings of up to $6.0 million (GF). LAO contends that the absence of state funding would not significantly reduce the availability of federal and private funds.

<u>Does the Subcommittee wish to fund this program as budgeted?</u>

<u>Does the Subcommittee wish to reduce or eliminate this program in the budget year, as recommended by the LAO?</u>

GENERAL GOVERNMENT

8260 California Arts Council

The California Arts Council (CAC) assists student education in the arts, develops art programs, promotes employment of artists, provides for the exhibition of art works in public buildings, and encourages artistic awareness and expression. This decline is due to augmentation for specific local grants included in the current year budget. SB 1 (Peace) of the Third Extraordinary Session reduced current year grants by $5.1 million.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$81,473	$53,509	($27,964)	-34.3%	$32,795	($20,714)	-38.7%
Personnel Years	36.7	42.9	6.2	16.9%	42.9	0.0	0.0%

Issues

1. Arts in Education Program. The budget proposes a reduction of $2 million for the Arts and 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 $10 million (GF) in local grants for this program in the current year. The program was reduced by $3.2 million (GF) in the current year and is proposed to be reduced by $2.0 million (GF) in the budget year (funding of $8.1 million remains).

Does the Subcommittee wish to approve this reduction included in the budget?

2. Artists in Residence Program. The budget proposes a reduction of $100,000 (GF) to $4.9 million and an increase of $838,000 (Graphic Design License Plate Account). The $100,000 reduction would be for the Artists in Residence Program. The increase of $838,000 would be to continue arts education and local arts programming. Of this amount, $575,000 would be for local assistance and $263,000 for state operations.

Does the subcommittee wish to approve the budget as proposed?

Proposed Consent Calendar

CONSTITUTIONAL AND EXECUTIVE

0841 State Controller's Statewide Information Technology Projects

The State Controller maintains and administers the Automated Statewide Travel Expense Reimbursement System for the State. Participating departments reimburse the costs of the Automated Statewide Travel Expense Reimbursement System.

CONTROL SECTIONS

11.00 EDP/Information Technology Reporting Requirements

This control section provides that a state agency may not enter into a contract for an information technology projects that results in an increase in the budgeted cost of $5000,000, or 10 percent of the budget cost of the project, which is less, unless the approval of DOF is obtained and written notice has been provided to the Chairs of the Fiscal Committees and the Joint Legislative Budget Committee.

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Wednesday, May 1, 2002
9:30 a.m.
Room 113

0860 Board of Equalization

The Board of Equalization (BOE) is one of California's two major tax collection agencies. BOE: (1) collects state and local sales and use taxes, and a variety of business and excise taxes and fees, including those levied on gasoline, diesel fuel, cigarettes, and hazardous waste; (2) is responsible for allocating tax proceeds to the appropriate local jurisdiction; (3) oversees the administration of the property tax by county assessors; and (4) assesses railroad and specified utility property. The BOE is also the final administrative appellate body for personal income and corporation taxes that the Franchise Tax Board (FTB) administers, as well as for the taxes that BOE administers. The BOE is governed by a constitutionally established five-member board--four elected members and the State Controller. The proposed reductions for the BOE are $7.2 million, $5.9 million (GF) and $1.3 million (reimbursements), and 146 positions.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$297,553	$318,906	$21,353	7.2%	311,678	(7,228)	-2.3%
Personnel Years	3777.6	3830.6	53.0	1.4%	3657.9	(172.7)	-4.5%

Issue

1. Cigarette and Tobacco Products Taxes Workload. BOE requests $695,000 (California Children and Families First Trust Fund - CCFFTF) and 10 positions to continue, on a three-year limited-term basis, the tax administration, enforcement and compliance activities associated with Proposition 10. This is intended to protect the estimated $1.22 billion that BOE collects for CCFFTF.

<u>Does the Subcommittee wish to make these positions limited-term?</u>

2. Audit Activities. BOE maintains an audit program to ensure that businesses accurately report sales and use taxes due to the state. BOE audits approximately 3 percent of active registered sellers' accounts each year. These audits result in $450 million in GF revenue.

The 1999-00 budget requested an additional 116 PYs to conduct BOE audit activities. These positions, however, were not approved by the Legislature. Then, in 2001-02, 50 PYs were shifted from the audit program to collections activity on a temporary basis. This was undertaken based on the expectation that the return from collection-related activities was higher than for audit-related activities. To date, the shift appears to have been successful in increasing overall revenues. It is anticipated that these positions will revert to audit activities beginning in 2003-04.

BOE has not received an increase in budgeted audit positions in recent years, and, in fact, has seen a diversion of resources to other activities. In addition, a systematic appraisal of the benefit-cost ratio of the BOE's audit and compliance activities has not been conducted since the BSA study released in March 1999, which was based on data from 1997-98.

The LAO recommends the Legislature adopt the following supplemental report language:

"The Board of Equalization (BOE) shall provide to the Chair of the Joint Legislative Budget Committee and chairs of the fiscal committees of the Legislature by December 1 of each year, beginning December 1, 2002, a report containing the following information: (1) description of the methodological approach used to conduct its audit and compliance activities, including the work plan relating to these activities; (2) the number of hours and costs associated with direct audit and compliance activities, as well as supporting (overhead) activities; (3) the revenues associated with its audit and compliance activities; and (4) data regarding the revenue and cost impacts associated with any increase or decrease in resources devoted to audit and compliance activities. Items 2, 3, and 4 should include prior-year actual data, current-year estimated data, and budget-year projected data. This information shall also be provided to the Department of Finance, in a format it specifies, with submission of documents used to prepare the Governor's budget as well as when BOE makes a request to alter funding or personnel services for audit or compliance activities. Such information shall also be provided as a part of any budget change proposal submitted to the Legislature regarding resources for auditing or compliance activities."

<u>Does the Subcommittee wish to approve this SRL?</u>

3. Investigation Staff. The BOE's investigation activities involve responding to reports of tax fraud and evasion. For the budget year, the direct cost of staffing for the investigations division is approximately $3.3 million. The budget proposes a shift of funding for investigations from GF to special funds in response to a shift in investigations from Sales and Use Tax to Cigarette and Tobacco Tax evasion. This funding shift is to occur for both the current year as well as the budget year. While this results in a reduction in GF costs of roughly $600,000 annually, we are concerned that GF revenues could suffer from this shift in resources. This could occur if the investigations division was unable to respond appropriately to compliance issues related to the sales and use tax. LAO recommends that the Legislature require BOE to monitor shifts in investigation activity to protect the sales and use tax revenues.

LAO recommends adopting the following supplemental report language:

"The Board of Equalization shall provide to the Chair of the Joint Legislative Budget Committee and chairs of the fiscal committees of the Legislature by December 1, 2002, a report that contains the following information: (1) a description of the methodology and approach used in allocating investigations resources among the various tax programs; (2) actual or estimated data regarding the number of investigation cases, associated workload, and revenue impacts for each tax program for the prior, current, and budget years; and (3) data regarding additional investigations workload that is currently not funded."

Does the Subcommittee wish to approve this SRL?

4. Local Sales Tax Revenues. BOE was required to report on local sales tax revenues allocated to small host California prison cities in comparison to that of larger, urban cities within a 100-mile radius. The report may also examine other contributing factors such as prison purchasing history and the types and levels of businesses and industries affecting local sales tax revenues, with the cooperation of the California Department of Corrections.

The BOE should comment on their report.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) is one of the state's two major tax collection agencies. The FTB's primary responsibility is to administer California's Personal Income Tax and Bank and Corporation Tax laws. The FTB also administers the Homeowners' and Renters' Assistance Program, the Political Reform Act audit program, and the Household and Dependent Care Expense Credit program. In addition, FTB administers several other programs, including collection of child-support and other court-ordered payments. The FTB is governed by a three-member board, consisting of the Director of Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, administers the daily operations and functions of FTB.

The budget includes 15 percent reductions to most departments that are funded from the General Fund. The reductions to the FTB are $6.5 million or 1.6 percent of General Fund expenditures, in part, because they are a revenue-producing agency. There are also proposed augmentations that are expected to result in additional GF revenue of $79.5 million. Combined these proposals exceed the 15 percent target for improving the condition of the GF.

The budget includes reductions to the FTB of $6.5 million or 1.6 percent of GF expenditures. FTB is a revenue producing agency and part of their contribution to the condition of the GF is an increase in audit and collection staff discussed below.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$412,979	$437,981	$25,002	6.1%	437,369	(612)	-0.1%
Personnel Years	5477.6	5524.1	46.5	0.8%	5527.6	3.5	0.1%

Issue

1. Household and Dependent Care Expense Credit (HDCEC). The HDCEC was approved in 2000 to allow a refundable tax credit for household and dependent care expenses incurred as costs to sustain employment. The budget proposes $3.8 million (GF) for HDCEC program administration, fraud detection, prevention, and investigations based on first year estimates of the program. The claims filed have been less than originally projected.

The LAO recommends a reduction of $250,000 (GF) due to lower than anticipated participation.

<u>Does the Subcommittee wish to reduce this program by $250,000 (GF)?</u>

2. Customer Service. The budget proposes:

- A reduction of $414,000 (GF) and 5.2 PYs for District Office Public Service Counters. This would result in the following reductions to these field offices:

  - Oakland: 3 positions less 1 leaves 2.
  - Sacramento: 4 positions less 1 leaves 3.
  - San Francisco: 3 positions less 1 leaves 2.
  - Los Angeles: 2.7 positions less 0.7 leaves 2.
  - Fresno: 1.5 positions less 0.5 leaves 1.
  - Santa Ana: 1.5 positions less 0.5 leaves 1.
  - Santa Rosa: 1 position less 0.5 leaves 0.5.

- A reduction of $836,000 (GF) and 21.5 PYs, including $75,000 to the Tax Practitioner Hotline and $761,000 for the centralized Call Center that provides information to taxpayers on a variety of tax issues.

The LAO recommends no reduction to the centralized Call Center.

<u>How will these reductions affect the ability of taxpayers to receive assistance from the FTB?</u>

<u>Does the Subcommittee wish to augments the Call Center by the $250,000 (GF) savings from issue no. 1?</u>

3. E-File Tax Practitioner. FTB is proposing the implementation of a program to mandate e-file for tax professionals who handle a high volume of California tax returns (100 or more) and currently submit those returns on paper. The mandatory program would affect only PIT returns. This program would result in savings of $2.2 million (GF) and 80 PYs. Tax practitioners filing returns for 100 or more taxpayers comprise 60 percent of 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.

The LAO recommends this apply to professionals who file more than 50 returns, rather than 100, for increased savings of $400,000 (GF).

<u>Does the Subcommittee wish to approve as budgeted or adopt the LAO recommendation to save an additional $400,000 (GF)?</u>

4. Legal Workload. The budget proposes a reduction of $453,000 and 4.4 PYs. The proposed reductions for elimination are related to the establishment of legal rulings, regulations, or public notices. These positions were chosen because they were considered the least detrimental to the generation of revenue. The loss of these positions would result in a reduced level of providing authoritative advice to the public.

<u>Does the Subcommittee wish to approve this reduction?</u>

5. Augmentation for Increased Audit Staff. This proposal is to augment by $4.55 million (GF) and 44.6 PYs for increased audit activities that will result in increased GF revenues of $46 million (GF) from the corporate tax and $6 million (GF) from PIT in the budget year.

The Audit Division generates about $840 million in GF revenue by conducting corporate and PIT audits. The discretionary workload is prioritized according to cost/benefit ratio (CBR). Normal audit policy has been to request funding with a CBR of 5:1 or greater. This increase would result in some of the audit models below the 5:1 CBR ratio.

The audits would be directed towards:

- Multistate audits for corporations and individuals that conduct business both inside and outside the state. This will generate an additional $23.8 million in additional ongoing revenue. (Discounted for cash, the amount will be less for 2002-03.)

- Federal/State Audits uses Federal Audit Reports from the IRS as the basis for audit assessments. This will generate an additional $35 million in additional ongoing revenue. (Discounted for cash, the amount will be less for 2002-03.)

- Automated Audit program has identified additional cost effective single-issue audits. This will generate an additional $22.5 million in additional ongoing revenue. (Discounted for cash, the amount will be less for 2002-03.)

The annual ongoing revenue gain is $81.3 million, though the budget year increase is $52 million because of cash flow.

The LAO has no concerns with this issue.

<u>Does the Subcommittee wish to fund this augmentation</u>?

6. Augmentation for Increased Collection Staff. This proposal is to augment by $6.2 million (GF) and 78.8 PYs for increased collection activities that will result in increased GF revenues of $2 million (GF) from the corporate tax and $25.5 million (GF) from PIT in the budget year.

The Collection Program workplan is developed by first allocating resources to required workloads and programs established through legislation. The remaining budgeted resources are then applied to discretionary workloads. Within this category, specific collection workloads are prioritized according to cost/benefit ratio (CBR) down to the 5:1 level.

The current year budget was augmented by $7.7 million and 123 positions to add collection staff. This was expected to generate $53.8 million (GF). All positions were filled and the revenue collections are as expected.

FTB has identified additional workload above the 5:1 CBR workload. This new workload includes:

- System enhancements would enable the existing system to identify the best possible accounts to be collected. This would result in additional budget year revenue of $15 million and $30 million annually thereafter.

- Bankruptcy filings and the associated workloads are growing faster than originally estimated, resulting in growing backlogs. These accelerated rates are projected to continue for at least three years. The bankruptcy workloads would provide additional revenue of $5 million in the budget year and $10 million annually thereafter.

- Remaining workload with a CBR of 5:1 to 7:1 would result in additional revenue of $7.5 million in the budget year and $15 million annually thereafter.

The LAO has no concerns with this issue.

<u>Does the Subcommittee wish to fund this augmentation</u>?

7. Augmentation for Implementation of City Business Tax Disclosure. The budget requests $397,000 and 5.1 PYs to implement 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.

The information is used by city tax officials to identify individuals that report business income on state returns but do not have an active city business license within their city jurisdictional boundaries.

<u>Does the Subcommittee wish to fund this program?</u>

8. Tax Protest Backlog/Revenue Collections. Supplemental language last year required FTB to evaluate the current tax assessment protest process, including time frames for each phase of the process. This report was submitted to the Legislature on January 1, 2002.

The Subcommittee's request to look at the protest backlog was directed at maximizing revenue collections for the state. There is a potential to increase revenues not only in the budget year, but also on an ongoing basis by adding to the staffing for the Collections Bureau at FTB

The LAO recommends that four additional three-year limited term staff attorneys for the settlement program be added at a cost of $520,000 (GF), which they argue would generate an additional $14.1 million in revenues in the budget year, $18 million in 2003-04, and $30 million in 2004-05.

<u>Does the Subcommittee wish to augment by $520,000 (GF) to increase revenues by $14.1 million (GF) in 2002-03?</u>

9. California Child Support Automation System (CCSAS) Finance Letter. This letter requests one position be transferred from FTB to the Department of Child Support Services. Subcommittee No. 3 approved this transfer.

<u>Does the Subcommittee wish to approve the Finance Letter?</u>

8860 Department of Finance

The Department of Finance serves as the Governor's chief fiscal policy advisor.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$38,653	$36,525	($2,128)	-5.5%	$36,399	($126)	-0.3%
Personnel Years	380.1	362.5	-17.6	-4.6%	362.5	0.0	0.0%

Issue

1. MOU with Bargaining Unit 6. The state recently agreed to an MOU with bargaining unit 6, which will be in effect until July 2006. A fiscal analysis of this agreement has not been performed by the Department of Finance, yet preliminary estimates of the impact of that agreement on the state's budget would be significant, up to an additional $1 billion over the next 5 years. This is disproportionate to the fiscal impact of other employee bargaining agreements.

<u>When will such an analysis be available?</u>

2. Deficit in the Department of Corrections (CDC). The CDC has been running a deficit for the last 5 years. The deficit was $36.2 million in 1997-98, $106.4 million in 1998-99, $20.1 million in 1999-2000, $52.5 million in 2000-01, and $277 million in the current year.

This subcommittee recently held a series of hearings to determine what is driving the CDC's deficiency. The CDC testified that the deficiencies are a result of unfunded merit salary adjustments, court mandates, and vacancy rates that drive up overtime and sick leave usage. Testimony at the hearing also confirmed that the cost basis by which CDC is funded does not account for the actual cost of incarceration. Therefore, when the fiscal year begins, CDC is operating in a deficit mode. Towards the end of every year, CDC submits deficiency requests to close out their books, which the Department of Finance inevitably grants.

<u>Is this the most fiscally responsible way to run a state department</u>?

<u>Should the Department of Finance fund CDC based on the actual cost of incarcerating inmates, in consideration of existing court orders and employee bargaining agreements?</u>

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. The total cost of reimbursing mandates was $322.7 million (GF) in 2000-01; $518.5 million (GF) in the current year; and $327.4 million in the budget year.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$1,560	$1,698	$138	8.8%	$1,578	($120)	-7.1%
Personnel Years	14.0	16.7	2.7	19.3%	14.7	-2.0	-12.0%

Issue

1. 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.

Usually, after the commission adopts a statewide cost estimate, the administration proposes funds in the May Revision to reimburse local governments and the Legislature appropriates the funds in the annual claims bill. Last year, however, in a letter to JLBC, the Administration proposed funding $50 million for reimbursement of POBOR costs in the claims bill, with the remaining $102.5 million to be made available in future years.

The budget requests $50 million (GF) for POBOR reimbursements in 2002-03. The administration indicates that it expects the SCO to use $25 million to pay prior-year claims and $25 million to pay budget-year liabilities. These funds are included in the State Personnel Board budget.

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, we estimate 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 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 LAO recommends:

- Asking the Joint Legislative Audit Committee to audit these claims.

- Suspension of the mandate provisions by using the procedure set forth in Government Code Section 17581. This would suspend only the provisions found to be state-reimbursable mandates by COSM.

- After JLAC has completed its audit, the Legislature should hold an oversight hearing to consider its findings and recommendations.

- LAO also recommends the Legislature use this hearing to revisit the policy basis for mandating enhanced procedural protections for a single category of employees.

These actions need to be taken to Item 1880 – State Personnel Board. The issue is being discussed with the COSM budget because COSM took the actions.

<u>Does the Subcommittee wish to delete funding and suspend the mandate?</u>

<u>Does the Subcommittee wish to request a JLAC audit?</u>

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 provided in 2002-03 is $1.3 billion, or 43.7 percent, greater than that provided in 2001-02. This decline is due to the way in which the Vehicle License Fee (VLF) rebate was budgeted. Although the VLF rebate checks were sent to taxpayers in 2001 and 2002, the majority of the funding was appropriated in the 2000-01 year as part of the budget agreement. If you look at the actual relief provided to taxpayers, the difference between the two years is an increase of 6 percent in VLF reductions.

	2000-01	2001-02	Change		2002-03	Change	
Senior Citizens' Property Tax Assistance	$60,476	$38,083	($22,393)	-37.0%	$33,400	($4,683)	-12.3%
Senior Citizen Renters' Tax Assistance	$245,877	$177,489	($68,388)	-27.8%	$200,500	$23,011	13.0%
Senior Citizens' Property Tax Deferral	$11,468	$12,000	$532	4.6%	$12,800	$800	6.7%
Homeowners' Property Tax Relief	$398,362	$404,336	$5,974	1.5%	$410,400	$6,064	1.5%
Subventions for Open Space	$35,632	$38,000	$2,368	6.6%	$39,000	$1,000	2.6%
Substandard Housing	$44	$44	$0	0.0%	$44	$0	0.0%
Vehicle License Fee Offset	$1,842,253	$2,408,220	$565,967	30.7%	$3,726,349	$1,318,129	54.7%
Vehicle License Fee Rebate Transfer	$2,052,000	$0	($2,052,000)	-100.0%	$0	$0	0.0%
State-Mandated Local Programs	$567	$1,086	$519	91.5%	$1,062	($24)	-2.2%
Total Budget	$4,655,679	$3,079,258	($1,576,421)	-33.9%	4,423,555	$1,344,297	43.7%

Issue:

1. Vehicle License Fee Special Fund Reserve. This Fund was established to refund VLF at the time that the VLF offset was rebated to taxpayers. SB 22 of 2001 changed the rebate to a VLF offset. The remaining balance of $45 million in the Special Fund Reserve is proposed to be transferred to the GF.

Does the Subcommittee wish to adopt this trailer bill language?

9210 Local Government Financing

The Local Government Finance item proposes $385 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.

	2000-01	2001-02	Change		2002-03	Change	
High-Technology Grants for Local Law Enforcement	$75,000	$35,400	($39,600)	-52.8%	$35,400	$0	0.0%
Reimbursement for Booking Fees	$38,220	$38,220	$0	0.0%	$38,220	$0	0.0%
Property Tax Loan Program	$51,458	$51,458	$0	0.0%	$51,500	$42	0.1%
Rural and Small County Law Enforcement	$0	$18,500	$18,500		$18,500	$0	0.0%
Citizens' Option for Public Safety (COPS)	$242,600	$232,600	($10,000)	-4.1%	$232,600	$0	0.0%
Special Supplemental Subventions	$1,600	$1,200	($400)	-25.0%	$1,400	$200	16.7%
State-Mandated Local Programs	$45,445	$6,266	($39,179)	-86.2%	$6,398	$132	2.1%
Local Grants	$1,750	$7,752	$6,002	343.0%	$747	($7,005)	-90.4%
Local Government Discretionary Grants	$212,000	$0	($212,000)		$0	$0	
Other	$19,574	$9,761	($9,813)	-50.1%	$0	($9,761)	-100.0%
Totals	$687,647	$401,157	($286,490)	-41.7%	$384,765	($16,392)	-4.1%

Issue:

1. High Technology Grants for Law Enforcement. The budget extends current-year funding of $35.4 in one-time funding for local law enforcement agencies to purchase high-technology equipment for crime prevention and suppression. Each local agency will receive a minimum of $30,000 and an additional per-capita amount. Eligible local agencies include cities, counties, and the special districts that provide law enforcement services.

The budget proposes trailer bill language allocating funds and providing that the funds shall be used to supplement, rather than supplant existing law enforcement resources. The language also provides that each recipient shall report to DOF on or before August 15, 2003 and annually thereafter. The

DOF language is contained in AB 2901 (Wiggins), which is on the Assembly Floor.

It is unclear why the budget proposes trailer bill language when the program is proposed on a one-time basis.

Does the Subcommittee wish to fund the $35.4 million?

Does the Subcommittee wish to adopt trailer bill language or budget bill language?

CONTROL SECTIONS

8.00 Anti-Terrorism Federal Reimbursement

This Control Section provides that any amounts received from the federal government that are in excess of the federal funds currently appropriated in the budget for anti-terrorism costs are hereby appropriated and will be allocated upon order of the Director of Finance to State departments and local governments to address high priority needs for costs incurred in the current or budget year.

The Director of Finance shall report to the Chairs of JLBC and the fiscal committees not later than 10 days after the effective date of the allocation.

Control Section 28.00 provides that any unanticipated federal funds or other nonstate funds can be expended upon order of the Director of Finance. Section 28 also provides that if the amount exceeds wither $200,000 or 10 percent of the amount authorized for expenditure in the affected program that the allocation may not be authorized sooner than 30 days after notification to the Chairs of the fiscal committees and JLBC.

Issue:

DOF intends that this section allow the Director of Finance to use unanticipated federal funds provided for anti-terrorism costs to abate expenditures already made or proposed to be made from the GF. Based on staff discussions, DOF has rewritten the language to provide specifically that these funds may be used to offset expenditures and requires notification to the fiscal committees and JLBC prior to approval of the allocations.

DOF should present their revised Control Section 8.00 language.

Does the Subcommittee wish to approve this Control Section as amended to require notice to fiscal committees and JLBC prior to approval of the allocations?

24.30 Transfer of School Building Rental Income to the General Fund

Issue:

1. Transfer from State School Building Aid Fund (SSBAF) to the General Fund. This Control Section transfers $25.5 million in rental income from the SSBAF to the GF. This will result in less money being available for the School Facilities Aid Program. The last time the state authorized transfer of this revenue to the GF was in 1997-98.

<u>Does the Subcommittee wish to approve this transfer to the GF?</u>

PROPOSED CONSENT CALENDAR

GENERAL GOVERNMENT

9625 Interest Payments to the Federal Government

This program allows state agencies to request federal funds in advance of the warrant issuance. State agencies use this funding technique because the State Constitution requires that the funds be deposited before the warrants are issued. The interest payments are due by March 1 each year and are estimated to amount to $12.5 million in the budget year.

9840 Reserves for Contingencies or Emergencies

The budget act annually provides appropriations for unforeseen contingencies or emergencies for which no appropriation or an insufficient appropriation has been made. This item contains the base amount for the budget year. It includes total expenditures of $5 million, of which $2 million is GF.

9860 Unallocated Capital Outlay

This item contains $1.5 million for project planning to allocate to state agencies for securing sound cost estimates for future projects.

CONTROL SECTIONS

3.50 Budget Charges against Salary and Wages

This Control Section provides that charges for various state employee benefits are charged to departmental budgets from which salaries and wages are paid.

3.70 Hiring Freeze Reversion

This Control Section allows the Director of Finance to revert all or a portion of the unencumbered balance of appropriations made by this act that reflect savings resulting from the Hiring Freeze pursuant to Executive Order D-48-01.

10.00 Statewide Utility Savings

This Control Section allows DOF to adjust amounts in any appropriation to reflect decreased departmental costs as a result of utility savings from completed energy efficiency or conservation projects. DOF is to report to JLBC by August 15, 2003 on any budget adjustments made.

26.00 Intraschedule Transfers

Allows intraschedule transfers where the transfers are necessary for the efficient and cost-effective implementation of programs, projects, and functions of departments.

27.00 Deficiency Reporting Requirements

Requires DOF to notify JLBC and the fiscal committees of the necessity to expend at a rate that will require a deficiency appropriation. This requires 30-day notification before expenditure of the funds, except in the cases of emergencies that shall be made no sooner than 10 days after notification.

28.00 Program Change Notification

This Control Section provides flexibility for administrative approval of augmentation for the expenditure of unanticipated federal funds or other nonstate funds.

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Dick Ackerman
Joseph Dunn

Monday, May 6, 2002
1:30 a.m.
Room 2040

OPEN ISSUES
Public Safety

0552 Office of the Inspector General

Open Issues

1. Workload. The budget for the OIG has grown significantly since legislation expanded its role in 1998, from 40 positions and a budget of $6 million in 1999-00 to a proposed 97 positions and a budget of $10 for 2002-03. The budget proposes elimination of 10 expiring limited term positions due to certain workload not having materialized.

At the hearing on April 3, the Subcommittee requested the OIG to submit additional information on its workload assumptions. For 2003-03, the OIG estimates processing a total of 6,400 intake cases and reviewing 1,400 Internal Affairs investigations. In addition, the office estimates performing 10 management audit reviews, and 12 special reviews and requests.

<u>Does the Subcommittee wish to approve the budget for the OIG?</u>

0550 Secretary for Youth & Adult Correctional Agency

Open Issues

1. CYA Technical Assistance Plan. At the hearing on April 3, the Subcommittee discussed the progress that the Youth Authority (YA) is making towards implementing the recommendations contained in the Technical Assistance Plan (TAP). In response to questions raised at that hearing, the YACA has provided the Subcommittee with a list that identifies recommendations requiring policy changes, regulation changes and those that would require statute.

In January of 2002, the YA provided a six-month update on its implementation of the recommendations of in the TAP. In order to ensure continued progress on implementation of the recommendations, the Subcommittee may wish to ask if the YACA will require further implementation updates from the YA.

<u>When will the next implementation update on the TAP become available?</u>

5430 BOARD OF CORRECTIONS

Open Issues

1. LA CLEAR. The budget proposes one-time funding of $3 million for the Los Angeles Community Law Enforcement and Recovery (CLEAR) program. LA CLEAR was established in 1997 as a multi-agency gang suppression and community recovery program that has expanded to six sites throughout Los Angeles County. The LAO indicates that the state has provided CLEAR with $14.2 million to date. In the current year the program is funded at $1 million. The CLEAR Executive Committee indicates that an additional $800,000 has been committed by the Governor in the current year for this program from federal funds through the OCJP. Additional local funds are being used to support the program in the current year at the $3 million level.

At the hearing on April 3, there were some questions raised concerning the minimum funding necessary to sustain the budget. The LA District Attorney's office has provided additional information to the Subcommittee and the LAO regarding the budget numbers for the CLEAR program.

<u>Does the Subcommittee wish to provide funding for LA CLEAR?</u>

Juvenile Hall Suitability Assessment. Existing law requires the board to conduct a biennial inspection of facilities used to house minors. If the board deems that the facility is not being operated and maintained as a suitable place for confinement, the board can order that the facility not be used for confinement of minors until its condition is remedied.

The budget proposes a reduction of $176,000 and 2.5 positions for the board as part of its General Fund reduction plan. To implement the reduction, the administration proposes budget trailer bill language to amend Welfare and Institutions Code Section 209 in order to delete the power of the board in enforcing local juvenile facility standards.

The proposal would remove the board's power to enforce its own Juvenile Facility Standards affecting county juvenile halls and jails holding minors. More than 100,000 California children each year are booked into these facilities.. The board's standards affect staffing ratios, health services, food quality, environmental safety and other factors related to the welfare of all of these confined juveniles.

<u>Does the Subcommittee wish to adopt the proposed trailer bill language?</u>

5460 Department of the Youth Authority

Open Issues

1. Program Compliance Unit. The budget requests 5 positions and $725,000 for a program compliance unit, charged with providing management oversight and monitoring of staff compliance with policies and procedures. The overall goal of the unit is risk management and quality assurance.

At the hearing on April 3, the Subcommittee left this item open.

Does the Subcommittee wish to approve this request?

2. El Centro Residential Parole Program. CYA has given notice that it will not renew its contract for a 44 bed residential parole program in El Centro. The building is contracted from Imperial County, and the program is operated by CYA. The program provides a 90-day program for CYA wards on parole in lieu of returning them to CYA institutions for parole revocation. It is the only such program in Southern California. The CYA states that it is taking this action due to the declining number of parolees and the need to reduce costs. Though they state that they will replace this resource by contracting with community based organizations, it appears that the funding will be eliminated with the closure of El Centro.

In recent years, these types of programs have been used to encourage both the transition back to the community and as a more effective alternative to the use of more costly/less effective institutions for appropriate parole violations.

The Subcommittee may wish to ask what amount of funding is being reduced, and how similar services will be offered.

Teachers. At the hearing on April 3, it was reported that over 70 temporary teachers were being eliminated due to a projected spending deficiency based on the existing teacher/student ratios.

The Subcommittee may wish to ask about the status of this reduction, its impact on the ability of the agency to meet its educational requirements, and whether the existing teacher/student ratios are still considered as accurate.

Will this reduction impact CYA's ability to offer mandated education to its wards?

5460 California Youth Authority

Capital Outlay

The Department of the Youth Authority operates 11 institutions (including two reception centers) and six conservation camps throughout the state. The budget included $2.3 million from the General Fund and $16.7 million from lease revenue bonds for the department's capital outlay program in 2002-03. The budget included the following project proposals.

- $3.9 million from lease revenue funds for construction of a Correctional Treatment Center at Northern California Youth Correctional Center (NCYCC).
- $3.2 million from lease revenue funds for construction of 50 Specialized Counseling Program beds at Southern Youth Correctional Reception Center and Clinic (SYCRCC).
- $1.2 million from lease revenue fund for construction of a special education assessment center at Ventura Youth Correctional Facility.
- $8.5 million from lease revenue funds for construction of a new kitchen facility at Fred C. Nelles Youth Correctional Facility.
- $250,000 for budget package preparation and studies for future capital outlay projects.
- $2.2 million for minor capital outlay projects.

Issues

1. CTC at NCYCC and Specialized Counseling Program at SYCRCC.
The budget includes $3.9 million in lease-payment bonds for construction of a new Correctional Treatment Center at the NCYCC and $3.2 million in lease-payment bonds for construction to house new specialized counseling program beds at the SYCRCC. Both of these projects would provide treatment, counseling, and staffing space for mental health services to wards.

The LAO believes that the Legislature does not have the basic information it needs to assess the requests regarding these mental health facilities. Consequently, the LAO withholds recommendation on the two projects, pending receipt and review of the department's study.

Additional information related to these projects may be available at the time of the May Revision.

<u>Does the Subcommittee wish to hold these two projects open pending the May Revision?</u>

5240 DEPARTMENT OF CORRECTIONS

Open Issues

1. **Type I Parole Violators.** Each year, over 70,000 parolees are returned to prison for a violation of parole. The Department of Corrections categorizes the types of violations as follows: Type I are drug possession or use, plus miscellaneous low-level violations such as alcohol use; Type II include sex offenses, burglary, battery, theft, drug sales, firearms/weapons, minor driving violations. Type III include serious criminal offenses.

Type I offenses carry a term of up to 4 months reincarceration. The CDC is budgeted $14,797 per year to incarcerate an inmate at Level I or II security level. In the year 2000, there were over 35,000 parolees sent back to prison for a Type I offense. If each inmate spent 3 months in prison for the violation, it cost the state $130 million to house these offenders in the year 2000.

The Subcommittee may wish to ask CDC what the savings would be if these parole violators were placed on a high-supervision parole caseload and required to participate in intensive drug treatment or other appropriate program that addresses the parolees' inability to succeed on parole.

<u>What are the potential savings from placing Type I parole violators on high supervision parole rather than incarceration?</u>

2. **Employment Training Programs.** The CDC has 3 employment training programs - EDD, JobsPlus, and Offender Employment Continuum (OEC). A recent Bureau of State Audits report found that a job placement through the OEC program cost $1,439 vs. a placement through Jobs Plus, which cost $615, including administrative costs. The report stated "the department could have saved over $700,000 and provided jobs for over 500 more parolees by expanding [Jobs Plus] and eliminating [OEC]."

The budget in 2002-03 for the OEC is $1.5 million in reimbursements from federal Workforce Investment Act (WIA) funds.

<u>Why does the CDC keep a program that appears to not be cost-effective</u>?

3. Elimination of CCRCs. In 1999, the Legislature authorized the CDC to contract for 500 additional CCRC beds. To date, those beds have not been activated. The proposed budget calls for eliminating the authority to contract for 425 of those beds.

<u>Does the Subcommittee wish to re-establish the authorization for these beds?</u>

4. Foreign-Born Parolees. Over 5,000 parolees are undocumented residents that can be deported and transferred to the INS caseload. The average annual cost to supervise a parolee is approximately $2,600. If all the parolees were deported, the state would save a significant amount.

The Subcommittee may wish to adopt Supplemental Report Language directing the CDC to work with the INS on developing procedures for transferring foreign born parolees.

<u>Does the Subcommittee wish to adopt Supplemental Report Language?</u>

5. High Supervision Parole Placements for Non-Violent Offenders. Currently, it costs approximately $2,600 to supervise a parolee. Placement in a residential treatment facility costs $6-8,000/year.

The Subcommittee may wish to ask the department what the potential savings would be if nonviolent offenders sentenced to six months or less were placed on high supervision parole rather than incarceration.

<u>What are the potential savings from placing non-violent offenders with a sentence of less than six months on high supervision parole?</u>

6. Folsom Community Correctional Facility. Since 1990, the Department of Corrections has contracted with the City of Folsom to operate the Folsom Community Correctional Facility (CCF). It houses 380 inmates who have less than 18 months to serve and no violent criminal history or mental health problems. CDC pays the city of Folsom $110,000 per month to pay off the bonds to cover the costs of constructing the facility, and $347,857 per month for operating expenses.

The Inspector General recently issued a report which found the City of Folsom in violation of several of the contract terms, including:

- operation of the facility presents "unacceptable risks to public safety"
- widespread fiscal mismanagement
- significant safety and security deficiencies
- not providing inmates with state mandated programming
- does not follow prescribed personnel procedures
- employees do not receive training required by state law

In light of these findings, the Inspector General recommended that the Department of Corrections terminate the contract with the City of Folsom.

<u>Does the Subcommittee wish to terminate the contract with the City of Folsom for the Folsom CCF?</u>

CDC Capital Outlay

Project Name	Phase	April 1 Finance Letter	Lease-Revenue	General Fund	G O Bonds
1. Advance Planning	S	$0	$0	$500,000	$0
2. CCC - Replace Antelope Camp Dorms	C	$0	$2,170,000	$0	$0
3. DVI - Renovate Y & Z Dorms	W	$0	$0	$194,000	$0
4. DVI - Infirmary Heating, Ventilation, and Air Conditioning	W	$0	$0	$90,000	$0
5. CIM - Cell Security Lighting	P	$0	$0	$130,000	$0
6. CMF - Unit V Modular Housing Replacement	C	$0	$5,824,000	$0	$0
7. CMF - Ambulatory Care Clinic	C	$0	$2,298,000	$0	$0
8. CMC - D-Quad Mental Health Services Building	C	$0	$2,493,000	$0	$0
9. CRC - Potable Water System Improvements	C	$0	$0	$1,845,000	$0
10. CRC - Patton State Hospital Double Perimeter Security Fence	W	$0	$0	$567,000	$0
11. PVSP - Bar Screen, Pre-Lift Station	C	$0	$0	$663,000	$0
12. SVSP - Installation of New Well	P,W,C	$0	$0	$1,835,000	$0
13. Delano II - Maximum Prison with Support Services Facility	P, W, C	$0	$42,000,000	$0	$0
14. SAC - Psychiatric Services Unit and Enhanced Outpatient Care	W	$0	$0	$925,000	$0
15. Minor Projects	P, W, C	$0	$0	$3,000,000	$0
16. ASP - Mental Health Building	C	$146,000		$146,000	$0
17. DVI - New Well	P,W	$79,000			$79,000
18. RJD - Replace Substance Abuse Modulars	P,W	$290,000			$290,000
19. CRC - Acquisition of 5.7 Acres of Army Reserve Property	S	$100,000			$100,000
20. Delano II - Owner-Controlled Insurance Program	C	$2,815,000			$2,815,000
21. CVSP - Heating, Ventilation, and Air-Conditioning System	P	$1,080,000			$1,080,000
Totals		$4,510,000	$54,785,000	$9,895,000	$4,364,000
			Lease-Revenue	General Fund	GO Bonds

Issues

1. Delano II. At the hearing on April 24, the Subcommittee voted to cancel funding for the Delano II prison. In order to conform to this previous action, the Subcommittee would not approve funding for issues 13 and 20 from the table above, related to the Delano II project. No other issues have been raised with respect to the proposed capital outlay projects.

<u>Does the Subcommittee wish delete the requests for the Delano II project an approve the remainder of the proposed projects?</u>

5440 Board of Prison Terms

Open Issues

1. Backlog of Appeals from Inmates and Parolees. At the hearing on April 24, the Subcommittee discussed the issues surrounding the OIG's follow-up audit of the BPT. In its follow-up audit on the BPT, the OIG reports that the BPT's processes are not adequate to handle appeals in a timely manner. As a result there is a backlog of over 2,200 appeals from inmates and parolees.

The BPT has no time limits to respond to appeals, although inmates and parolees must submit an appeal within 90 days of receiving written confirmation of a board decision. The BPT indicates that it has set an internal goal for a response to an appeal in 120 days. Subcommittee staff has no information as to how often the BPT meets its internal goals.

SB 778 requires that the BPT report monthly on the status of the backlog of lifer appeals. The Subcommittee may wish to adopt Supplemental Report Language directing the BPT to report monthly on the backlog of appeals of inmates and parolees.

<u>Does the Subcommittee wish to adopt Supplemental Report Language directing BPT to report monthly on the status of the backlog of appeals for inmates and parolees?</u>

4. Foreign Prisoner Transfer Program. The United States has signed treaties with a number of foreign countries, allowing for the transfer of foreign born prisoners to their home countries. All of the treaties require the consent of the prisoner, the transferring country, and the receiving country. The CDC estimates that the number of foreign born inmates currently in CDC from countries with a treaty is 15,302. Of this amount, CDC indicates that 14,778 are from Mexico.

The Penal Code charges the BPT with administering the state's foreign prisoner transfer program. Section 2912 requires the BPT to actively encourage each eligible undocumented felon to apply for return to his or her county of origin, and requires quarterly reports to the Chair of the Joint Legislative Budget Committee.

The CDC indicates that it notifies inmates of their right to request transfer initially at the reception centers, and annually thereafter. The BPT has indicated that it has processed 344 applications from prisoners wishing to transfer since December 1995. There are 219 backlogged active cases that are currently being processed.

The Assembly approved an augmentation of $363,000 and four positions for the BPT to screen 5,000 inmates annually. Based upon prior experience the BPT estimates 80 prisoners would be eligible for transfer a year. This amount would provide an annual savings of $1.2 million. The actual number of transfers may be larger in the budget year due the number of outstanding applications already pending before the Board, those currently before the US-DOJ and the likelihood that there may be a review of previously denied applications.

In order to capture potential savings, the Assembly action assumes transfer of up to 250 prisoners in the budget year for a population savings of $3.7 within the CDC budget.

<u>Does the Subcommittee wish to take the Assembly action on this issue?</u>

Senate Budget and Fiscal Review—Steve Peace, Chair

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Wednesday, May 8, 2002
9:30 a.m.
Room 113

GENERAL GOVERNMENT

TRAILER BILL LANGUAGE

PROPOSED CONSENT CALENDAR

STATE AND CONSUMER SERVICES AGENCY

GENERAL GOVERNMENT

CONTROL SECTIONS

CONSTITUTIONAL AND EXECUTIVE

0505 Department of Information Technology

The Department of Information Technology (DOIT) is responsible for ensuring that appropriate plans, policies, and procedures are in place to guarantee successful implementation of state information technology projects.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$11,411	$11,061	($350)	-3.1%	$9,561	($1,500)	-13.6%
Personnel Years	55.8	76	20.2	36.2%	63.7	-12.3	-16.2%

Issues

1. Overview of the Responsibilities of DOIT. How many projects has DOIT reviewed and approved since January 2001? What was the total and average value of the projects?

DOIT asked to provide list of projects.

How many projects are now under review and what is their total and average value?

DOIT asked to provide list of projects.

What is the range of values for the projects that DOIT has already approved since January 2001 or has under review?

DOIT directed to provide list of projects.

Since January 2001, how many projects has DOIT cancelled, disapproved, discontinued review of, suspended, or requested that agencies withdraw from consideration? How much were these projects worth? Describe why DOIT did this.

DOIT directed to provide list of projects.

2. Clarification of DOIT's Responsibilities. The LAO recommends that the Legislature:

- Strengthen DOIT's role by clarifying specifically what DOIT is expected to perform in its role, thereby reducing overlap and confusion between departments.
- Direct other departments to work with DOIT in meeting its mandates and set specific timeframes in which these tasks must be accomplished.
- Establish clear priorities, requirements, and timeframes in which DOIT must meet its mandated activities.

<u>Does the Subcommittee wish to adopt the LAO's recommendations?</u>

3. Sunset of DOIT. The authority for DOIT sunsets on June 30, 2002. The LAO recommends extension of the sunset for two years and that the Bureau of State Audits conduct an audit evaluating DOIT's performance by December 2003 to provide the Legislature with the information it will need when considering DOIT's 2004 reauthorization.

<u>Does the Subcommittee wish to adopt the LAO recommendations?</u>

0750 Lieutenant Governor

The Lieutenant Governor chairs the California Commission for Economic Development and is a member of the State Lands Commission, California State World Trade Commission, and the State Job Training Coordinating Council.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$1,820	$2,604	$784	43.1%	$2,511	($93)	-3.6%
Personnel Years	16.9	31.6	14.7	87.0%	30.6	-1.0	-3.2%

0890 Secretary of State

The Secretary of State acts as the chief election officer of the state and thus administers and enforces the election laws.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$84,672	$84,953	$281	0.3%	$75,756	($9,197)	-10.8%
Personnel Years	439.2	458.4	19.2	4.4%	451.4	-7.0	-1.5%

Issues

1. Business Programs Automation Project. The budget proposes $5.7 million (Business Fees Fund) to continue funding for Phase II of the Business Programs Automation Project. This project addresses significant problems that exist in the processing of corporate and other business registration programs for which the Secretary is responsible.

Does the Subcommittee wish to continue the funding for this project?

2. Native American Grave Protection and Repatriation Act (NAGPRA). Supplemental report language required the California State Archives to report by November 1, 2001 on the extent to which its museums, galleries, and other programs have complied with NAGPRA.

The State Archives should comment on the report.

STATE AND CONSUMER SERVICES AGENCY

1100 Science Center

The California Science Center (CSC) presents exhibits and conducts associated programs centering on the scientific and industrial development of the state.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$19,637	$21,260	$1,623	8.3%	$18,598	($2,662)	-12.5%
Personnel Years	170.9	205.9	35.0	20.5%	190.7	-15.2	-7.4%

Issues

1. Pre-Qualification of Bidders. Current law authorizes the Department of General Services to pre-qualify bidders for public works construction projects. Current law does not authorize pre-qualification of subcontractors who will be performing specific portions of a project.

Phase II of the Environmental Science Project will replicate a Southeast Asian Rainforest, a Pacific Ocean Kelp Forest, and Sonoran Desert Environments. The construction of these environments will require highly specialized sub-contractors to insure the growth and survival of living plants and animals that will inhabit the exhibits. There are at least 7 subcontractors eligible to pre-qualify for these contracts.

Does the Subcommittee wish to adopt supplemental report language requesting the Science Center to report by January 10, 2003 on the status of raising nonstate funds for Phase II?

Does the Subcommittee wish to adopt budget bill language authorizing DGS to pre-qualify all subcontractors who meet the minimum standard set for pre-qualification?

1111 Bureau of Barbering and Cosmetology

The Bureau of Barbering and Cosmetology is a separate bureau within the Department of Consumer Affairs (DCA), which serves as an umbrella agency for semi-autonomous boards, commissions, and committees that regulate over 180 professions.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$9,345	$11,037	$1,692	18.1%	$11,634	$597	5.4%
Personnel Years	92.7	91.1	-1.6	-1.7%	91.1	0.0	0.0%

Issue

1. Los Angeles Facility Relocation. Last year, the Bureau received a budget augmentation of $615,000 ($228,000 ongoing) for the Los Angeles Examination Site Relocation. The Bureau is requesting an additional $519,000 ($103,000 ongoing) for increased tenant improvement and rental costs. This increased cost is due to the expanded square footage and increased rent per square foot.

The Bureau should report on the status of their progress in finding a site east of the 605 Freeway.

1140 Athletic Commission

The Athletic Commission (AC) sets standards for boxing and full-contact karate matches to ensure the contestants are properly matched. The AC enforces these standards through examinations, regulatory inspections, and attendance by Commission representatives at all matches, exhibitions, and closed circuit events.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$865	$1,058	$193	22.3%	$926	($132)	-12.5%
Personnel Years	10.6	13.4	2.8	26.4%	11.0	-2.4	-17.9%

Issue

1. Mixed Martial Arts. Mixed martial arts (Submission Fighting) is a grappling sport, where techniques such as joint manipulation and chokeholds are used to force an opponent to submit. Chokeholds to the front of the throat are not permitted, however, chokeholds are permitted to the carotid artery. Chokeholds to the carotid artery would cut off blood flow to the brain and cause black out or death if a participant were choked for an extended period. If authorized this sport needs regulation to prevent fighters from being injured or killed.

Business and Professions Code Section 18640 provides that full contact martial arts falls under the auspices of the AC. The Department of Finance contends that statutory changes are necessary to allow the AC to regulate Mixed Martial Arts.

Regulating Mixed Martial Arts would require an augmentation of $200,000 (GF) to the AC. This augmentation would cover the costs for two permanent full-time staff and two intermittent inspectors to supervise events. The Commission currently has about 2,000 licensees in boxing and martial arts and it projects that it will have 7,000 licensees alone in mixed martial arts.

This proposal is estimated to generate revenues of about $700,000 (GF) from license fees and gate tax.

<u>Does the Subcommittee wish to augment the budget by $200,000 (GF) to regulate Mixed Martial Arts?</u>

<u>Does the Subcommittee wish to adopt trailer bill language authorizing the Athletic Commission to regulate Mixed Martial Arts?</u>

1390 Medical Board

The Medical Board regulates the health professions and occupations under its jurisdiction through licensure, investigation, and discipline.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$36,187	$38,757	$2,570	7.1%	$38,870	$113	0.3%
Personnel Years	286.4	294.5	8.1	2.8%	294.0	-0.5	-0.2%

Issue

1. Staff Liaison to Work with International Medical Graduates (IMGs). The JLSRC recommends that the Board designate a staff liaison to work with IMGs and the programs devoted to facilitating their licensure and re-entry into their profession.

<u>The Board should comment on this proposal.</u>

<u>Does the Subcommittee wish to adopt budget bill language requiring a staff liaison to work with IMGs?</u>

1730 Franchise Tax Board

The Franchise Tax Board (FTB) is one of the state's two major tax collection agencies. The primary responsibility of the FTB is to administer California's Personal Income Tax and Bank and Corporation Tax laws. **Actions taken at the May 1 hearing resulted in increased costs of $2.5 million (GF) and increased revenues of $14.1 million (GF), for a net savings of $11.6 million (GF).**

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$412,979	$437,981	$25,002	6.1%	437,369	(612)	-0.1%
Personnel Years	5477.6	5524.1	46.5	0.8%	5527.6	3.5	0.1%

Issues:

1. Customer Service – District Offices. The budget proposes a reduction of $414,000 (GF) and 5.2 PYs for District Office Public Service Counters. This would result in the following reductions to these field offices:

- Oakland: Reduction from 3 positions to 2.
- Sacramento: Reduction from 4 positions to 3.
- San Francisco: Reduction from 3 positions to 2.
- Los Angeles: Reduction from 2.7 positions to 2.
- Fresno: Reduction from 1.5 positions to 1.
- Santa Ana: Reduction from 1.5 positions to 1.
- Santa Rosa: Reduction from 1 position to 0.5.

Does the Subcommittee wish to augment the Call Center by the $414,000 (GF) from savings of $11.6 million (GF) in this item from actions taken on May 1?

2. Customer Service – Call Centers. A reduction of $836,000 (GF) and 21.5 PYs, including $75,000 to the Tax Practitioner Hotline and $761,000 for the centralized Call Center that provides information to taxpayers on a variety of tax issues.

Does the Subcommittee wish to augment the Call Center by the $836,000 (GF) from savings of $11.6 million (GF) in this item from actions taken on May 1?

3. Augmentation for Implementation of City Business Tax Disclosure. The budget requests expenditure authority of $397,000 (reimbursements) and 5.1 PYs to implement AB 63 (Cedillo), which authorized FTB to disclose confidential tax information to city business tax officials. These costs are fully reimbursed by the cities that use the information. A number of cities have already remitted funds to FTB for this service.

The information is used by city tax officials to identify individuals that report business income on state returns but do not have an active city business license within their city jurisdictional boundaries.

<u>Does the Subcommittee wish to increase the expenditure authority of the FTB to expend the reimbursements?</u>

4. City Business Tax Program. In 2000-01, the budget included $1 million in contract funds and $69,000 for one position to establish a two-year pilot program to contract with local governments for business license tax information. This program was discontinued in 2001-02, as part of the unallocated reductions pursuant to the November Revision.

These contracts have a five-to-one return, which is the standard criterion used for audit and collection activities. FTB received $250,000 (GF) in 2000-01 and paid $100,000 (GF) for this effort (including start-up costs). The contracts with local agencies guarantee that the state will pay only the amount necessary to achieve a five-to-one return on state funding.

<u>Does the Subcommittee wish to fund this program and at what level?</u>

1760 Department of General Services

The Department of General Services (DGS) provides support services to operating departments.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$889,412	$913,736	$24,324	2.7%	$853,530	($60,206)	-6.6%
Personnel Years	3848.0	4119.6	271.6	7.1%	4124.3	4.7	0.1%

Issue

1. Finance Letter Related to School Renovation and Repair Program. This Finance Letter requests $136,000 from Item 6110-202-0890 to be scheduled in Item 1760-001-0666.

<u>Does the Subcommittee wish to conform to the action taken by Subcommittee No. 1?</u>

2. State Building Seismic Retrofit Program. The voters passed Proposition 122 in 1990, which provided $300 million in G.O. bonds for Earthquake Safety and Public Buildings Rehabilitation Bond Act. This provided $250 million for state buildings and $50 million for matching grants for local government buildings. Currently only about $23 million of the state's share of bond proceeds are unexpended.

The budget proposes not to start any new seismic projects in the budget year, but does include $21.1 million to either complete or continue design and construction for ten previously authorized projects. These projects have a future cost for completion of $47.3 million and the remaining 19 projects on the department's list would cost $60 million.

The LAO believes that this proposal is reasonable, but would caution that approval of the seismic proposal would commit the state to GF costs of up to $47.3 million in 2003-04.

<u>This item was left open for the San Quentin projects.</u>

3. State Printing Policy. In the 1995 budget act, a provision was added providing that the Office of State Printing (OSP) may 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. The only mandated printing was for the Governor's Office, the Legislature, and ballots. Thus, state agencies could get 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. The Printing Industries of California has indicated concern on this issue.

The budget proposes trailer bill language that would require departments to offer the printing project to OSP for any project over $5,000. The section would sunset the later of the effective date of the Budget Act of 2003 or June 30, 2003.

<u>Does the Subcommittee wish to adopt trailer bill language without a sunset specifying that printing projects are not personal service contracts as follows?</u>

> "Notwithstanding any other provision of law, for state printing procurement purposes, printing is not considered a personal service contract."

4. Trailer Bill. The administration is proposing trailer bill language that would exempt DGS, for a one-year period, from various current law provisions. These exemptions would allow: The purpose of this language is 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. In short, this language helps DGS provide its services on a cost-competitive basis.

This trailer bill does the following:

- Delegates the authority to approve Architectural Revolving Fund transfers from DOF to DGS,
- Exempts the department from filing an application of discharge with the State Controller's Office when it has been determined it is no longer cost effective to pursue collection efforts,
- Gives the department the option to procure goods usually purchased from the Prison Industry Authority from the private sector when it is cost beneficial to do so,
- Allows the Director of DGS rather than DOF to certify funds are available in the case of the department's liability for a legal settlement,
- Allows DGS to accept advertising for the promotion of sales in State publications,
- Authorizes the Director of DGS rather than DOF to approve the deposit of checks into the Architectural Revolving Fund,
- Authorizes the Director of DGS rather than DOF to certify funds for payment for all legal court settlements for projects funded from the Architectural Revolving Fund.

<u>Ask the Department to comment on why they are requesting these exemptions.</u>

<u>Does the Subcommittee wish to adopt the proposed trailer bill language or to amend the language to adopt the identical language adopted in last year's trailer bill?</u>

<u>Does the Subcommittee wish to direct DGS to seek a permanent change in policy by proposing legislation next year?</u>

5. Finance Letter to Reappropriate Capital Outlay Funding.
This Finance Letter seeks to reappropriate the following:

a) CDC, San Quentin, Building 22: Modulars – Working drawings - $484,000 (GF). This reappropriation is necessary due to project schedule delays. Working drawings should be completed in January 2003.
b) Veterans' Home of California, Yountville, Recreation Building: Structural Retrofit – Construction - $1,881,000 (Earthquake Safety and Public Buildings Rehabilitation Fund of 1990 - ESPBRF). This is necessary due to the pending development for the renovation of the recreation building.
c) Metropolitan State Hospital, Norwalk, Laundry Building: Structural Retrofit – Construction - $1,610,000 (ESPBRF). This is necessary because of State Fire Marshal review delays. Working drawings should be completed in July 2002.
d) Sonoma Development Center, Eldridge, Porter Administration Building: Structural Retrofit – Construction - $2,122,000 (ESPBRF). This is necessary due to project schedule delays due to workload. Working drawings should be completed in September 2002.
e) Correctional Training Facility, Soledad, Hospital Wing Q: Structural Retrofit – Construction - $2,220,000 (ESPBRF). This Reappropriation is necessary due to project schedule delays due to workload. Working drawings should be completed in August 2002.
f) State Fleet Alternative Fuel Infrastructure, Sacramento, Oakland, Los Angeles – Working drawings and construction - $1,884,000 (PVEA). This reappropriation is needed due to project delays necessary to review and revise the scope of this project.

Does the Subcommittee wish to approve these reappropriations?

1880 State Personnel Board

The State Personnel Board (SPB) administers the state's civil service system including competitive examinations, classifications, probationary periods, and disciplinary action reviews.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$18,713	$17,581	($1,132)	-6.0%	$16,130	($1,451)	-8.3%
Personnel Years	161.4	185.6	24.2	15.0%	176.4	-9.2	-5.0%

Issues

1. Dymally-Alatorre Bilingual Services Act. Supplemental Report language required the SPB to report on its activities in support of the Act and its plan to monitor and assess the effectiveness of this law and to propose amendments as appropriate.

<u>The SPB should comment on the results of their progress on the report and any proposed amendments.</u>

<u>Does the Subcommittee wish to adopt trailer bill language that each state department designate a staff person responsible for overseeing implementation of the responsibilities of this program, conduct an assessment of its current capacity to serve people with limited English proficiency, and develop an implementation plan as to how the department plans to bring itself into full compliance with the Dymally-Alatorre Act?</u>

3. Peace Officer Procedural Bill of Rights (POBOR) Mandate. This issue was heard as part of the Commission on State Mandates budget (Item 8885) on May 1 and is up for reconsideration today.

1920 State Teachers' Retirement System

The State Teachers' Retirement System (STRS) provides retirement-related benefits and services to teachers in public schools from kindergarten through the community college system. Administrative costs of STRS are funded from the Teachers' Retirement Fund (TRF).

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$55,514	$61,907	$6,393	11.5%	$70,715	$8,808	14.2%
Personnel Years	464.7	539.6	74.9	16.1%	566.5	26.9	5.0%

Issues

1. Teale Data Center (TDC) Costs. STRS is submitting a BCP requesting an additional $7.1 million (TRF). STRS now estimates that TDC costs will be about $9.9 million in the budget year, which is $7.1 million more than initially estimated, for the START program. START is the Cal STRS corporate system that calculates and pays all of the retirement benefits for the Defined Benefit (DB) program and will also process the Defined Benefit Supplement (DBS) payments.

<u>Does the Subcommittee wish to approve this augmentation?</u>

2. Creditable Compensation Implementation. STRS is requesting additional one-time resources of $500,000 (TRF) for a total appropriation of $2,130,000 (TRF) for implementation of AB 2700 (Lempert) related to creditable compensation for STRS members. This BCP will cover one-time costs for addressing these changes.

<u>Does the Subcommittee wish to approve this augmentation?</u>

3. Defined Benefit Supplemental (DBS) Program Implementation Project. STRS is requesting $5.2 million (TRF) to develop and implement the automation components of the legislatively mandated DBS program. This new program will change the vast majority of transactions.

<u>Does the Subcommittee wish to approve this augmentation?</u>

BUSINESS, TRANSPORTATION, AND HOUSING AGENCY

2180 Department of Corporations

The Department of Corporations (DOC) administers and enforces state laws regulating securities, franchise investment, lenders, and fiduciaries. Activities include licensing, examination, investor and consumer education, and responding to public inquiries and complaints.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$23,413	$26,323	$2,910	12.4%	$35,320	$8,997	34.2%
Personnel Years	256.4	275.4	19.0	7.4%	291.8	16.4	6.0%

Issues

1. Statewide Outreach on Predatory Practices (STOPP). The budget proposes $10 million (SCF) and 25 one-year limited term positions to implement the STOPP program, which would target investment and lending fraud. The program is intended to make consumers aware of DOC's responsibilities, the extent of fraud and abuse in the investment and lending industries, and where to get information and submit complaints.

The one-year pilot program includes the following four components:

- $8.1 million for public education including fair exhibits, mass mailings, and statewide television commercials. The media campaign focus will be to help seniors, minorities, and other potentially vulnerable populations protect themselves from predatory lending and investments.

  The Department was directed to report to Subcommittee with a $4 million program.

- $400,000 to establish an Outreach and Education Office to administer STOPP, develop brochures and public service announcements, organize outreach events, and contact community organizations.

- $800,000 to establish a Call Center, which would consolidate existing resources for responding to consumer complaints and the greater number of calls expected through the STOPP campaign.

The Subcommittee reduced this funding to $400,000 on April 10.

- $700,9000 for additional enforcement staff.

The LAO recommends deletion of funding and 17 positions for additional enforcement staff. The positions are about 45% more than currently budgeted.

Does the Subcommittee wish to fund the additional enforcement positions and funding?

2240 Housing and Community Development

The Department of Housing and Community Development (HCD) is charged with the responsibility to promote and expand housing opportunities for all Californians. HCD is responsible for implementing and enforcing building standards and a variety of housing finance, economic development, and rehabilitation programs.

(In millions)	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$451.8	$347.1	(104.7)	-23.2%	$208.1	($139.0)	-40.0%
Personnel Years	488.2	496.8	8.6	1.8%	495.9	-0.9	-0.2%

Issue:

1. Mobilehome Ownership. The 2000-01 budget included a $10 million set-aside within the CalHome homeownership program to fund local programs that allow homeowners to repair or replace manufactured housing. $4.2 million of that appropriation remains available. Budget bill language proposes making those remaining funds available for expenditure under the broader Cal-Home program for various homeownership purposes, including mobilehome ownership.

HCD was asked to report to the Subcommittee on the viability of making loan provisions for mobilehome ownership comparable to real estate loans.

TECHNOLOGY, TRADE, AND COMMERCE AGENCY

2920 Technology, Trade, and Commerce Agency

The Technology, Trade, and Commerce Agency (TTCA) is intended to be a business advocate for the State of California.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$197,351	$216,068	$18,717	9.5%	254,868	38,800	18.0%
Personnel Years	314.8	339.0	24.2	7.7%	318.5	(20.5)	-6.0%

Issues

1. California Space Industry Development Programs. The budget requests $1 million (GF) for the space technology program. This would provide $675,000 in local grants, $248,000 for a nonprofit organization to administer the grants and advocate for federal grants, and $77,000 for state operations to provide support. The proposal would fund about 4 grants of $169,000 annually.

State funding of $11.8 million (GF) to date for this program has been used to leverage funding of $73.7 million, of which $19.1 million was non-state funds and $54.6 million was federal funds. In the current year, the only funding for the Space Commerce program was for two support positions.

The state's major competitor, Florida, spends more than $22 million on space industry development.

The state also provides a sales tax exemption for space launch equipment that results in revenue reductions of $8 million (GF) annually.

<u>TTCA provided a list of all companies that have received grants as requested by the Subcommittee.</u>

<u>Does the Subcommittee wish to fund this program as budgeted at $1 million (GF)?</u>

2. Reduction to Biomass Energy Grants. This three-year program provides grants to agricultural businesses that bring biomass waste to plant operators that convert biomass fuels to energy. The program was created in 2000 with intent language that the program be funded at $10 million per year for three years. In 2000-01, 12 grants were awarded for $8.9 million.

The Energy Commission also administers a renewable energy program. The Commission had $135 million for existing power plants fueled by, among other sources, biomass. There is an additional $241 million available for new facilities powered by various sources including biomass. These funds can only be used for biomass plants and not for the agricultural businesses.

This program was funded at $11.5 million (GF) in 2001-02, including a $3.5 million augmentation after the budget passed. The budget proposed reverting $5.5 million (GF) of the current year grants, but that reversion was deleted because the industry argued they had already signed contracts for the year.

The budget proposes to fund this program at $6 million (GF).

Does the Subcommittee wish to fund as budgeted or eliminate or reduce funding for savings of up to $6 million (GF)?

3. Reduction to 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 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.

The LAO recommends eliminating this program for savings of $5.4 million (GF). If other local and private funds are not available to provide a match to federal funds, eliminating state funding could result in reduced federal funding.

TTCA has provided a list of grantees.

Does the Subcommittee wish to fund this program as budgeted with a 10 percent reduction or eliminate funding of $5.4 million?

4. Reduction to Next Generation Internet Centers. This program was created in 2000 to fund administrative costs for the centers at UC San Diego and UC Berkeley and to provide grants for the development of small business-oriented software applications. The program provides a mixture of state, federal, and private funding.

State funding in the current year was reduced from $5 million to $2 million and federal funds are estimated to be $2 million and private funds of about $4 million. Funding was intended to continue for three years through 2002-03.

The budget proposes a 50 percent reduction in funding to $1 million (GF). This could result in reduced federal funds.

The LAO's recommends eliminating this program. The LAO contends that if the program is worthwhile the Centers should be able to seek private sector funding or university funding.

<u>TTCA has provided a list of projects and detail on private funding as requested by the Subcommittee.</u>

<u>Does the Subcommittee wish to fund as budgeted or eliminate funding for this program for savings of $1 million (GF)?</u>

5. Reductions to Rural E-Commerce Grant Program. This program was created in 2000 to match federal, local, and private funds for projects to increase the use of telecommunications and computer technologies among small businesses in rural areas.

Grants of $2 million (GF) were awarded in 2001-02 to 17 nonprofit corporations and public entities. These grantees provided their own match of $1.6 million and received a federal match of $2.7 million and other matches of $1.7 million. This is a match of nearly $6 million for a GF grant of $2 million.

The budget proposes to reduce funding by 50 percent to $1 million. The LAO recommends eliminating this program.

<u>TTCA has provided a list of grantees and details of private funding as requested by the Subcommittee.</u>

<u>Does the Subcommittee wish to fund this program as budgeted or to eliminate funding for savings of $1 million (GF)?</u>

6. Reduction to California Export Finance Office (CEFO). CEFO seeks to expand California employment and income opportunities by promoting increased exports of California goods and services, including agricultural commodities by providing California exporters, particularly small- and medium-sized manufacturers, exporters, and agricultural enterprises with information and technical assistance.

CEFO provides working capital loan guarantees to private sector financial institutions on behalf of small- and medium-sized California companies in support of export transactions. CEFO's program is specifically designed to promote California goods and services internationally.

The current year budget provides $1.2 million (GF) and 12.3 positions. The budget proposes reducing the program by $400,000 (GF) and 6.3 positions. The intent is to reduce the program in the following year.

Does the Subcommittee wish to approve this program as budgeted with a reduction of $400,000 (GF)?

7. International Trade and Investment Offices (ITIO). The intent of ITIOs is to promote California exports and attract investment into the state. TTCA has two types of ITIOs – offices staffed by state employees and contracted offices. SB 1 of the Third Extraordinary Session reverted $457,000 (GF) to open foreign trade offices in India and the Philippines. The Calgary office was also not opened for annual savings of $244,000 (GF).

The budget proposes funding of $6.1 million (GF) for the following offices:

Foreign Trade Offices – ($4,872,000)

- South Africa - $414,000
- Germany - $560,000
- China - Hong Kong - $838,000
- Japan - $1,052,000
- United Kingdom - $522,000
- Mexico - $1,155,000
- Taiwan - $331,000

Contract Foreign Trade Offices – ($1,196,000)

- South Korea - $261,000
- China – Shanghai - $270,000
- Singapore - $200,000
- Argentina - $265,000
- Israel - $200,000

The LAO recommends eliminating or reduce the number of trade offices program for savings of up to $6.1 million (GF).

TTCA provided detailed information on the individual trade offices.

Does the Subcommittee wish to fund the International Division as budgeted?

8. California Technology Investment Partnership (CalTIP). CalTIP provides matching funds for federal grant money to small- and medium-sized businesses to assist in the development of marketable technologies. Grants are typically $150,000 to $200,000 and used to match federal funds, although matching funds can come from other sources including private funds. From 1993-94 through the current year, the state has provided $45.6 million (GF). The state investment has been matched by $250.6 million in federal funds and $249.6 million in private funds.

The budget proposes $6 million (GF) in the budget year, which is $2 million more than provided in the current year.

The LAO recommends eliminating or reducing this program for savings of up to $6.0 million (GF). LAO contends that the absence of state funding would not significantly reduce the availability of federal and private funds.

TTCA provided specific program detail as requested by the Subcommittee.

Does the Subcommittee wish to reduce or eliminate this program in the budget year, as recommended by the LAO?

GENERAL GOVERNMENT

8260 California Arts Council

The California Arts Council (CAC) assists student education in the arts, develops art programs, promotes employment of artists, provides for the exhibition of art works in public buildings, and encourages artistic awareness and expression.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$81,473	$53,509	($27,964)	-34.3%	$32,795	($20,714)	-38.7%
Personnel Years	36.7	42.9	6.2	16.9%	42.9	0.0	0.0%

Issues

1. Arts in Education Program. The budget proposes a reduction of $2 million for the Arts and 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 $10 million (GF) in local grants for this program in the current year, but that was reduced by $3.2 million (GF) by SB 1 XXX. The budget proposes to fund the program at $8.1 million (GF).

Does the Subcommittee wish to approve as budgeted?

2. Artists in Residence Program. The budget proposes a reduction of $100,000 (GF) to $4.9 million and an increase of $838,000 (Graphic Design License Plate Account). The GF reduction would be for the Artists in Residence Program. The increase of $838,000 would be to continue arts education and local arts programming. Of this amount, $575,000 would be for local assistance and $263,000 for state operations.

Does the subcommittee wish to approve as budgeted?

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. The total cost of reimbursing mandates was $322.7 million (GF) in 2000-01; $518.5 million (GF) in the current year; and $327.4 million in the budget year.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$1,560	$1,698	$138	8.8%	$1,578	($120)	-7.1%
Personnel Years	14.0	16.7	2.7	19.3%	14.7	-2.0	-12.0%

Issue

1. 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 COSM adopts a statewide cost estimate, the administration normally proposes funds in the May Revision to reimburse local governments and the Legislature appropriates the funds in the annual claims bill. Last year, however, the Administration proposed funding $50 million for reimbursement of POBOR costs in the claims bill, with the remaining $102.5 million to be made available in future years.

The budget requests $50 million (GF) for POBOR reimbursements in 2002-03. The administration indicates that it expects the SCO to use $25 million to pay prior-year claims and $25 million to pay budget-year liabilities. These funds are included in the State Personnel Board budget.

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, LAO estimates that the annual state cost associated with POBOR is likely to be two to three times higher than the amount projected by the commission, or $50 million to $75 million annually.

The LAO recommends:

- Asking the Joint Legislative Audit Committee to audit these claims.
- Suspension of the mandate provisions by using the procedure set forth in Government Code Section 17581. This would suspend only the provisions found to be state-reimbursable mandates by COSM.

These actions need to be taken to Item 1880 – State Personnel Board. The issue is being discussed with the COSM budget because COSM took the actions.

<u>Does the Subcommittee wish to delete funding and suspend the mandate?</u>

<u>Does the Subcommittee wish to request a JLAC audit?</u>

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. To support the operations of a force of 23,000, the department maintains a headquarters complex in Sacramento, 127 armories, 33 equipment maintenance facilities, and 10 air bases throughout the state.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$84,972	$103,312	$18,340	21.6%	$95,939	($7,373)	-7.1%
Personnel Years	689.3	781.8	92.5	13.4%	824.8	43.0	5.5%

Issues

1. Bridge Security. DOF requested increased costs of $3.9 million (federal funds) to deploy security personnel to guard the Golden Gate, San Francisco-Oakland, Vincent Thomas, and Coronado bridges in November 2001. Since the Governor issued the directive to guard the bridges, the state is responsible for funding the security costs.

DOF requested federal funds through a Section 28 letter. Since no federal funds have been received, the Chair of JLBC requested that DOF submit a request for funding once the source of funding was clear. On January 24, 2002, DOF submitted a Section 27 letter requesting $3.9 million (GF) for bridge security.

The budget requests $6 million in federal funds for bridge security.

<u>The Military Department should report on their progress in securing housing at the Presidio.</u>

<u>The Military Department and DOF should comment on their progress in obtaining federal funds for this purpose both in the current and budget year.</u>

<u>Does the Subcommittee wish to fund the bridge security costs in the budget year from federal funds?</u>

2. Santa Ana Armory. There is interest in Santa Ana in moving the armory from its current location to a new location. The armory was built in 1957 and 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.

Discussions have taken place with the Military Department about the potential for moving the Armory. 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.

9210 Local Government Financing

The Local Government Finance item proposes $385 million in funding for local agencies.

	2000-01	2001-02	Change		2002-03	Change	
High-Technology Grants for Local Law Enforcement	$75,000	$35,400	($39,600)	-52.8%	$35,400	$0	0.0%
Reimbursement for Booking Fees	$38,220	$38,220	$0	0.0%	$38,220	$0	0.0%
Property Tax Loan Program	$51,458	$51,458	$0	0.0%	$51,500	$42	0.1%
Rural and Small County Law Enforcement	$0	$18,500	$18,500		$18,500	$0	0.0%
Citizens' Option for Public Safety (COPS)	$242,600	$232,600	($10,000)	-4.1%	$232,600	$0	0.0%
Special Supplemental Subventions	$1,600	$1,200	($400)	-25.0%	$1,400	$200	16.7%
State-Mandated Local Programs	$45,445	$6,266	($39,179)	-86.2%	$6,398	$132	2.1%
Local Grants	$1,750	$7,752	$6,002	343.0%	$747	($7,005)	-90.4%
Local Government Discretionary Grants	$212,000	$0	($212,000)		$0	$0	
Other	$19,574	$9,761	($9,813)	-50.1%	$0	($9,761)	-100.0%
Totals	$687,647	$401,157	($286,490)	-41.7%	$384,765	($16,392)	-4.1%

Issue:

1. High Technology Grants for Law Enforcement. The budget extends current-year funding of $35.4 in one-time funding for local law enforcement agencies to purchase high-technology equipment for crime prevention and suppression. Each local agency will receive a minimum of $30,000 and an additional per-capita amount. Eligible local agencies include cities, counties, and the special districts that provide law enforcement services.

The budget proposes trailer bill language allocating funds and providing that the funds shall be used to supplement, rather than supplant existing law enforcement resources. The language also provides that each recipient shall report to DOF on or before August 15, 2003 and annually thereafter. The Administration is sponsoring separate legislation - AB 2901 (Wiggins), which was approved by the Assembly on May 2.

It is unclear why the budget proposes trailer bill language when the program is proposed on a one-time basis.

<u>Does the Subcommittee wish to fund the $35.4 million (GF)?</u>

<u>If the Subcommittee funds this item, does it wish to adopt trailer bill language or budget bill language controlling the allocation of the funds?</u>

TRAILER BILL LANGUAGE

General Fund Loans

Issue:

1. Interfund Borrowing Trailer Bill Language. DOF proposes trailer bill language authorizing loans from one state fund or account to another state fund or account as authorized in the annual budget act. The language provides that money may be loaned from one state fund or account to any other state fund or account if:

- The loan is authorized in the Budget Act.
- The terms and conditions of the loan are set forth in the loan authorization, including an interest rate.
- The loan is considered part of the balance of the fund or account.
- A fee or assessment may not be increased as a result of the loan.

The language 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 language requires the Director of Finance to order the repayment of all or a portion of the loan if it is determined that:

- The fund or account from which the loan was made has a need for the money or
- The need for the moneys in the fund or account that received the loan no longer has a need for the money.

The language provides that DOF shall report to the Legislature on or before January 10 of each year on the balances of all outstanding loans.

<u>Does the Subcommittee wish to require DOF to report to JLBC at the time of a loan repayment?</u>

<u>Does the Subcommittee wish to require DOF to report to JLBC the balance of all outstanding loans as of June 30 each year and on or before January 10 of each year?</u>

PROPOSED CONSENT CALENDAR

1111 Department of Consumer Affairs

The Department of Consumer Affairs (DCA) serves as an umbrella agency for semi-autonomous boards, commissions, and committees that regulate over 200 professions. DCA is responsible for providing consumer protection while promoting a fair and competitive marketplace.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$371,281	$434,707	$63,426	17.1%	$337,212	($97,495)	-22.4%
Personnel Years	2754.9	2948.4	193.5	7.0%	2928.1	-20.3	-0.7%

Issue

1. Controlled Substance Utilization Review and Evaluation System (CURES) Finance Letter. Request for $124,000 (GF) for the Department of Justice would continue the CURES program. The Finance Letter also asks for an $125,000 (reimbursements) from various boards of the DCA. CURES is an electronic monitoring of the prescribing and dispensing of Schedule II controlled substances by all practitioners authorized to prescribe/dispense these substances.

Conform to action on the DOJ portion of this issue.

GENERAL GOVERNMENT

8910 Office of Administrative Law

The Office of Administrative Law (OAL) reviews administrative regulations proposed by over 200 state regulatory agencies.

	2000-01	2001-02	Change		2002-03	Change	
Total Budget	$2,434	$2,768	$334	13.7%	$2,334	($434)	-15.7%
Personnel Years	24.8	27.0	2.2	8.9%	23.7	-3.3	-12.2%

Approve the Finance Letter for an increase of $79,000 (GF) for the full-year cost of OAL's lease obligation for 2002-03.

Senate Budget and Fiscal Review—Steve Peace, Chair

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Joseph Dunn
Dick Ackerman

Friday, May 17, 2002
10:00 a.m.
Room 4203

CONTROL SECTIONS

TRAILER BILL LANGUAGE

PROPOSED CONSENT CALENDAR

CONSTITUTIONAL AND EXECUTIVE

STATE AND CONSUMER SERVICES AGENCY

BUSINESS, TRANSPORTATION AND HOUSING AGENCY

GENERAL GOVERNMENT

CONTROL SECTIONS

TRAILER BILL LANGUAGE

CONSTITUTIONAL AND EXECUTIVE

0505 Department of Information Technology

Issues

1. May Revision: Reduction of $2.8 million. The May Revision requests a reduction of $2.8 million (GF) from operating equipment. Of this amount, $1.5 million will be transferred to the Department of General Services to provide funding for executive information technology services.

1. May Revision: Clarification of DOIT's Responsibilities. The Administration proposes budget bill language to specify its intent to work with the Legislature to restructure state information technology governance and oversight functions.

2. Sunset of DOIT. The authority for DOIT sunsets on June 30, 2002. The LAO recommends extension of the sunset until June 30, 2004.

0845 Department of Insurance

Issues

1. May Revision: Workers' Compensation Investigation Workload. The May Revision requests an increase of $628,000 (Insurance Fund) to fund a two-year limited-term pilot program to determine the investigation workload impact resulting from Chapter 6, Statutes of 2002 – AB 749 (Calderon). This program would investigate new workers' compensation criminal activity based on new crime definitions and determine the level of investigation necessary on a permanent basis commencing January 1, 2003.

2. May Revision: Funding for Tax Collection and Audit Program. The Board of Equalization (BOE) issues assessments and hears appeals on the insurance tax; the State Controller (SCO) makes refunds and collects delinquencies and penalties; and DOI issues permits, processes returns, and audits taxpayers.

The gross premiums tax produces $1.7 billion for the General Fund (GF) in 2002-03. Administrative costs for BOE are $404,000 (GF), SCO are unknown minor, and DOI are $1.1 million (GF). For all other state taxes, the administrative costs are charged to the fund that receives the revenue.

The May Revision and the LAO recommend funding the tax collection and audit program from the Insurance Fund rather than GF. This would shift costs of $1,767,000 from the GF to the Insurance Fund.

<u>Does the Subcommittee wish to shift the administrative costs from the General Fund to the Insurance Fund?</u>

3. Loan from the Insurance Fund to the General Fund. The Insurance Fund has a balance of $22.7 million at the end of 2002-03. Revenues are slightly lower than expenditures each year, but the reserve is 12.1 percent of the fund’s revenues. A loan of $10 million could be authorized with adoption of the standard language that the loan be repaid if necessary. It is unlikely that this loan would require repayment until 2004-05.

<u>Does the Subcommittee wish to approve the loan of $10 million?</u>

0950 State Treasurer

Issues

1. Additional Positions for Tobacco Securitization. The budget requests $220,000 for two new permanent positions to implement and manage the Tobacco Securitization Bond Program. The budget proposed to borrow against future Master Tax Settlement payments by issuing a bond to generate a one-time increase in General Fund revenues of $2.4 billion. The May Revision increased the securitization to $4.5 billion. This proposal would require legislation.

The LAO recommends that the funding for the two new permanent positions and $220,000 (GF) be deleted because the great majority of the workload will be handled through contracts with financial advisors, bond counsel, and underwriters.

<u>Does the Subcommittee wish to fund these positions?</u>

0954 Scholarshare Investment Board

Issues

1. May Revision: Distinguished Math and Science Scholars Program. Governor's Merit Scholarships provide $1,000 scholarship savings accounts to ninth through eleventh grade students based on their Stanford - 9 standardized test scores. The budget proposed a $10 million increase in grants over the current year grants of $120.2 million.

The Distinguished Math and Science Scholars Program provides $2,500 scholarships to those students who qualify to receive the $1,000 Governor's Merit Scholarships and who achieve the highest scores on advanced placement tests in calculus and either of the biology, chemistry or physics exams.

The <u>May Revision</u> proposes reducing the budget by $8 million due to lower than anticipated participation. The request also includes the reversion of $4 million in savings in the current year.

STATE AND CONSUMER SERVICES AGENCY

1111 Bureau of Barbering and Cosmetology

Issue

1. Los Angeles Facility Relocation. The Bureau is requesting $519,000 ($103,000 ongoing) for increased tenant improvement and rental costs.

<u>The Bureau should report on the status of their progress in finding a site east of the 605 Freeway.</u>

1140 Athletic Commission

Issue

1. Mixed Martial Arts. Mixed martial arts (Submission Fighting) is a grappling sport, where techniques such as joint manipulation and chokeholds are used to force an opponent to submit. If authorized this sport needs regulation to prevent fighters from being injured or killed.

Business and Professions Code Section 18640 provides that full contact martial arts falls under the auspices of the AC. The Department of Finance contends that statutory changes are necessary to allow the AC to regulate Mixed Martial Arts.

Regulating Mixed Martial Arts would require an augmentation of $200,000 (GF) to the AC. This proposal is estimated to generate revenues of about $700,000 (GF) from license fees and gate tax.

2. May Revision: General Fund Reduction. This request is for an unallocated reduction of $74,000 (GF).

1730 Franchise Tax Board

Issues:

1. May Revision: Augmentation for Increased Collection Staff. The budget augmented by $6.2 million (GF) and 78.8 PYs for increased collection activities that will result in increased GF revenues of $2 million (GF) from the corporate tax and $25.5 million (GF) from PIT in the budget year. The Subcommittee approved this on May 1.

The May Revision is requesting an additional 51 positions and $3,780,000 (GF) to increase collection activities of accounts above the 5:1 benefit/cost ratio. These new accounts were identified through the Accounts Receivable Collection System (ARCS). This proposal is estimated to increase revenues by $11.6 million (GF) for a net increase of $7.8 million (GF).

2. May Revision: Augmentation for High-Risk Collection Program – Waiver of Penalties and Interest. The May Revision proposes 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 would increase revenues by $125 million in the budget year. This is a net gain of $121.7 million (GF).

3. May Revision: Protest Cases. This proposal is for $260,000 (GF) and 2 staff attorneys to work multiple issue cases involving $5 million plus in tax.

There are ten targeted cases worth $174.1 million. FTB has an historical protest sustain rate of 50 percent that discounts potential revenue to $87 million. An additional 50 percent of the revenues are lost at appeal at the Board of Equalization, taking the revenue down to $43.5 million. Interest due on these cases would be $23 million for revenues of $67.5 million.

Only about $3 million of this revenue will be realized with 2002-03 with the remaining $64.5 million realized in 2003-04. The net gain in the budget year is $2.7 million (GF).

4. May Revision: Lower Case Threshold for Integrated Non-Filer Compliance (INC). Currently the INC program pursues taxpayers that do not file returns, but have tax liabilities over $200. This proposal would lower that threshold to $100. These are individuals that have income subject to taxes that have not filed a tax return.

This would require 14 positions and $799,000 in support to collect $4 million for a net gain of $3.2 million (GF). There would be an on-going revenue gain of $3.5 million.

5. May Revision: Child Support Automation System. The May Revision requests budget bill language that will allow an augmentation of the FTB's 2002-03 budget to fund the costs associated with the award and implementation of a contract for the development of the California Child Support Automation System in conjunction with the Department of Child Support Services.

6. May Revision: Postage Increase. This request is for $704,000 (GF) to cover increased postage costs.

1760 Department of General Services

Issue

1. State Building Seismic Retrofit Program. The budget proposes to appropriate funds for two projects at San Quentin State Prison: $5,697,000 for Building 22: Modulars – working drawings and construction and $1,183,000 for Kitchen and Dining – working drawings.

<u>Does the Subcommittee wish to approve these funds?</u>

2. Finance Letter to Reappropriate Capital Outlay Funding.

This Finance Letter seeks to reappropriate the following:

a) CDC, San Quentin, Building 22: Modulars – Working drawings - $484,000 (GF). This reappropriation is necessary due to project schedule delays. Working drawings should be completed in January 2003.
b) Veterans' Home of California, Yountville, Recreation Building: Structural Retrofit – Construction - $1,881,000 (Earthquake Safety and Public Buildings Rehabilitation Fund of 1990 - ESPBRF).
c) Metropolitan State Hospital, Norwalk, Laundry Building: Structural Retrofit – Construction - $1,610,000 (ESPBRF). This is necessary because of State Fire Marshal review delays.
d) Sonoma Development Center, Eldridge, Porter Administration Building: Structural Retrofit – Construction - $2,122,000 (ESPBRF).
e) Correctional Training Facility, Soledad, Hospital Wing Q: Structural Retrofit – Construction - $2,220,000 (ESPBRF). This Reappropriation is necessary due to project schedule delays due to workload.
f) State Fleet Alternative Fuel Infrastructure, Sacramento, Oakland, Los Angeles – Working drawings and construction - $1,884,000 (PVEA).

<u>This issue was held open for the reappropriation for San Quentin.</u>

3. May Revision: Transfer of DOIT Executive IT Funds to DGS. This proposal would transfer $1,477,000 (GF) from DOIT to DGS.

4. May Revision: Bonderson Building Renovation. This request is to increase funding by $23 million to reflect the addition of preliminary plans, working drawings, and construction costs based on a new scope of work. This building, located at 901 P St. in Sacramento, will be vacated in 2003-04 by the current tenants, but it is necessary to remove hazardous materials, repair the leaks, replace the ceiling systems to conform with the seismic code, and make other interior repairs or replacements. Renovation of the building is cheaper than rebuilding.

5. Pay Telephone Contracts. For the past 14 years, the General Fund has received up to $37 million annually on the state payphone contracts. The state recently entered contracts for services for all state payphones. These contracts are for 3 years and cap the GF share at $26 million annually. The vast majority of the GF collected from state pay phones come from collect calls made by state prison inmates and wards.

Recently, the Joint Committee on Prison Construction and Operations held a hearing where they heard testimony from families of inmates about the inequity of the state making a profit from this one select group of Californians. Inmate families testified to the substantial benefit of maintaining family ties via the telephone with inmates and wards. The suggestion was made to earmark the state revenues from these contracts into programs that would help reintegrate inmates released from prison to reduce recidivism.

<u>Does the Subcommittee wish to appropriate the $26 million profit from these contracts to the Department of Corrections for enhancing programs that would help reintegrate inmates and reduce the rate of recidivism?</u>

<u>The Following Issues are on Consent.</u>

6. May Revision: Withdrawal of Cal-Buy Finance Letter. The Cal-Buy eProcurement System was requesting $12.8 million from the Service Revolving Fund to expand the existing capabilities of the Cal-Buy system. This request is withdrawn.

7. May Revision: State Portal. This would reduce funding for the California Portal augmentation by $1.2 million (GF).

8. May Revision: Asbestos Abatement and Underground Storage Tank Programs. This proposal would reduce this program by $300,000 (GF).

9. May Revision: Augment for Lease Revenue Payment Adjustment for Teale Data Center. This proposal would augment by $1,497,000 (Service Revolving Fund).

10. May Revision: Postal Rate Increase. This request is for $276,000 (Service Revolving Fund) to fund postal rate increases.

BUSINESS, TRANSPORTATION, AND HOUSING AGENCY

2240 Housing and Community Development

Issues:

1. May Revision: Emergency Housing and Assistance Program. This proposal is to reduce funding for the Emergency Housing and Assistance Program from $11.3 million to $5.3 million for savings of $6.0 million (GF).

2. May Revision: Farmworker Housing Grants and Loans. This proposal is to reduce grants and loans for farmworker housing from $14 million to $5.5 million for a savings of $8.5 million (GF). The November Housing Bond has $200 million for farmworker housing.

3. May Revision: Farmworker Grant and Loan Fund Transfer. This proposal transfers $3 million from the Farmworker Housing Grant Fund to the GF. These funds are unused grant and loan funds originally provided in the 2000 budget act. The January budget provided that these funds could be used for the base farmworker program. The November Housing Bond has $200 million for farmworker housing.

4. May Revision: Self-Help Housing Fund Transfer. This proposal is to transfer $5.6 million from the Self-Help Housing Fund to the General Fund. These funds are unused grant and loan funds originally provided in the 2000 budget act. The January budget provided that these funds could be used for the Cal-Home program for various homeownership purposes.

5. May Revision: Interregional Planning Partnership Grant Funds Transfer. This proposal would transfer $1,290,000 from the Housing Rehabilitation Loan Fund to the General Fund. These funds are unused grant and loan funds originally provided in the 2000 budget act.

The Following Issues are on Consent.

6. May Revision: Mobilehome Parks Inspectors. This is a request for an increase of $120,000 (Mobilehome Park Revolving Fund) to provide adequate expenditure authority for existing inspection staff. This request is also to convert one permanent position to a three-year limited-term position to permit reexamination of the fund resources in 2005-06.

7. May Revision: Consolidated Predevelopment Loan Program. This request is to shift funding of $110,000 from the General Fund to the Predevelopment Loan Fund for support of the Consolidated Predevelopment Loan Program.

8. May Revision: Loan from the Mobilehome Park Purchase Fund. The budget proposes to increase the loan from the Mobilehome Park Purchase Fund to the General Fund from $6 million to $8.1 million. This increased loan is due to higher than anticipated revenues in the fund.

2320 Department of Real Estate

Issues

1. May Revision: Increased Loan from the Real Estate Commissioner's Fund (RECF) to the General Fund. The budget proposed a loan of $9 million and the subcommittee approved it on April 10. The May Revision requests an increase in the loan of $1 million due to higher than estimated revenues in 2001-02.

TECHNOLOGY, TRADE, AND COMMERCE AGENCY

2920 Technology, Trade, and Commerce Agency

Issues

1. May Revision: Biomass Energy Grants. This three-year program provides grants to agricultural businesses that bring biomass waste to plant operators that convert biomass fuels to energy. The program was created in 2000 with intent language that the program was to be funded at $10 million per year for three years. The May Revision proposes to decrease the funding from $6 million (GF) to $4 million.

2. May Revision: Manufacturing Technology Program (MTP). This program improves the competitiveness of California small- and medium-sized manufacturers to create and retain high-wage, high-skill jobs. The program requires a two-thirds match to federal funding. The May Revision proposes to reduce this grant program from $5.4 million proposed in January to $2.7 million (GF).

3. International Trade and Investment Offices (ITIO). The budget provides $6.1 million (GF) for the following offices: The May Revision requests an unallocated reduction of $2 million.

Foreign Trade Offices – ($4,872,000)
- South Africa - $414,000
- Germany - $560,000
- China - Hong Kong - $838,000
- Japan - $1,052,000
- United Kingdom - $522,000
- Mexico - $1,155,000
- Taiwan - $331,000

Contract Foreign Trade Offices – ($1,196,000)
- South Korea - $261,000
- China – Shanghai - $270,000
- Singapore - $200,000
- Argentina - $265,000
- Israel - $200,000

4. May Revision: California Space Industry Development Programs. The Subcommittee approved the budget request of $1 million (GF) for the space technology program. This included $675,000 in local grants, $248,000 for a nonprofit organization to administer the grants and advocate for federal grants, and $77,000 for state operations to provide support.

The May Revision proposes to eliminate state funding of $1 million (GF) for grants and state support.

5. California Technology Investment Partnership (CalTIP). CalTIP provides matching funds for federal grant money to small- and medium-sized businesses to assist in the development of marketable technologies. From 1993-94 through the current year, the state has provided $45.6 million (GF). The state investment has been matched by $250.6 million in federal funds and $249.6 million in private funds.

The budget proposes $6 million (GF) in the budget year, which is $2 million more than provided in the current year.

6. May Revision: Reductions to Rural E-Commerce Grant Program. This program matches federal, local, and private funds for projects to increase the use of telecommunications and computer technologies among small businesses in rural areas. Grants of $2 million were awarded in 2001-02 to 17 nonprofit corporations and public entities. The May Revision proposes to eliminate the grant for savings of $1 million (GF).

7. May Revision: Military Base Retention and Reuse (OMBR). The Subcommittee rejected the budget augmentation of $100,000 (GF) at the April 10 hearing. This left base program funding of $1.7 million for additional technical assistance to military bases to provide expertise on developing retention efforts. When the base level of funding was provided the next round of base realignment and closures (BRAC) were scheduled for 2003, but that has now been postponed to 2005.

The May Revision is requesting a reduction of $1.5 million for support and grants for OMBR. Since the Subcommittee already reduced the budget by $100,000, this request would be to reduce by $1.4 million. This would leave only $300,000 (GF).

8. May Revision: Marketing and Communications Program. This request is to make an unallocated reduction to the Marketing and Communications Program from $927,000 to $300,000 for savings of $627,000 (GF). There are 7.4 positions for this program.

9. May Revision: Office Of Export Development. This request is to make an unallocated reduction to the Office of Export Development from $1.6 million to $1.2 million for savings of $400,000 (GF).

10. May Revision: Office Of Foreign Investment. This request is to make an unallocated reduction to the Office of Foreign Investment from $739,000 to $500,000 for savings of $239,000 (GF).

11. May Revision: Business Development Program. This request is to make an unallocated reduction to the Business Development Program from $1,354,000 to $816,000 for savings of $538,000 (GF).

12. May Revision: Division of Science, Technology, and Innovation. This request is to make an unallocated reduction to the Division of Science, Technology, and Innovation from $1,616,000 to $813,000 for savings of $803,000 (GF). There are 12 positions for this program.

13. May Revision: Support for California Film Commission. This request is to make a reduction to operating expenses and equipment contracts and general expenses of $300,000 (GF). This would reduce funding for the Film Commission from $3.3 million to $3 million.

14. May Revision: Regulation Review Unit. The May Revision requests elimination of the remaining funds of $89,000 for the Regulation Review Unit.

15. May Revision: Economic Development Program. This request would eliminate support of $448,000 (GF) for high-level management of the Economic Development Division. There is no detail provided.

16. May Revision: Next Generation Internet Centers. This program was created in 2000 to fund administrative costs for the centers at UC San Diego and UC Berkeley and to provide grants for the development of small business-oriented software applications. State funding in the current year was reduced from $5 million to $2 million. Funding was intended to continue for three years through 2002-03.

The budget proposed a $1 million (GF) reduction in state funding. This reduction could result in reduced federal funds. The Subcommittee approved this reduction.

The May Revision proposes to eliminate this program for a savings of $1 million (GF).

17. May Revision: Office of Permit Assistance. This request would eliminate the Office of Permit Assistance for savings of $226,000 (GF). This office provides direct assistance to development project applicants and to local governments in recommending streamlining procedures for entitlement and permitting process. It enhances permit assistance to development project applicants by directing inquiries and concerns to ombudsmen in specific state regulatory agencies.

18. May Revision: Eliminate Regional Office Program. This request would eliminate the four regional offices that TTCA maintains. They are located in San Mateo, Pasadena, Sacramento, and San Diego. This would result in savings of $2,556,000 (GF). The request also includes trailer bill language authorizing rather than requiring regional offices.

The regional offices offer technical assistance to businesses by assisting domestic and international companies in site location, directing business inquiries to the appropriate agency divisions for assistance, and setting up state-supported training programs for businesses.

<u>Does the Subcommittee wish to eliminate the regional offices and adopt the trailer bill language?</u>

19. Small Business Financial Development Corporation (SBFDC) in Southeast Los Angeles. SB 1193 (Polanco), Chapter 674, Statutes of 2001, required the Secretary of TTCA to establish, when sufficient funds are available, a new SBFDC in southeast Los Angeles when sufficient funds become available. There are currently 11 SBFDCs operating in the state that provide loan guarantees to California companies from the Small Business Expansion Fund (SBEF). Four SBFDCs had been created by statute (San Jose, Santa Ana, San Fernando Valley, and Ontario). Of those four, only San Jose has not yet been established.

<u>It is proposed that a SBFDC be established in southeast Los Angeles by augmenting by $1 million (SBEF).</u>

20. May Revision: Transfer from the Small Business Expansion Fund (SBEF) to the General Fund. The Small Business Loan Guarantee Program provides guarantees on loans made by financial institutions to small businesses, which cannot otherwise obtain loans without the guarantees.

The budget proposed an $8 million <u>transfer</u> from the SBEF to the GF. <u>The Subcommittee approved this as a loan</u> on April 29 and adopted trailer bill language guaranteeing that the funds will be available if necessary.

The <u>May Revision</u> is requesting an increased transfer of $2.7 million.

<u>Ask DOF to explain how this transfer when on April 29 they stated that the uncommitted fund balance was $244,678.</u>

21. May Revision: Transfer $8 million from the Infrastructure Bank Fund to the GF. The budget transferred $277 million from the Infrastructure Bank Fund to the GF in the current year. The <u>May Revision</u> is proposing to transfer an additional $8 million in the budget year.

The Infrastructure Bank Fund has a balance of $16.7 million,

22. May Revision: Transfer $8.4 million from the Rural Economic Development Infrastructure Revenue Bond Fund to the GF. The May Revision is proposing to transfer a $8.4 million to the GF. This transfer is possible because current and budget year expenditures will be $3.8 million less than expected and thus those funds are available for transfer.

The fund receives revenues from bonds, loan repayments, interest, fees, and penalties. The fund issues loans to assist in financing projects approved by the Rural Economic Development Infrastructure Panel.

23. May Revision: Loan from the Petroleum Underground Storage Tank Financing Account to the GF. The May Revision is proposing to loan $17 million to the GF with the standard language of repayment.

This fund primarily funds loans through the Office of Small Business for small business development corporations and small business development centers. The fund primarily receives revenue from repayments of loans and interest and late fees.

24. May Revision: Transfer $1 million from the Petroleum Financing Collection Account (PFCA) to the GF. This proposal is to transfer $1 million from PFCA to the GF. A small portion of this fund is used for state support.

25. May Revision: Postage Increase. This request is for $62,000 ($61,000 – GF) for postage increase.

GENERAL GOVERNMENT

8260 California Arts Council

Issues:

1. May Revision: Local Grants. This proposal is to reduce local assistance grants by $14,387,000 (GF). Budget bill language is proposed to allow the Arts Council flexibility to allocate non-General Fund moneys consistent with this action upon notice to the Legislature and the Department of Finance. The reductions are as follows:

- Arts in Education - Reduce funding from $8.1 million to $6.1 million. For savings of $2 million.
- Arts in Residence –Eliminate funding of 3.7 million.
- Organizational Support Grants – Reduce funding from $10.4 million to $5 million.
- Performing Arts Touring/Presenting Program – Eliminate funding of $842,000.
- Special initiatives Program – Eliminate funding of $500,000.
- Statewide Projects – Eliminate funding of $2,598,000.

This proposal would also make appropriate adjustments to the Federal Trust Fund and not schedule that item. It also deletes provision 2, which directs funding for the Multicultural Arts Development program as part of the Organizational Support Grants.

There is no proposed reduction to Tools for Tolerance (Simon Wiesenthal Center), which is funded at $2 million (GF).

2. May Revision: California Challenge Program. This proposal eliminates funding for this grant program of $759,000 (GF). The California Challenge Program is designed to expand private sector support for the arts.

3. May Revision: State operations. This proposal is an unallocated reduction to state operations of $1,125,000 (GF) due to the local grant reductions. Budget bill language is proposed to allow the Arts Council flexibility to allocate non-General Fund moneys consistent with this action upon notice to the Legislature and the Department of Finance

4. Bonita Museum Reappropriation. This legislative proposal is to extend the availability date for $162,000 for the Bonita Museum in the 1999-2000 budget act from June 30, 2002 to June 30, 2004.

8380 Department of Personnel Administration

Issues:

1. May Revision: Increased Workload Resulting from Collective Bargaining. The budget requests $156,000 (GF) to retain 3.0 positions to provide analytical support in the collective bargaining process. These 3 positions were part of the 10.0 limited-term (half time) positions approved for two years in 2000-01.

The May Revision is requesting an additional $149,000 (GF) and one Labor Relations Officer to address increased workload resulting from the negotiation of MOUs.

DPA negotiated most of the contracts for bargaining units for multiple years and thus will be negotiating fewer MOUs in the budget year.

<u>DPA should explain why they need to make the limited term positions permanent and why the augmentation in the May Revision is necessary.</u>

2. Cost Implications of MOUs for Bargaining Unit 6.

<u>The department should be prepared to comment.</u>

3. May Revision: Rural Health Care Equity Program. This proposal would reduce by $1.9 million (GF) for lower than anticipated enrollments and increase by $68,000 (GF) for additional administrative costs. This is a net GF reduction of $1.8 million.

This state's annual contribution is based on the number of state employees and annuitants living in counties without access to a CalPERS contracted HMO. CalPERS' approval of health care providers resulted in a net decrease in the number of state employees and annuitants without access to a CalPERS contracted HMO beginning January 1, 2003.

4. May Revision: Excess vacancies. This proposal eliminates 13.8 positions and no savings in compliance with Control Section 31.50.

5. May Revision: Indian Gaming Council Reappropriation. This proposal is to reappropriate the unexpended balance of $383,000 in funding necessary for the implementation and administration of the State-tribal compacts.

The Following Issues are on Consent.

6. May Revision: Administrative Fees for 401(k) Plan. The Administration approved an employer-paid 401-(k) contribution on behalf of excluded employees for a one-year period beginning July 1, 2000. It is necessary to assess monthly administrative fees on accounts, including the employer-paid accounts. This request increases funding by $387,000 (FlexElect Benefit Fund) for this purpose.

7. May Revision: Savings Plus Program. This proposal is to reflect the growth in the number of SPP accounts because of changes in federal and state law. This request increases funding by $417,000 (FlexElect Benefit Fund) for this purpose.

8. May Revision: Benefits Program Growth. This request is to increase reimbursements by $358,000 to reflect additional fees collected for enrollment in various benefits programs.

8885 Commission on State Mandates

Issue

1. May Revision: Peace Officer Procedural Bill of Rights (POBOR). Chapter 465, Statutes of 1976 (AB 301, Keysor) provides a series of rights and procedural protections to peace officers that are subject to interrogation or discipline by their employer.

The budget requested $50 million (GF) for POBOR reimbursements in 2002-03. The administration indicated that it expected the SCO to use $25 million to pay prior-year claims and $25 million to pay budget-year liabilities. LAO estimates that the annual state cost associated with POBOR is likely to be closer to $75 million.

The May Revision recommends funding this mandate at $1,000 and deferring payment to local agencies.

2. May Revision: Deferral of Payment for State Mandates. The Governor's 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:

<u>0890 Secretary of State</u>:

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.

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).

2240 Housing and Community Development

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

Councils of Government (COGs) are required to allocate the Regional Housing Needs housing targets among their jurisdictions. Cities and counties are compensated for the identification of sites in their housing element to meet the targets assigned to them by COG. Deferral of $867,000 (GF).

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 (GF).

11.80 Set- Aside for Mandate Deficiencies

Issues

1. May Revision: Delete Set-Asides. This Control Section provides $30 million (GF) for both the current and budget years for mandate deficiencies. The May Revision proposes to delete the set-asides for a savings of $60 million (GF).

2. May Revision: Reversion of Unencumbered Balance. This request is to revert $17.8 million (GF) in balances from prior year appropriations.

8940 Military Department

Issues

1. May Revision: Bridge Security. This request is to delete federal funding of $6 million for bridge security.

2. May Revision: Youth Programs. This Subcommittee eliminated funding of $2.993 million (GF) for the Turning Point Academy on April 10.

The May Revision proposes a $900,000 (GF) reduction to youth programs. These programs were funded at $15.1 million ($7.9 million – GF). The Military Department contends that these reductions can be achieved without a reduction in service or number of youths served. The reduction by program are:

- California Cadet Corps –$137,000.
- Oakland Military Institute - $239,000.
- STARBASE Academy - $13,000.
- Turning Point Academy - $289,000.
- ChalleNGe Grizzly Youth Academy - $208,000.
- Youth Programs Headquarters - $14,000.

Does the Subcommittee wish to reduce these programs in addition to the elimination of the Turning Point Academy?

3. May Revision: General Fund Reduction. This request is for a baseline reduction of $900,000 (GF) and 4.5 PYs. This is a reduction of about one percent of the total budget.

4. May Revision: Lancaster Armory. Add a new capital outlay item for $750,000 (Armory Fund) for acquisition for the Lancaster Armory. This was originally scheduled to be funded through the GF.

5. Santa Ana Armory. There is interest in Santa Ana in moving the armory from its current location to a new location.

Discussions have taken place with the Military Department about the potential for moving the Armory. 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.

9100 Tax Relief

Issues:

1. May Revision: Williamson Act Open Space Contracts. The Williamson Act permits cities and counties to enter contracts with landowners to limit the use of land to agricultural, scenic, and open-space purposes to be assessed at other than market value based on its limited use.

The May Revision proposes to eliminate subventions of $39 million (GF) to local governments for property tax losses under the Open Space Act.

There is trailer bill language to eliminate the statutory requirement to provide subventions to local governments for this property tax treatment. The property tax for landowners will not be changed.

9210 Local Government Financing

Issue:

1. May Revision: High Technology Grants for Law Enforcement. The May Revision proposes reducing the amount proposed in the budget from $35.4 million to $18.5 million for a savings of $16.9 million (GF). This is a continuation of the one time funding of $35.4 provided in the current year for local law enforcement agencies to purchase high-technology equipment for crime prevention and suppression. Eligible cities, counties, and the special districts that provide law enforcement services will receive a minimum of $30,000 and an additional per-capita amount.

The budget proposes trailer bill language allocating funds and providing that the funds shall be used to supplement, rather than supplant existing law enforcement resources. The language also provides that each recipient shall report to DOF on or before August 15, 2003 and annually thereafter.

It is unclear why the budget proposes trailer bill language when the program is proposed on a one-time basis.

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. Funding is provided to cities, counties, and the few special districts that provide law enforcement services. In 2000, COPS was expanded to include funding for county juvenile crime prevention programs.

The budget propose to extend funding for this program of $232.6 million for one more year, split $121.3 million for COPS and $111.3 million for the county juvenile crime prevention program.

The May Revision requests that the $111.3 million (GF) for the Juvenile Crime Prevention Program be eliminated. The proposal includes trailer bill language eliminating the juvenile crime prevention programs.

<u>Does the Subcommittee wish to eliminate the funding for juvenile justice or change the allocation?</u>

9620 Interest on General Fund Loans

Issue:

1. May Revision: Payment of Interest on Internal and External Loans. The costs for internal borrowing were estimated to be $30 million in 2001-02 and $50 million in the budget year. There are savings of $10 million in the current year. The budget year number is unchanged.

The cost for external borrowing in the budget year is estimated to increase from $56 million to $310 million for a net increase of $254 million (GF). This requires no budget action because the payment is statutory.

9800 Employee Compensation

Issues

1. May Revision: Additional Employee Compensation Costs. This request is for $89.5 million to address additional employee compensation costs primarily for significant increases in health benefit premiums. The employer's maximum monthly health benefit contribution will be two-thirds of the premium increase of HMOs effective January 2003. In addition, there are increased costs from four Bargaining Units recently reaching agreements with the state.

CONTROL SECTIONS

11.10 Reporting of Statewide Software License Agreements

Issue:

1. May Revision: Software License Agreements. This new control section would establish a process for the review and approval of future statewide software license purchases. DOF would be required to notify the Legislature prior to a department entering into or amending a statewide software license agreement not previously approved by the Legislature. This includes an agreement whether or not the obligation will result in a net expenditure or savings. Departments would be required to prepare the appropriate business proposal for submission to DOF and DOIT for review and approval.

The proposal must contain the following elements:

- Installed base analysis.
- Future use (including assumptions for future use).
- The reason for choosing a statewide license agreement rather than any other procurement method.
- Cost/Benefit analysis.
- Cost allocation methodology.
- Funding plan.

The statewide software license agreement shall not be entered into or amended unless the approval of DOF is first obtained and written notification of that approval is provided to the

Chairperson of JLBC, and the chairperson of the budget committee of each house of the Legislature, not less than 30 days prior to the effective date of the approval.

Each notification shall:

- Explain the necessity and rationale for the proposed agreement.
- Identify the cost savings, revenue increase, or other fiscal benefit of the proposed agreement
- Identify the funding source for the proposed agreement.

A Statewide Software License Agreement is a software license contract that can be used by multiple state agencies.

These provisions do not apply if the amount of the proposed contract or amendment is less than $1.5 million in total.

31.60 Position Reductions

Issue:

1. May Revision: Position Reductions. This new control section would eliminate 4,000 positions "to constrain the growth of the State bureaucracy and ensure that we are not budgeting funds for unnecessary positions in the future". This is estimated to save $20.1 million in the budget year, of which $10 million is GF. The reductions are unallocated, but departments are directed to submit plans to DOF by July 1.

The language authorizes the Director of Finance to unallot and revert savings attributable to this section to the appropriate fund sources. Position reductions shall be reflected and identified in the 2003-04 Governor's Budget. At the time the 2003-04 Budget is submitted, DOF shall provide a report to JLBC and the budget committee in each house identifying the reductions allocated to each department with an estimate of the amount of savings and the programmatic impact.

These reductions do not apply to UC, CSU, the Legislature, Judiciary, State Compensation insurance Fund, PERS, STRS, and the Lottery.

<u>Should the control section require notification to JLBC prior to eliminating the positions?</u>

TRAILER BILL LANGUAGE

Vacant Positions

Issue:

1. May Revision: Vacant Positions. Current law provides that commencing July 1, 2001, and on each July 1 thereafter, the State Controller's Office (SCO) shall abolish any state position that is vacant continuously for six consecutive monthly pay periods during the preceding fiscal year. The proposed amendments provide that any vacant position that was vacant for six consecutive monthly pay periods without regard to fiscal year would be abolished.

The proposal allows the Director of Finance to authorize the re-establishment of any positions abolished if one or more of the following conditions existed during part of all of the six consecutive monthly pay periods.

- There was a hiring freeze.
- The department has diligently attempted to fill the position, but was unable to complete all the steps necessary to fill the position within 6 months.
- The position has been designated as a management position for the purposes of collective bargaining and has been held vacant pending the appointment of the director of the department as part of the transition from one governor to the succeeding governor.
- The classification of the position is determined to be hard-to-fill.
- Late enactment of the budget causes the department to delay filling the position.

SCO shall re-establish any position for which the director of the department certifies by August 15 that one or more of the following conditions existed:

- The position provides twenty-four hour care.
- The position is necessary to satisfy any licensing requirements.
- The position is directly involved in public health, public safety, or homeland security.

- The position is being held vacant because the incumbent is eligible to exercise a mandatory right of return from a leave of absence related to Industrial Disability, Military Service, pregnancy, childbirth, or care of a newborn infant.
- The position is being held vacant because the department has granted the previous incumbent a permissive leave of absence.
- Elimination of the position will directly reduce state revenues or other income.

SCO shall submit a preliminary report of abolished positions by September 10 each year and a final report to JLBC and DOF no later than October 15.

PROPOSED CONSENT CALENDAR

CONSTITUTIONAL AND EXECUTIVE

0110 Senate

Issue:

1. Inflation Adjustment. Decrease by $1,289,000.

0120 Assembly

Issue:

1. Inflation Adjustment. Decrease by $1,750,000.

0130 Legislative Analyst

Issue:

1. Adjustment. Increase support by $18,000 payable from the Assembly and Senate.

0160 Legislative Counsel Bureau

Issue

1. Augmentation for Litigation. The Legislature requests $2 million (GF) for Legislative Counsel Bureau for litigation.

0500 Governor's Office

Issue:

1. May Revision. The May Revision requests a reduction in the Governor's Office of $200,000 (GF).

0650 Office of Planning and Research

Issue:

1. May Revision. This request is for a reduction to the Governor's Office on Service and Volunteerism of $372,000 (GF).

0750 Lieutenant Governor

Issue:

1. May Revision. The May Revision requests a reduction in the Lieutenant Governor's Office of $50,000 (GF).

0840 State Controller

Issues

1. May Revision: Warrant/Remittance Advice Production and Postage Rate Increase. The May Revision requests $1,073,000 [$472,000 (GF) and $601,000 (reimbursements)] to fund costs associated with increased warrant and remittance advice production volume and postage rate increases to become effective June 30, 2002. The funds would defray additional printing, mailing, and postage costs associated with the increased volume.

2. May Revision: Unclaimed Property Amnesty Program Extension. The SCO requests $1.064,000 (GF) and the continued redirection of 15.3 unfunded positions to continue the Unclaimed Property Amnesty Program, which was extended through December 31, 2002.

0860 Board of Equalization

Issues

1. May Revision: Postage Increase. This request is for an increase of $216,000 ($173,000 GF) to cover increased postage costs.

2. May Revision: General Fund Reduction Plan. This proposal would shift funding from four positions in administration to four positions proposed for elimination in January in the Customer and Taxpayer Services Division for no net increase in expenditure authority.

0890 Secretary of State

Issues

1. May Revision: General Fund Reduction Plan. This request is for a reduction of $950,000 (GF) to reflect a decrease in funding for the operation of the Secretary of State's Office. No elections-related function or activities will be affected.

2. May Revision: Miscellaneous. This request is to reduce base rental and fees by $1,000 and increase structural insurance by $1,000 both from Business Fees Fund. This request would also augment $1,000 (GF) for increased insurance costs.

STATE AND CONSUMER SERVICES AGENCY

1100 Science Center

Issues

1. May Revision: General Fund Reduction. The May Revision requests an unallocated reduction of $1.1 million (GF) to the budget. It also requests an increase of $6,000 (GF) and reductions of the same amount in reimbursement due to a decrease in interest earnings and surplus construction funds to pay base rental payments for a lease revenue funded project.

2. May Revision: Pre-Qualification of Bidders. This request is for budget bill language to allow for the pre-qualification of subcontractors that will be participating in the construction of the Science Center's Phase II. This ensures that specialized exhibits and animal displays will be constructed by companies who have demonstrated expertise in the different disciplines and complexities of museum construction. There are at least 7 subcontractors eligible to pre-qualify for these contracts.

Adopt the Language, but change the word "may" to "shall".

Adopt supplemental report language requesting the Science Center to report by January 10, 2003 on the status of raising nonstate funds for Phase II.

1111 Department of Consumer Affairs

Issues

1. May Revision: General Fund Reduction Plan. This request is for a reduction of $41,000 (GF) for the Consumer Information Center.

1920 State Teachers' Retirement System

Issues

1. May Revision: Contribution for STRS Benefits Funding. This notification letter states that the contribution to STRS will increase by $18.9 million (GF) for Enhanced Benefits and $23.9 million (GF) for the Supplemental Benefits Maintenance Account. The contribution for community colleges will increase by $3.2 million (GF).

BUSINESS, TRANSPORTATION AND HOUSING

2100 Department of Alcoholic Beverage Control

Issues

1. May Revision: Postage Rate Increase. This request is for $33,000 (Alcohol Beverage Control Fund) for increased postage costs.

2780 Teale Data Center

Issues

1. May Revision: Shift of Lease Payments. This requests a funding shift of $5,078,000 from the support item of TDC for the purchase of the new data center facility to a payment from TDC to DGS for the debt service payment.

GENERAL GOVERNMENT

8860 Department of Finance

Issues

1. May Revision: Increased Reimbursements for Audits. Propositions 12, 13, 14, and 40 establish new bond acts for which expenditures need to be audited. Proposition 42 requires audits of expenditures of gasoline sales tax. DOF is requesting $1.4 million in additional reimbursements to meet this audit requirement.

2. **May Revision**: **Audit Trailer Bill Language**. DOF is required to audit all expenditures and provide annual audits beginning in fiscal year 2001-02. DOF is requesting trailer bill language authorizing DOF to perform audits, as deemed necessary, of the allocations or expenditures of gasoline tax money made in accordance with Article XIX B of the Constitution and issue an annual report.

9650 Health and Dental Benefits for Annuitants

Issues

1. May Revision: Revised Rates for Annuitant Health Benefits. This request is to increase the amount for health and dental benefits by $23.0 million (GF) to a total of $553.6 to reflect the increased monthly maximum contribution rates.

2. May Revision: Language Change. This proposal would change the monthly maximum benefit in budget bill language to reflect the health benefit rate negotiations.

CONTROL SECTIONS

3.60 PERS Benefit Contributions

This section establishes employer retirement contribution rates that are charged to appropriations of individual agencies, departments, and other governmental entities for each state employee who is a member of PERS. The section also allows the DOF to adjust any appropriation in the Budget Act to conform to the changes in those rates. The following table shows the rates for the current year and proposed 2002-03 rates established using actuarial evaluations approved by PERS. The section needs to be amended to reflect these increased rates.

Employer Contribution Rates by Member Classification		
Classification	2001-02 Rates	2002-03 Proposed
Misc., First Tier	4.166%	7.413%
Misc., Second Tier	0.036%	2.813%
State Industrial	0.350%	2.858%
State Safety	12.923%	17.055%
Highway Patrol	16.897%	23.076%
Peace Officer/Firefighter	9.638%	13.925%

Issues

1. May Revision: State Contributions Rates to PERS. The table above reflects the revised 2002-03 state employer retirement contribution rates proposed by CalPERS for retirement benefits of state employee members. These rates reflect an increase for retirement costs of $179.8 million, of which $101.1 million is GF. The General Fund obligation to CalPERS is paid on a quarterly basis, one quarter in arrears.

This rate increase results in a $520,520,000 ($260,260,000 General Fund, $166,567,000 special funds, and $93,693,000 other funds) increase over the CalPERS contribution funding level proposed in the 2001-02 Governor's Budget.

The increase in the retirement obligation results in a $25.3 million increase in the fourth quarter deferral for a total deferral of $163.6 million. The net effect is a $179.8 million ($101.1

million – GF) increase in the state's contribution.

Lastly, Control Section 3.60(b) authorizes State surplus asset funds to offset the State's retirement contribution to CalPERS. It is estimated that insufficient surplus assets are available to offset the California Highway Patrol's retirement payment. Therefore, pursuant to Control Section 3.60(b) and Government Code Section 20820, State surplus assets will not offset the employer's special fund payment of $52.8 million.

3.80 Premium Offset for Employer-Paid Life Insurance

Issue:

1. May Revision: New Control Section. This control section would provide DOF with the authority to adjust departmental appropriations to reflect a one-time offset in employer-paid life insurance premiums. APA received $1.7 million as a result of the demutualization of MetLife, the state's carrier for employee life insurance. Applying these proceeds would reduce the state employer's life insurance obligations by $1.7 million, of which $827,000 is from the GF.

4.20 Contribution to the Public Employees' Contingency Reserve Fund

Issue:

1. May Revision: Offset in the Administrative Fee Charged on Health Premiums. This proposal is to use the Contingency Reserve Fund (CRF) to offset a one-time reduction in the administrative fee charged to state and local employers on health premiums from 0.5 percent to 0.2 percent. The amendment to this control section would allow DOF to adjust department appropriations in order to reflect the change in the administrative fee. This would result in savings of $2.8 million (GF), $1.8 million (special funds) and $1.0 million (nongovernmental cost funds).

TRAILER BILL LANGUAGE

General Fund Loans

Issue:

1. Interfund Borrowing Trailer Bill Language. DOF proposes trailer bill language authorizing loans from one state fund or account to another state fund or account as authorized in the annual budget act. The language provides that money may be loaned from one state fund or account to any other state fund or account if:

- The loan is authorized in the Budget Act.
- The terms and conditions of the loan are set forth in the loan authorization, including an interest rate.
- The loan is considered part of the balance of the fund or account.
- A fee or assessment may not be increased as a result of the loan.

The language 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 language requires the Director of Finance to order the repayment of all or a portion of the loan if it is determined that:

- The fund or account from which the loan was made has a need for the money or
- The need for the moneys in the fund or account that received the loan no longer has a need for the money.

The language provides that DOF shall report to the Legislature on or before January 10 of each year on the balances of all outstanding loans.

<u>The amended language requires DOF to report to JLBC at the time of a loan repayment.</u>

<u>The amended language requires DOF to report to JLBC the balance of all outstanding loans as of June 30 each year and a revised statement of outstanding loan balances in the January 10 Budget.</u>

Senate Budget and Fiscal Review—Steve Peace, Chair

SUBCOMMITTEE NO. 4 Agenda

Richard Polanco, Chair
Dick Ackerman
Joseph Dunn

PART II

Wednesday, May 17, 2000
10:00
Room 4203

0552 Office of the Inspector General

Finance Letter

1. General Fund Reduction. This Finance Letter proposes a $1 million General Fund reduction for the OIG. This amount is in addition to the previously approved reduction of $366,000 related to the closure of the San Diego field office, travel reductions, and elimination of 2.5 clerical positions.

This request proposes a reduction of 10 positions. The OIG proposes to achieve the savings by reducing the number of special audits and investigations, imposing a higher threshold for initiating an investigation, and reviewing category II investigations on a sample basis only.

Does the Subcommittee wish to adopt this Finance Letter?

5430 Board of Corrections

Finance Letters

1. Support Funding Related to Juvenile Justice Programs. This Finance Letter proposes to eliminate $275,000 from the BOC budget for administration of Juvenile Justice Crime Prevention Act funding. The May Revise proposes to delete the program.

Does the Subcommittee wish to approve this Finance Letter?

2. LA CLEAR. The budget proposes $3 million for this crime prevention program. Previously, the Subcommittee held this issue open. This Finance Letter proposes to reduce the funding from the General Fund for this program by $2 million and proposes to reappropriate $2 million in unspent prior years funds from the Juvenile Challenge Grant Program. This proposal would continue total CLEAR funding at $3 million in the budget year.

Does the Subcommittee wish to approve this Finance Letter?

3. Challenge Grant II Funding. This Finance Letter proposes a reversion of $12.3 million for the Challenge Grant II program, to reflect elimination of fourth-year grant funding. This funding was previously provided to extend the program for one year in order to get better data for the evaluation.

Does the Subcommittee wish to approve this Finance Letter?

4. Mentally Ill Offender Crime Reduction Grant (MIOCR) Program. This Finance letter proposes a reversion of $17.3 million for the MIOCR program to reflect elimination of the third-year grant funding.

Does the Subcommittee wish to approve this Finance Letter?

5. Federal Juvenile Justice Programs. At a hearing on May 16, Senate Subcommittee #2 approved a transfer of $45 million in federal funds for juvenile justice programs from OCJP to the BOC. The Subcommittee #2 had approved this transfer at the request of Senator Burton due to the BOC's history in providing juvenile justice grant programs, and as a way of minimizing unnecessary duplication and overlap between similar programs in state agencies.

Does the Subcommittee wish to take a conforming action to transfer these juvenile justice programs to the BOC?

6. May Revision: Deferral of Payments on State Mandates. This Finance Letter 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. Within the BOC, this proposal requests to defer payments for the Domestic Violence Treatment Programs (Chapter 183, Statutes of 1992 and Chapter 221, Statutes of 1993), representing a deferral of $1.8 million.

Does the Subcommittee wish to approve this Finance Letter?

5440 Board of Prison Terms

Open Issue

1. Foreign Prisoner Transfer Program. The United States has signed treaties with a number of foreign countries, allowing for the transfer of foreign born prisoners to their home countries. All of the treaties require the consent of the prisoner, the transferring country, and the receiving country. The CDC estimates that the number of foreign born inmates currently in CDC from countries with a treaty is 15,302. Of this amount, CDC indicates that 14,778 are from Mexico.

The Penal Code charges the BPT with administering the state's foreign prisoner transfer program. Section 2912 requires the BPT to actively encourage each eligible undocumented felon to apply for return to his or her country of origin, and requires quarterly reports to the Chair of the Joint Legislative Budget Committee.

The CDC indicates that it notifies inmates of their right to request transfer initially at the reception centers, and annually thereafter. The BPT has indicated that it has processed 344 applications from prisoners wishing to transfer since December 1995. There are 219 backlogged active cases that are currently being processed.

The Assembly approved an augmentation of $363,000 and four positions for the BPT to screen 5,000 inmates annually. Based upon prior experience the BPT estimates 80 prisoners would be eligible for transfer a year. This amount would provide an annual savings of $1.2 million. The actual number of transfers may be larger in the budget year due the number of outstanding applications already pending before the Board, those currently before the US-DOJ and the likelihood that there may be a review of previously denied applications.

In order to capture potential savings, the Assembly action assumes transfer of up to 250 prisoners in the budget year for a population savings of $3.7 within the CDC budget. At the hearing on May 6, the Subcommittee held this issue open.

<u>Does the Subcommittee wish to take the Assembly action on this issue?</u>

2. Lifer Hearings and Inmate Parolee Appeals. The Board of Prison Terms is charged with holding parole suitability hearings for inmates that have a term-to-life sentence. There are approximately 24,000 inmates with such a sentence.

Last March, the OIG issued a report that made note of the growing backlog of life-term cases. At hearings last year, BPT reported that the backlog was approximately 2,000 cases. Because of the backlog, most of the hearings were delinquent by more than six months.

Last year, the Legislature approved SB 778 as a temporary measure to assist the BPT in reducing the growing backlog of cases. The legislation allows BPT to hold two-person panel hearings and requires the panels to work on Fridays.

The OIG issued a recent follow-up report on its 2000 audit of BPT, indicating that except for the implementation of SB 778, BPT's efforts to improve efficiency and increase hearing capacity has been minimal. Due to the fact that the two-person boards are a temporary measure, the OIG report noted concerns that once they expire, the backlog may begin to grow again. The OIG notes that the board has not implemented measures from its own plan submitted in response to the OIG's first audit, including;

- Increasing the number of scheduled hearings per week from 22 to 26 (BPT has reduced scheduled hearings from 22 cases per week to 18 cases per week);
- Holding its monthly Board meeting on Monday rather than Tuesday to give commissioners an extra day to schedule hearings;
- Development of a supplemental hearing list.

The OIG also noted in this most recent report that the BPT's estimate for the elimination of the hearing backlog by May 2002 is unrealistic.

In its follow-up audit on the BPT, the OIG reports that the BPT's processes are not adequate to handle appeals in a timely manner. As a result there is a backlog of over 2,200 appeals from inmates and parolees.

The BPT has no time limits to respond to appeals, although inmates and parolees must submit an appeal within 90 days of receiving written confirmation of a board decision. The BPT indicates that it has set an internal goal for a response to an appeal in 120 days. Subcommittee staff has no information as to how often the BPT meets its internal goals.

The OIG reports that the BPT's inability to process appeals in a timely manner has resulted in three court decisions mandating that the board meet fixed timelines for specific appeals. The BPT is required to meet 120 day timelines for appeals that originate from RJ Donovan Correctional Facility, and appeals filed by a specific inmate in San Quentin. Also, Armstrong v Davis requires the BPT to complete any appeal related to ADA issues within 30 days. The OIG notes that the BPT was recently fined by the courts for failing to meet the court established timeline for a case filed from Donovan.

In order to clear the excessive backlog of appeals, the OIG report recommends that BPT take the following actions:

- Consider transferring responsibility of its legal section from deputy commissioners to eliminate a duplication of efforts and a potential conflict.
- Develop an operations manual and written guidelines on processing appeals.
- Cross-train staff from other units on processing appeals as a backup in the event of staff absence or shortage.

Finance Letter

3. Hearing Workload Adjustment Finance Letter. Due to an decrease the projected number of parolees, the workload related to parole revocation, mentally disordered offender hearing workload, as well as a decrease in the projected level of inmate parole consideration hearings will be reduced. The impact of this Finance Letter would be a reduction of 1.4 positions and $233,000.

Does the Subcommittee wish to approve this Finance letter?

5460 California Youth Authority

Open Issues & Finance Letters

1. Consolidation Plan. The ward population at CYA has decreased significantly in recent years, from over 10,000 wards in 1996 to an estimated population of 5,445 at the end of the budget year. The average annual cost for a CYA institution per ward is nearly $50,000. While the CYA has closed down some living units within its existing facilities, it may be possible to get additional savings from overhead expenditures by closing down CYA institutions.

At the request of the Subcommittee, the CYA has provided some information on the cost savings from closing down an institution. While the savings in the budget year may be modest, the staff notes that there may be significant ongoing cost savings from closing down institutions. In the example provided by the CYA, the savings estimated for the budget year was $493,000 and the ongoing savings was $6.8 million. In addition, CYA is facing some of the same structural issues that CDC faces regarding vacancies and overtime. The closing of an institution may provide additional cost avoidance related to overtime.

<u>Does the Subcommittee wish to consider a CYA consolidation plan?</u>

2. Program Compliance Unit. The budget requests 5 positions and $725,000 for a program compliance unit, charged with providing management oversight and monitoring of staff compliance with policies and procedures. The overall goal of the unit is risk management and quality assurance.

At the hearing on April 3, and on May 6the Subcommittee left this item open.

<u>Does the Subcommittee wish to approve this request?</u>

3. Prop 98 Funding. As a consequence of CYA's declining ward population, the May Revision proposes to reduce the education funding by $2.602 million (Prop 98). Unlike other school districts, the CYA is ineligible for most categorical sources of funding and must rely on the funding it receives based on a ratio formula to cover almost all of the expenses for operating its accredited schools. Based upon the May Revise population BCP, the current student-teacher staffing ratios at CYA are:
Non-special education teachers -- 15:1
Special education resource specialists -- 28:1
Special education teaching assistants -- 35:1
Emotionally Learning Handicapped Teacher – 12:1
Emotionally Learning Handicapped Teacher Assistants – 35:1
Language, Speech and Hearing Specialist -- 55:1

These staffing ratios have not changed in at least the last 20 years. For purposes of assumptions for special education needs, the proposal assumes 23 percent of the wards at CYA have identifiable special education needs. This assumption has also not changed recently.

Serious questions have been raised about the quality of education services provided in CYA. For example, the Inspector General in a January 2001 audit of the Nelles facility found a shortage of teachers and qualified substitutes who are willing to work inside the facility … The teacher shortage is especially severe in special education. In addition, the audit found that the special education services were severely compromised, with only between 38 and 77% of wards receiving adequate special education services. Similar findings resulted from the Inspector General'' October 2000 audit of the Stark facility. Moreover, the education staffing ratio has not been adjusted since the 1980s, though CYA's ward population has significantly changed.

The Committee has also just become aware of a Voluntary Resolution Plan the CYA entered into with the U. S. Department of Education, Office of Civil Rights, concerning a 1998 determination that CYA lacked compliance with the provision of required services to the estimated 26% of the wards who are English Learner students. In a letter dated February 1, 2002, the U. S. Department of Education advised the CYA that its October 16, 2001 review of the status of the Plan to achieve compliance found continued deficiencies which they considered to be of a major and serious concern which if not corrected will lead to formal enforcement proceedings.

<u>Does the Subcommittee wish to maintain funding from Prop 98 at the current year level for the purpose of enhancing special education services and increasing the proposed education staffing ratios?</u>

4. Mental Health Reorganization. This Finance Letter proposes an increase of $1 million and 11 positions to begin the reorganization of the CYA's current mental health delivery system. The CYA indicates that the their system would change from a custody-based counseling model to a clinical-based similar to the approach recommended by the recently released Stanford University report.

Specifically, the request involves enhanced staffing at three institutions consistent with caseload recommendations in the Stanford report. The proposal includes one staff psychiatrist, five masters-level caseload specialists, and five parole agent positions. The changes are proposed for Ventura YCF, Preston YCF, and Chaderjian YCF.

The LAO has raised some concerns regarding this proposal and recommends taking an action to send this issue to conference to allow for more time to analyze the proposal.

<u>Does the Subcommittee wish to take an action to send this issue to conference?</u>

4. Conditions of Confinement Class Action Lawsuit. This Finance Letter proposes an increase of $3.5 million from the General Fund for additional staff and resources to aid the department in the defense of a class action lawsuit filed on behalf of wards by the Prison Law Office and others. The lawsuit, filed in federal court earlier this year, alleges inhumane, discriminatory and punitive conditions in the department's institutions. The proposal includes 23 new positions, the establishment of a "Litigation Management Office," and the establishment of a "Discovery Unit" to manage the discovery activities related to the lawsuit. The proposal includes three attorneys, several staff managers, secretaries and office technicians, and seven "Senior Litigation Coordinators" to be located throughout the state. The proposal also includes a "Subject Matter and Constitutional Review" function "to participate in the formulation of policies, procedures, programs, and regulations," and also includes $1.3 million for expert consulting services.

The allegations raised in this lawsuit are not inconsistent with issues identified by the Legislature in its ongoing oversight of programs and conditions in the department, and in the Technical Assistance Plan prepared in 2000 by the Board of Corrections. It is not clear the extent to which there may be overlap or duplication between the department's implementation of the TAP and some of the items contained in this proposal. Similarly, it is unclear how the work of expert consultant contracts proposed in this Finance Letter would differ from the work products already completed both by the TAP and other experts retained by the department in the current year. In addition, it is uncertain how some of the functions of this proposal would interrelate with the department's proposed Program Compliance Unit. The Finance Letter also does not discuss efforts by the department to settle this case, which would mitigate the need to fund litigation costs.

The LAO also raises several issues related to this proposal. First, the LAO notes that it is not clear what role the Attorney General's Office is going to play in the lawsuit. The Attorney General's office may have existing resources within their Correctional Law section which could offset some of the resources requested in this proposal. Second, the proposal does not provide workload estimates for the 23 positions. For these reasons, the LAO recommends sending this issue to conference in order to allow additional time for review of these concerns.

<u>Does the Subcommittee wish to take an action which would send this issue to conference?</u>

5. Postal Cost Increase. This Finance Letter proposes an increase of $32,000 to cover the increased costs of postage related to an increase in the postal rates.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

6. Special Program Resources. This Finance Letter proposes a reduction of $619,000 and a redirection of $1.3 million from the General Fund to convert an Intensive Treatment Program (ITP) at Chaderjian YCF and a General Population Unit at El Paso de Robles YCF to Specialized Counseling Programs (SCP).

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

7. Parole Services Reduction. This Finance Letter proposes a reduction of $5 million in the Parole Services and Community Corrections Program. The reduction includes the elimination of the two residential, in-lieu of incarceration, intensive drug treatment programs for parolees who have committed no new criminal act (Fouts Springs in Colusa County (32 beds) and El Centro in Imperial County (50 beds), transitional residential programs, furlough program for INS wards, electronic monitoring, job development and employment contracts, and the Volunteers in Parole mentoring program with the State Bar.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

8. Operational Impacts of Bargaining Unit 6 Agreement. This Finance Letter proposes an increase of $628,000 for increased costs related to the recent Memorandum of Understanding with Bargaining Unit 6. The funding is intended to offset the following identified additional costs:

- Bereavement Leave -- $73,000
- Continuous Hours of Work/Dead Time -- $255,000
- Survivor Benefits -- $300,000.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

9. Lease Revenue Payments. This Finance Letter proposes an increase of $2,000 from the General Fund to adjust lease revenue payments to reflect an increase in property insurance costs.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

10. Sliding Scale Fees. Under current law, counties are required to share the cost of housing juvenile offenders in the YA. For many years, counties paid a flat fee of $25 per month per offender. Chapter 6, Statutes of 1996 (SB 681, Hurtt) made two major changes in the cost sharing arrangement. First, it increased the flat fee that counties pay from $25 per month to $150 per month to account for inflation. Second, it established a "sliding scale" fee structure which adjusts the amount that counties pay monthly based upon the classification of the juvenile offender.

This Finance Letter proposes a reduction of $7.6 million from the General Fund and a corresponding increase in reimbursements, by incorporating an inflation adjustment to the sliding scale fees charged to counties for wards committed to the care of the CYA.

This proposal is similar to a recommendation made by the LAO regarding this issue.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

11. Ward Parole Population. This Finance Letter proposes a net reduction of $4.7 million and 70 positions for the budget year to reflect projected changes in ward and parole populations. This overall reduction is composed of an increase of General Fund $5.4 million and a decrease of $7,558,000 in Reimbursements and a reduction of $2,602,000 from Proposition 98 funds.

For the current year the estimate of the year-end population is 5,930, a reduction of 430 from the projection included in the January 10 budget proposal. In addition, the Youth Authority projects an year-end parole population of 4,150, a reduction of 80 from the projection included in the January 10 budget proposal

The revised institutional population for the budget year is projected to be 5,445 which is 655 fewer than anticipated in the Governor's Budget. The Youth Authority projects a year-end parole population of 4,080, a decrease of 75 from the level assumed in the Governor's Budget.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

Capitol Outlay

1. Specialized Counseling Program at SYCRCC. The budget includes $3.2 million in lease-payment bonds for construction to house new specialized counseling program beds at the SYCRCC. Both of these projects would provide treatment, counseling, and staffing space for mental health services to wards.

At previous hearings, the LAO has indicated that the Legislature does not have the basic information it needs to assess the requests regarding these mental health facilities. Consequently, the LAO withheld recommendation on this project, pending receipt and review of additional information.

<u>Does the Subcommittee wish approve funding for this project?</u>

2. Ventura Special Education Assessment Center. This Finance Letter proposes an increase of $368,000 from lease revenue funds for the construction of the Special Education Assessment Center at Ventura YCF. The CYA reports that unforeseen excavation and foundation work have added additional work to the project, resulting in the need to further increase the authorized construction funds.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

3. Taft Adjustment Center. This Finance Letter proposes an increase of $1.2 million in lease revenue funds for the aft Adjustment Center at Fred C. Nelles YCF.

Does the Subcommittee wish to approve this Finance Letter?

4. Heman Stark CTC. This Finance Letter proposes to increase funding by $300,000 from lease revenue funds for a Correctional Treatment Center at Heman G. Stark Youth Correctional Facility—Construction. Unforeseen conditions have added additional work to the project resulting in the need to further increase the authorized construction funds to ensure that adequate funds are available to complete the project. Completion of this project is necessary to meet licensable standards.

Does the Subcommittee wish to approve this Finance Letter?

5. Specialized Counseling Beds. This Finance Letter proposes to increase $227,000 from lease revenue funds for the Southern Youth Correctional Reception Center and Clinic, Specialized Counseling Program Beds—Working drawings. This allows the reversion of General Fund appropriated for this project by Item 5460-301-0001, Budget Act of 2000 (Chapter 52, Statutes of 2000) as reappropriated in Item 5460-301-0001, Budget Act of 2001 (Chapter 106, Statutes of 2001).

This proposal would add Item 5460-496 to revert $227,000 in working drawing funds from Item 5460-301-0001, Budget Act of 2000 (Chapter 52, Statutes of 2000) as reappropriated in Item 5460-301-0001, Budget Act of 2001 (Chapter 106, Statutes of 2001) for Specialized Counseling Program Beds at the Southern Youth Correctional Reception Center and Clinic.

Does the Subcommittee wish to approve this Finance Letter?

5450 Youthful Offender Parole Board

Open Issues

YOPB Support. The state's Youthful Offender Parole Board (YOPB) currently is responsible for determining length of stay and conditions of parole for wards committed to the California Youth Authority (CYA). Legislation is now being considered to eliminate the YOPB and transfer those responsibilities to the committing court. This transfer of responsibility was among the recommendations of the special task force convened in 2000 by Board of Corrections to review the California Youth Authority. This proposal is contained in SB 1793 (Burton), and was recently approved by the Senate Public Safety Committee. This measure would take effect January 1, 2003.

If the Subcommittee wishes to be consistent with this proposal, the funding level for YOPB should be reduced to reflect half year costs. This would result in a savings of $1,645,000.

<u>Does the Subcommittee wish to provide half-year funding for the YOPB?</u>

5240 Department of Corrections

Open Issues & Finance Letters

1. Type I Parole Violators. Each year, over 70,000 parolees are returned to prison for a violation of parole. The Department of Corrections categorizes the types of violations as follows: Type I are drug possession or use, plus miscellaneous low-level violations such as alcohol use; Type II include sex offenses, burglary, battery, theft, drug sales, firearms/weapons, minor driving violations. Type III include serious criminal offenses.

Type I offenses carry a term of up to 4 months reincarceration. Currently, that 4 months would be spent by an inmate at a reception center , waiting to be re-classified and re-admitted to a CDC prison. The re-admission process takes 2-3 months. Thus, by the time most of these inmates are re-processed, they are released back to parole. Some of these inmates come back to prison 2-3 times in one year. The CDC is budgeted at $14,797 per year to incarcerate an inmate in a reception center.

There are approximately 4100 Type I parolees who do not have a violent history, who are not eligible for placement in a Prop 36 drug treatment facility. If all of those parolees went back to prison for 4 months, the cost to house them would be $20 million. If they were instead diverted to a high-supervision parole caseload, the savings to the state would be $18 million. High-supervision parole would include electronic monitoring, cognitive skill training, residential housing, urinalysis testing, and casework services.

<u>Does the subcommittee want to place all Type I parole violators with a non-violent history on a high-supervision parole caseload, at a savings to the state of $18 million?</u>

2. Felony Drug Courts Proposal. During a 21 month evaluation period, the existing Drug Court Partnership Program (DCPP), demonstrated substantial avoided costs by providing treatment to offenders instead of incarceration. Other criminal justice and health related cost savings were not quantified in this study.

A conservative analysis of DADP's data for 26 counties indicates that drug courts avoided over 122,000 prison days. This resulted in an state savings of almost $5 million. On an annual basis, the program invested $5.2 million and saved $2.8 million.

However, DADP's data also found that drug courts serving mostly felons demonstrated substantially higher state prison savings. Specifically, more than 90% of the participants in the Drug Courts in Fresno, Orange, and Riverside counties are felons. These three counties were allocated $2.1 million and identified 62,926 prison days avoided, saving the state $2.5 million. In fact, almost half of all prison day savings in the DADP study came from these three counties alone. On an annual basis, the state invested $1.2 million in these drug courts and saved $1.5 million. (The cost/benefit ratio for these three counties was 1.17).

Senate Subcommittee # 3 is proposing to approve funding for drug courts at $8 million, with an emphasis on providing funds for felony drug courts in order to achieve the maximum savings.

Based on the evaluation, and this cost/benefit ratio, that action would provide savings in the CDC budget of $6.1 million.

<u>Does the Subcommittee wish to score the savings from this program in the CDC budget?</u>

3. Foreign Prisoner Transfer. This issue is raised within the discussion of the BPT in this agenda. A conforming action for the CDC budget would need to be taken with respect to any action approved within the BPT budget on this item.

4. Closure of a Women's Facility. CDC is experiencing a decline in its female inmate population. Between June 30, 1999 and June 30, 2001, the female population dropped by 771 inmates, or about 7 percent. Based on the spring 2002 projections , the female inmate population is expected to drop by another 1,091 inmates, or 10 percent, between June 30, 2001 and the end of the budget year.

According to data provided by the CDC, the Northern California Women's Facility (NCWF) is one of CDC's most expensive institutions to run. In 2001-02, the average cost per inmate at state institutions was $27,796 in 2001-02, while the average cost for an inmate at NCWF was $38,593. NCWF has a budget of $19.9 million, but incurred a deficit of nearly 4 million, or 20 percent.

CDC estimates savings of $4.5 million in the budget year, and $8.7 million ongoing from the closure of NCWF. The LAO notes that there may be additional savings related to costs avoidance for overtime at nearby institutions that could also result from the closure of NCWF. The CDC estimates that the overtime cost avoidance may be over $1 million.

<u>Does the Subcommittee wish to close a women's facility?</u>

5. Folsom Community Correctional Facility. Since 1990, the Department of Corrections has contracted with the City of Folsom to operate the Folsom Community Correctional Facility (CCF). It houses 380 inmates who have less than 18 months to serve and no violent criminal history or mental health problems. CDC pays the city of Folsom $110,000 per month to pay off the bonds to cover the costs of constructing the facility, and $347,857 per month for operating expenses.

The Inspector General recently issued a report which found the City of Folsom in violation of several of the contract terms, including:

- operation of the facility presents "unacceptable risks to public safety"
- widespread fiscal mismanagement
- significant safety and security deficiencies
- not providing inmates with state mandated programming
- does not follow prescribed personnel procedures
- employees do not receive training required by state law

In light of these findings, the Inspector General recommended that the Department of Corrections terminate the contract with the City of Folsom.

YACA has recently sent a letter to the subcommittee which states that although the City is working on a plan of correction, "Progress to date, however, has not been adequate, in our view... the abuse of inmates and staff [is] continuing. In addition, some middle managers were allegedly using computers at the facility to download pornography. Last Friday, the City suspended a lieutenant and a sergeant. Almost daily, it seems, we receive reports of problems at the facility."

Does the Subcommittee wish to terminate the contract with the City of Folsom for the Folsom CCF?

6. Personnel Disciplinary System. The Inspector General's Office recently completed an audit of the Department's Personnel Disciplinary System. Among other things, the audit found that:

- The needless complexity of the employee disciplinary process causes delays that impair the ability of the CDC to take appropriate action against employees found to have engaged in misconduct.
- The CDC has no clear guidelines for defining the prescribed one-year period for investigating alleged misconduct and imposing disciplinary action against peace officers.
- Employee relations officers are not provided with adequate training, and lack the necessary experience to handle employee disciplinary actions.
- The CDC legal staff only gets involved after the cases go to the State Personnel Board

What is the CDC’s response to the OIG’s findings?

7. May Revision: Deferral of Payments on State Mandates. This Finance Letter 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. Within the CDC, this proposal requests to defer payments for the Prisoner Parental Rights (Chapter 820, Statutes of 1991), representing a deferral of $2 million.

Does the Subcommittee wish to approve this Finance Letter?

8. Inmate/Parolee Population Adjustments. This Finance Letter proposes a net increase of $2 million and 70.6 positions to reflect revisions in the projected growth of inmate and parole populations. This increase is composed of an increase of $2,022,000 General Fund, and an increase of $19,000 from the Inmate Welfare Fund.

Adjusted for recent population trends, the June 30, 2003 population is projected to be 154,672, which is 1,049 inmates fewer than anticipate in the 2002-03 Governor's Budget, and represents a decrease of 2,174 to the revised June 30, 2002 estimated inmate population. The estimated impact of Proposition 36 has been reflected in this projection.

The projected parolee population for June 30, 2003, when adjusted for recent population trends, is 119,865. This amount is 3,054 more than was anticipated in the 2002-03 Governor's Budget and represents a decrease of 965 to the revised parolee population level estimated for June 30, 2002. The estimated impact of Proposition 36 has been reflected in this projection.

Staff notes that as part of the May Revise Population numbers, there is an increase of $488, and 4 positions related to Delano II. To be consistent with previous actions, the Subcommittee may wish to adopt the May Revise population numbers without these positions.

<u>Does the Subcommittee wish to adopt this Finance Letter with an adjustment for Delano II?</u>

***9. Armstrong v. Davis*/BPT Permanent Injunction**. This Finance Letter requests 1 million and 15.1 positions to effectively implement mandates of the permanent injunction issued in the *Armstrong v. Davis* lawsuit. The CDC notes that the additional resources are necessary to ensure that effective communication is provided and documented when CDC inmates and parolees with disabilities are involved in BPT hearings.

Last year, the Legislature approved a Finance Letter requesting 3 positions and $195,000 on a two-year limited term basis related to this issue.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>

10. Patton State Hospital Additional Security. The Governor's Budget proposed $427,000 and 7 positions for additional security at Patton State Hospital related to a proposed increase in the population. The proposed population increase has not materialized, and it does not appear it will materialize in the budget year, so this Finance Letter withdraws that request for a savings of $427,000.

Does the Subcommittee wish to approve this Finance Letter?

11. Reduce Civil Addict Program. This Finance Letter proposes a reduction of $10 million by placing a cap of 954 inmates in the Civil Addict Program. Adoption of this issue requires trailer bill language. Staff recommends taking an action to send this issue to conference to allow more time to review the proposal.

Does the Subcommittee wish to take an action to send this issue to conference?

12. Increase Work Credits for Fire Camp Inmates. This Finance Letter proposes a reduction of $16.7 million to reflect the effect of increasing the credit-earning rate of inmates in fire camps from one day of credit for each day of camp assignment to two days of credit for each day of camp assignment. This proposal requires trailer bill language.

Does the Subcommittee wish to approve this Finance Letter?

13. Eliminate Monthly Range Training. This Finance Letter proposes a reduction of $3.6 million and 47.6 positions from elimination of the Monthly Range Training Program. This program was initially proposed in 2000-01. CDC reports that due to labor negotiation issues, this program was never implemented.

Does the Subcommittee wish to approve this Finance Letter?

14. Parole Local Assistance. This Finance Letter proposes an increase of $9.2 million in one-time funding for a projected shortfall in local assistance funding associated with the costs of incarcerating parole violators in local jails.

Does the Subcommittee wish to approve this Finance Letter?

15. Parole Reduction. This Finance Letter proposes a reduction of $9.2 million from Parole Services. In order to implement this reduction, the following proposals are proposed for elimination:

- The Ed Veit Community Correctional Center, a state operated facility which operates 40 transitional community-based residential beds ($579,000).
- The 4-C's Community Correctional Center for 105 community based reentry program beds ($2.4 million)

- Elimination of the four regional US INS units. ($3 million)
- Elimination of the legal settlement component for Parole Division ($1.3 million)
- Termination of the 45 bed Substance Abuse Treatment Unit in Fresno ($982,000)
- Deletion of budget authority for 24 Community Prisoner Mother Program beds ($388,000)
- Cancellation of a mental health contract which provides for outpatient treatment for mentally ill parolees ($580,000)

Does the Subcommittee wish to approve this Finance Letter?

16. Mental Health Services Delivery System. This Finance Letter proposes an increase of $8.1 million and 110.0 positions to provide resources for additional mental health crisis beds, Psychiatric Services Unit beds, and increased nursing care provided to inmates in mental health crisis beds.

Does the Subcommittee wish to approve this Finance Letter?

17. Inmate Medical Services Program And Madrid Court Order. This Finance Letter proposes an increase of $21.9 million and 149 positions to initiate the implementation of system-wide improvements in the provision of inmate health care services consistent with the requirements of the stipulated agreement in the Plata class action lawsuit, as well as a pilot Hepatitis C treatment program at Pelican Bay State Prison, as required by Madrid. Over six years, the plan would add approximately 1,300 health care positions at an estimated cost of $100 million.
Based on their initial review, the LAO has raised some concerns with this proposal.

Does the Subcommittee wish to take an action to send this issue to conference?

18. Department of Mental Health Recruitment and Retention. This Finance Letter proposes an increase of $1.6 is proposed to reimburse the Department of Mental Health for recruitment and retention bonuses for various classifications at Salinas Valley State Prison, and for recruitment and retention bonuses for CDC at Salinas Valley State Prison and neighboring Correctional Training Facility for similar classifications.

Does the Subcommittee wish to approve this Finance Letter?

19. CTC Licensure. This Finance Letter proposes an increase of $1.2 million and 22.1 positions to provide the resources necessary to obtain licensure for five Correctional Treatment Centers in 2002-03 and two additional CTC's in 2003-04.

Does the Subcommittee wish to approve this Finance Letter?

20. Contract Medical. This Finance Letter proposes an increase of $115.5 million to address increased costs for contracted medical services to provide medically necessary health care
services to inmates. The current base funding for contract medical is $126.8 million. This increase would raise the funding for contract medical to $242.3 million. The CDC indicates that this increase is due primarily to increasing medical costs. The CDC has submitted a deficiency request for $80.1 million in the current year related to contract medical expenditures.

Staff notes that this request represents a significant increase to the base funding for contact medical. The Subcommittee may wish to ask the CDC to identify how much of this funding is requested for contracts with registries and medical professionals, and how much is for contracts with hospitals for services.

What specific actions is CDC taking to control contract medical costs?

21. Salinas Valley Psychiatric Program. This Finance Letter proposes a decrease of $1.5 million to reduce the funding necessary to reimburse the Department of Mental Health as a result of a four month delay in the activation of the Salinas Valley Psychiatric Unit.

Does the Subcommittee wish to approve this Finance Letter?

22. Delay Substance Abuse Beds at CRC. This Finance Letter proposes a reduction of $2.5 million to reflect a one-year delay in the activation of 200 substance abuse treatment slots at CRC. The activation of these slots would be delayed from July 1, 2002 to July 1, 2003. In addition, CDC proposes to delay the aftercare treatment of 300 slots for five months in the budget year.
Does the Subcommittee wish to approve this Finance Letter?

23. Inmate Welfare Fund Adjustment. This Finance Letter proposes an increase of $542,000 in expenditure authority for increased overhead and operational costs associated with the Inmate Welfare Fund.

Does the Subcommittee wish to approve this Finance Letter?

24. Postage Increase. This Finance Letter proposes an augmentation of $528,000 due to a proposed postage rate increase.

Does the Subcommittee wish to approve this Finance Letter?

25. Structural Utilities Shortfall. This Finance Letter proposes and n augmentation of $17,979,000 to fund the increasing costs of utilities. The CDC has submitted a section letter for an $18 million deficiency for a utilities shortfall in the current year.

Does the Subcommittee wish to approve this Finance Letter?

26. Structural Workers' Compensation Shortfall. This Finance Letter proposes an increase of $42.1 million in one-time funding to reflect a shortfall in funding for Workers' Compensation costs estimated for the budget year. This amount is in addition to a $22.4 million increase already approved by the Subcommittee for the budget year. The CDC has submitted a section letter for a $42.7 million deficiency for workers' compensation in the current year.

Does the Subcommittee wish to approve this Finance Letter?

27. Program 21 Structural Overtime Shortfall. This Finance Letter proposes an increase of $9.8 million on a two-year limited term basis for the cost of filling vacant posted Correctional Lieutenant, Correctional Sergeant, and Supervising Cook I positions with overtime.

In the current year, the CDC has submitted a deficiency request for $29.6 million for this issue.

Does the Subcommittee wish to approve this Finance Letter?

28. Adjust Lease Payment Revenue Payments. This Finance Letter proposes to decreased $23.5 million General Fund and increase of $16.6 million in reimbursements. This reflects a reduction in base rental payments due to an updated debt service payment schedule and an increase from interest earnings and surplus construction funds to pay base rental payments for a lease revenue funded project.

Does the Subcommittee wish to approve this Finance Letter?

29. Fiscal Impact of Bargaining Unit 6 Contract. As a result of the implementation of the Memorandum of Understanding with
Bargaining Unit 6, an augmentation of $4.7 million is requested for operational costs related to implementing the agreement. This funding would apply to the following categories:

- Bereavement Leave -- $894,000
- Court Appearances/Subpoenas -- $120,000
- Release Time Bank -- $261,000
- Continuous Hours of Work/Dead Time - $182,000
- Survivor Benefits -- $1.4 million
- 7k Compensation -- $1.4 million
- Firefighter Hours of Work and Compensation -- $73,000
- PA Safety Equipment and Procedures -- $311,000
- MTA Training Program -- $104,000

Does the Subcommittee wish to approve this Finance Letter?

30. Elderly Inmates. As part of its options for addressing the state's fiscal crisis, the LAO raised as a potential option the release to parole for certain non-serious, non-violent offenders age 60- and older.

At our prior hearing CDC estimated that 289 inmates would be affected for a potential savings up to $3.8 million.

Does the Subcommittee wish to take the action to release these offenders and place them on electronic monitoring

Capital Outlay Finance Letters

1. Various Reappropriations. This Finance Letter proposes reappropriation language for the following eleven projects:

1. CRC Norco, Potable Water System Improvements – Working drawings
2. Sierra Conservation Center, Effluent Disposal Pipeline – Working drawings
3. Avenal, Receiving and Release Expansion – Working drawings
4. California Institution for Men, TB/HIV Housing Engineering Controls – Construction
5. Delano II – Site acquisition and working drawings
6. Statewide, Habitat Conservation Plan.
7. Statewide, Ten Ad Seg Housing Units – Construction
8. Statewide, Electric Fence – Construction
9. California Correctional Institution, Replacement of Unit I Security Fence – Working drawings
10. California Medical Facility, Ambulatory Care Clinic – Working Drawings
11. California Men's Colony, D-Quad Mental Health Services Building – Working drawings.

To be consistent with prior actions, staff recommends adoption of these reappropriations, with the exception of number five, the reappropriation for the Delano II project.

2. San Quentin CTC. This Finance Letter proposes and increase of $375,000 from the General Fund for the California State Prison, Correctional Treatment Center, Phase II—Preliminary Plans. Mitigation issues are still an issue due to toxics issues with the soil and groundwater. A Human Health Risk assessment has been completed and reviewed by the Regional Water Control Board and the Department of Toxic Substances Control. The two departments are requiring that the Department of Corrections do additional assessments, which has resulted in the need for additional funding.

<u>Does the Subcommittee wish to approve this Finance Letter?</u>