Senate Budget and Fiscal Review

Subcommittee No. 5 2009 Agendas

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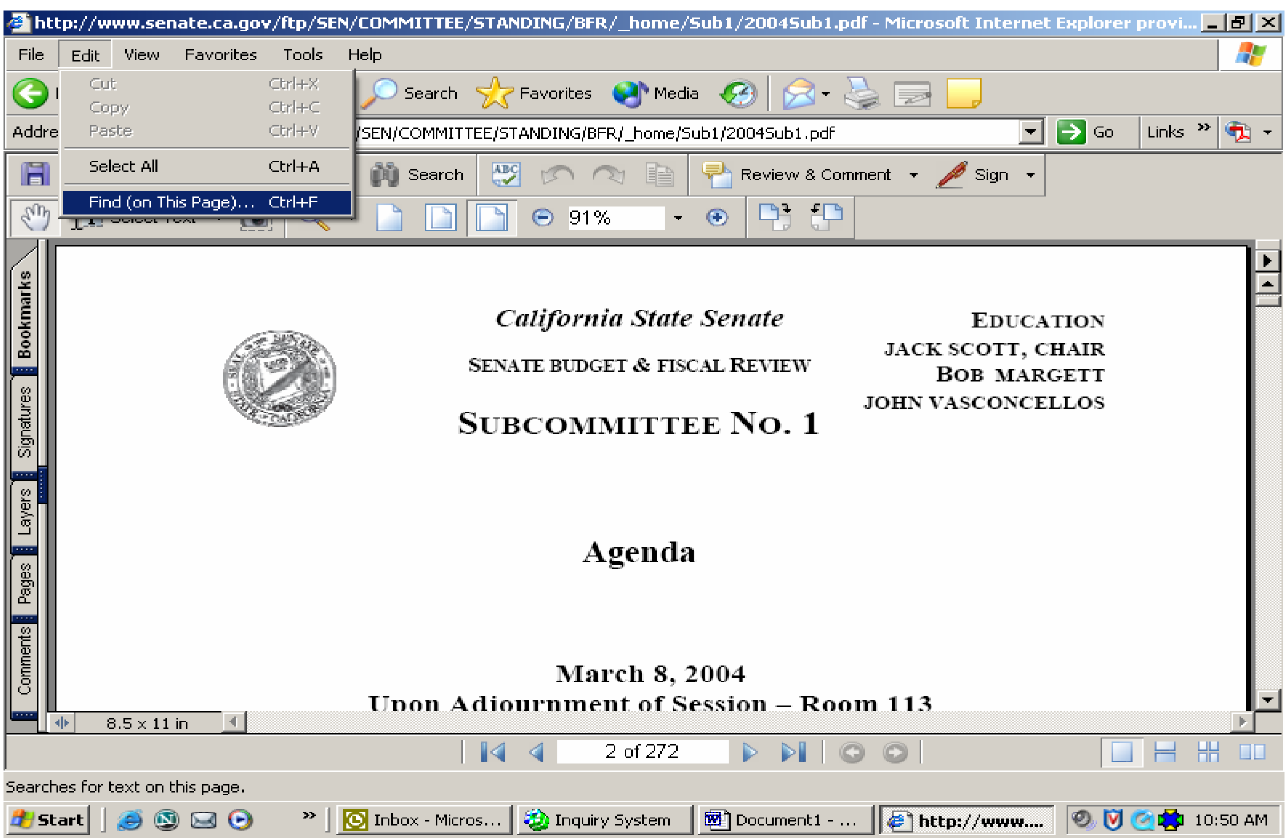

SUBCOMMITTEE NO. 5 Agenda
Committee on Revenues and the Economy

Chair, Senator Denise Moreno Ducheny

December 12, 2008

9:30 A.M.

Room 4203

(Brian Annis)

		Gov Proposal 2008-09	Gov Proposal 2009-10	Gov Proposal Total	LAO Options 2008-09	LAO Options 2009-10	LAO Options Total	November Alternative 2008-09	November Alternative 2009-10	November Alternative Total	Senate Republican Alternatives 2008-09	Senate Republican Alternatives 2009-10	Senate Republican Alternatives Total
Cash Management													
1	**Expand Internal Borrowing for Cashflow.** This would allow additional special-fund cashflow borrowing of about $2.0 billion to aid the state in paying General Fund obligations in late February/early March and other low-cash months in 2009-10 and thereafter. No budget impact in terms of reducing the State's $28 billion hole; however, some savings may be achieved from reduced costs for external borrowing.	(2,000)	(2,000)	$0.0			$0.0			$0.0			$0.0
	Subtotal , Revenue Measures	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**	**$0.0**

		Gov Proposal			LAO Options			November Alternative			Senate Republican Alternatives		
		2008-09	**2009-10**	**Total**	**2008-09**	**2009-10**	**Total**	**2008-09**	**2009-10**	**Total**	**2008-09**	**2009-10**	**Total**
Revenues													
1	**Temporary (3-year) 1.5 cent Increase in the Sales Tax.** This would increase the base State rate from 5.0 cents to 6.5 cents. Including base local taxes, consumers would pay a total of 8.75 cents per dollar - higher in some areas that have adopted local measure taxes. No currently taxed goods are exempted.	$2,628.0	$6,744.0	$9,372.0			$0.0			$0.0			$0.0
2	**Broaden Sales Tax to Some Services.** The Governor proposes taxing the following services**:** furniture, appliance, and vehicle repair; golf; veterinarian services; amusement parks; and sporting events.	272.4	1,153.9	1,426.3			0.0			0.0			0.0
3	**Oil Severance Tax.** Adopt a 9.9 percent tax rate; exception for stripper wells. Currently, there is no oil severance tax in California. Other oil producing states such as Alaska and Texas have this tax.	354.4	845.9	1,200.3			0.0			0.0			0.0
4	**Nickel a Drink Alcohol Tax.** Alcohol taxes were last raised in 1991.	195.3	585.0	780.3			0.0			0.0			0.0
5	**Vehicle License Fee (VLF) Rate and Realignment.** Set VLF rate at 1 percent (up from the current 0.65 percent), shift VLF administrative costs, and use funds to realign some criminal justice and mental health responsibilities from the state to counties.			0.0	0.0	1600.0	1,600.0			0.0			0.0
6	**Reinstate VLF at 2 percent, no Realignment**. Increase VLF to the 2 percent rate that was in place from 1948 to 1998.			0.0			0.0	1,400.0	4,300.0	5,700.0			0.0
7	**Personal Income Tax Surcharge.** Increase final tax liability by 5 percent for all taxpayers in 2009.			0.0	1150.0	1100.0	2,250.0			0.0			0.0
8	**Maintain 2007 tax brackets for 2008 (similar outcome to suspension of indexing).** Index off adjusted brackets in 2009, 2010, and 2011. In 2112, recompute brackets as if no changes had occurred.							1,420.0	995.0	2,415.0			
9	**Reduce Dependent Credit.** Make the dependent credit the same as the personal exemption ($99 per person). In 2008, the dependent credit was $309.			0.0	0.0	1100.0	1,100.0			0.0			0.0
10	**Eliminate the Senior Credit.** Eliminate the additional $99 credit provided to seniors - seniors would still get the regular personal exemption ($99 per person).			0.0	0.0	130.0	130.0			0.0			0.0
11	**End Small Business Stock Exclusion.** Eliminate the deduction for qualified sales of small business stock that exempts 50 percent of the gain from taxation.			0.0	0.0	55.0	55.0			0.0			0.0
12	**Repeal the Like-Kind Exchange Exclusion.** Tax all like-kind exchanges, which currently allow individuals to avoid paying taxes on the sale of property, by purchasing a similar property.			0.0	65.0	290.0	355.0			0.0			0.0
13	**Tax Debt Collection - Bank Records.** Allow the Franchise Tax Board (FTB) to establish the Financial Institutions Records Match (FIRM) program that would require banks to match records of account holders to delinquent taxpayers for improved collection of unpaid tax liabilities. A similar program is currently in effect for unpaid child support.			0.0	-2.6	35.4	32.8			0.0			0.0
14	**Tax Debt Collection - Occupational Licenses.** Allow the FTB, through partnership with state licensing entities, to suspension of occupational licenses if tax debts are not paid.			0.0	0.0	12.0	12.0			0.0			0.0
	Subtotal , Revenue Measures	**$3,450.1**	**$9,328.8**	**$12,778.9**	**$1,212.4**	**$4,322.4**	**$5,534.8**	**$2,820.0**	**$5,295.0**	**$8,115.0**	**$0.0**	**$0.0**	**$0.0**

ROBERT DUTTON
Vice Chair

ALL MEMBERS OF
THE SENATE

California State Senate

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

SENATOR
DENISE MORENO DUCHENY
CHAIR

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Agenda

Subcommittee #5 on Revenues and the Economy

March 12, 2009
Room 4203
9:30 a.m. or Upon Adjournment of Session

LAO Presentation
on the
Federal Economic Stimulus Package:
Fiscal Effect on California

I. Presentations by:

- Mr. Mac Taylor, Legislative Analyst
  The Legislative Analyst Office

- Mr. Fred Klass, Department of Finance

II. Public Comment

California State Senate

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ROBERT DUTTON
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BRYAN EHLERS

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COMMITTEE
ON
BUDGET AND FISCAL REVIEW
SUBCOMMITTEE NO. 5 ON
REVENUES, THE ECONOMY & LABOR

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

SENATOR
DENISE MORENO DUCHENY
CHAIR

AGENDA

APRIL 30, 2009
9:30 a.m. or Upon Adjournment of Session
Room 113

BILL	AUTHOR	SUBJECT
SB 777	WOLK	STATE BUDGET

Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling 916-324-9335. Requests should be made one week in advance whenever possible.

SENATE COMMITTEE ON BUDGET AND FISCAL REVIEW
Denise Moreno Ducheny, Chair

Bill No:	**SB 777**
Author:	**Wolk**
As Introduced:	**February 27, 2009**
Consultant:	**Daniel Alvarez**
Fiscal:	**Yes**
Hearing Date:	**April 30, 2009**

SUBJECT / SUMMARY

Performance-Based Budgeting (PBB). Requires budgets submitted by state agencies/departments, and subsequently by the Governor to the Legislature, to utilize a performance-based budgeting framework.

EXISTING LAW

The State Constitution requires the Governor to submit to the Legislature within the first 10 days of each calendar year a budget for the ensuing fiscal year containing itemized statements for recommended state expenditures and estimated state revenues. The Governor may require a state agency to furnish whatever information is deemed necessary to prepare the budget. Furthermore, the Legislature may control the submission, approval, and enforcement of budgets and the filing of claims for all state agencies. Passage of an annual Budget requires an affirmative two-thirds vote of the Legislature.

Existing law requires every state agency and court for which an appropriation has been made to submit to the Department of Finance (DOF), for approval, a complete and detailed budget in a form as may be prescribed. This submission should include all proposed expenditures and estimated revenues for the ensuing fiscal year. In addition, existing law requires the DOF to develop, issue, and implement consistent and adequate guidelines to be utilized by agencies required to submit budgets. Among other things, the guidelines are required to: (1) ensure budgets that are reflective of an agency's activities; (2) reflective of the costs of executing the activities; and (3) ensure, where a program budget is used, budgetary presentation is designed to display expenditures based on various goals or objectives. Finally, existing law requires the DOF to develop a fiscal information system which will provide timely and uniform fiscal data needed to formulate and monitor the budget.

PROPOSED LAW

This bill requires implementation of a performance-based budgeting (PBB) method, as prescribed, beginning with the 2011-12 Budget introduced by the Governor. More specifically, this bill:

1. Requires, the Governor's proposed January 10 budget to utilize PBB methods, beginning with the submission to the Legislature of the 2011-12 Budget.

Senate Budget and Fiscal Review—Denise Ducheny, Chair

SUBCOMMITTEE NO. 5 Agenda

Senator Denise Moreno Ducheny, Chair
Senator Robert Dutton
Senator Alex Padilla

Thursday, April 30, 2009
9:30 a.m. or Upon Adjournment of Session
Room 113

Consultant: Bryan Ehlers

Item Number and Title **Page**

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0559 Labor & Workforce Development Agency

The Labor and Workforce Development Agency (LWDA) brings together the departments, boards, and commissions, which train, protect, and provide benefits to employees. The LWDA is primarily responsible for three different types of functions: labor law enforcement, workforce development, and benefit payment and adjudication. The LWDA includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (which is heard in Subcommittee #2), and the Workforce Investment Board and is funded through reimbursements from those departments. The LWDA provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor's Budget proposes 17.0 positions (no new positions) and $4.7 million in expenditures (an increase of approximately $1.8 million). The LWDA is primarily funded through reimbursements from the various departments under its purview; however, the proposed 2009-10 budget contains approximately $2 million in expenditures from the Labor and Workforce Development Fund, which was established to fund efforts aimed at educating the employers and employees about their rights and responsibilities under labor law and which is supported by revenues from penalty assessments.

DISCUSSION ITEM:

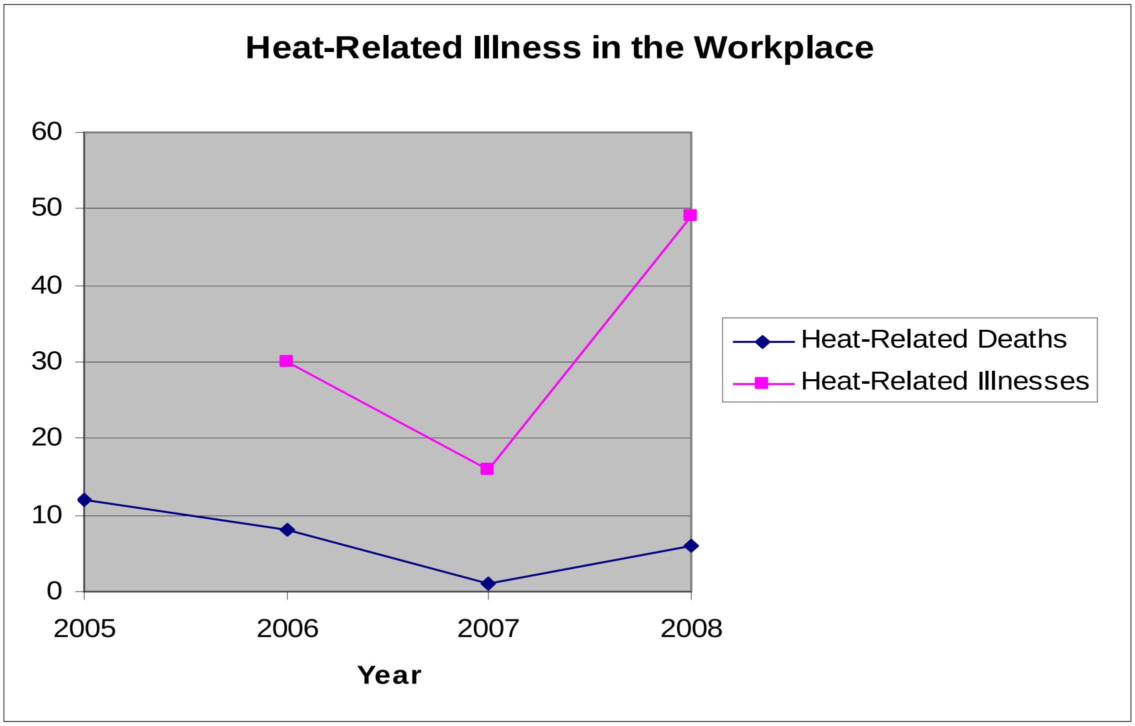
1. BCP-1: Heat Illness Prevention Campaign. The LWDA requested $1.5 million (Labor and Workforce Development Fund) in fiscal year 2009-10 (and $1.4 million in 2010-11) to develop and implement a two-year media campaign designed to help prevent heat illness in the workplace.

2009-10 Enacted Budget. Contains the $1.5 million requested by the Governor.

Background. Following eight reported heat-related deaths in July 2005, the California Division of Occupational Safety and Health (Cal/OSHA) promulgated emergency regulations, which became permanent July 27, 2006, requiring employers to train all supervisors and employees about how to prevent heat illness and to provide access to shade for at least five minutes of rest when an employee believes he or she needs a preventative recovery period (before the employee feels sick). Additionally, the regulations refocused attention on existing law requiring that water be made available to every outdoor worker at all times.

Staff Comments. The LWDA notes that heat-related deaths in the workplace have fallen since adoption of new regulations; however, as depicted in Figure 1 (below), the trend line has not been entirely consistent year-over-year.

Figure 1



* Prior to the existence of the emergency standard which took effect on August 22, 2005, heat-related illness data was not collected in a standardized format.

In order to further reduce the occurrence of heat-related incidents in the workplace, the LWDA proposes to spend approximately $2.9 million over two years from the Labor and Workforce Development Fund (Fund) for an educational media campaign. Staff notes that the Governor's Budget projected a current year reserve of $2.7 million based on modest current year and out-year revenue projections of $750,000 annually. Given signficantly higher revenues in the current year to-date—$3.9 million—the fund is more than able to support the proposed expenditures.

The LWDA provided the rough expenditure plan in Figure 2 (see the following page) as part of the Governor's Budget. The plan envisioned a target audience of largely Spanish-speaking adults age 18-54 engaged in agriculture, construction, landscaping, oil production, and outdoor manufacturing across four state regions (inland, desert, Central Valley, and coastal agricultural).

Staff notes that in the intervening months since the building of the Governor's Budget, the LWDA has put together a Request for Proposal (RFP) to identify the target and secondary target audience, respectively as follows: (1) working adults 18 and older, primarily Spanish-speaking, primarily immigrants, annual household income of less than $50,000 with low-paying jobs at outdoor worksites; and (2) employers and front-line supervisors of outdoor workers. The RFP additionally requests a vendor to:

> *Develop and implement a comprehensive multi-media marketing campaign designed to best reach target audience; evaluate and track benchmarks for heat illness campaign; provide creative expertise and guidance for all aspects of marketing campaigns; negotiate all media placement; plan creative design for all*

media, provide budgets and timelines for campaigns, along with qualitative and quantitative data; manage creative development, production, media placement, and staff, including subcontractors and vendors.

Figure 2

Expenditure	Line Item	Purpose
$170,000 (one-time)	Creative	Strategy; and design production of TV, radio, and collateral materials
$650,000	TV Airtime (English & Spanish)	Ads running in four regions throughout the summer at prime time and in the early morning (and more frequently during heat waves)
$170,000	Radio Airtime (English & Spanish)	Ads running in four regions throughout the summer during commute hours (and more frequently during heat waves)
$100,000	Spanish Language	Ads running specifically on Spanish television during prime time novellas and radio during commute hours
$240,000	Bus Production & Installation	English and Spanish cards inside buses (and possibly some exterior displays) on highly traveled routes throughout the summer in four regions of the state
$200,000	Outdoor Production & Placement	Signs and billboards placed along highly traveled commuter routes throughout the summer in four regions of the state

Committee Questions. Based on the above expenditure plan, the Committee may wish the Administration to respond to the following questions.

- What recent steps have LWDA and Cal/OSHA (Department of Industrial Relations) taken to ensure adequate enforcement of labor code laws? For example, as of May 2008, there was a nine percent vacancy rate among Cal/OSHA inspectors. Has this number improved, and what, if anything, is the department doing to address the issue?
- Has the LWDA conducted a media campaign like this in the past? What was the basis for the above level and allocation of resources? For example, the LWDA indicates that the cost estimate for this proposal was based in-part on the “Spare the Air” campaign. Did the LWDA consult that campaign or others in order to determine what practices were most effective in educating the public?
- How does the LWDA plan to measure the effectiveness of the proposed campaign in order to better inform future state expenditures of this nature?

Staff Recommendation: NO ACTION necessary.

7100 Employment Development Department

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

The Governor's Budget proposes 9,793.6 positions (754.7 new positions, including approximately 600 for state operation of the Unemployment Insurance program) and $14.5 billion in expenditures (a decrease of approximately $1.7 billion, primarily in the Unemployment Fund, reflecting the fluctuation in unemployment benefits expected to be paid out in the budget year relative to the current year).

VOTE-ONLY ITEMS:

1. FL: Deferment of Interest on Federal Unemployment Trust Account (FUTA) Loans. The Governor requests a reduction of $20.2 million in EDD Contingent Fund expenditure authority in recognition of the fact that the recent federal stimulus package provides for deferment of interest payments and interest accrual (until December 31, 2010) on FUTA loans provided to states with insolvent unemployment funds. The enacted 2009-10 budget anticipated the need to make $20.2 million in federal interest payments, but these monies, if unexpended at year's end, will now be available for transfer to the GF.

2. FL-1: Disability Insurance Automation (DIA) Project Budget Bill Language (BBL). The Governor requests BBL in order to allow a mid-year adjustment to DIA expenditure authority after evaluation and selection of the System Integrator vendor is concluded and project costs are updated. The selection process and a post-vendor-procurement Special Project Report will not be completed within the timeframe of the budget process. The language proposed for addition to Item 7100-001-0588 is as follows:

> Provisions:
>
> X. (a) Of the funds appropriated in this item, $11,261,000 is to support the development of the Disability Insurance Automation (DIA) Project. These funds may not be used for items outside the approved project scope. Changes in the project scope must receive approval using the established administrative and legislative reporting requirements.
>
> (b) The Director of Finance is authorized to increase or decrease this item to fund DIA implementation workload upon receipt of a new post-vendor procurement special project report. Notwithstanding any other provision of law, any adjustment under this provision shall be authorized not sooner than 30 days after notification in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.
>
> (c) The Department of Finance shall report to the Legislature the number of positions to be administratively established for the Employment Development Department.

Staff Recommendation: APPROVE Vote-Only Items #1 and #2.

VOTE:

DISCUSSION ITEMS:

1. Informational Issue: Unemployment Insurance Automation. Hundreds of thousands of unemployed workers rely upon the EDD Unemployment Insurance (UI) Program each week to timely process their unemployment claims and benefits. In addition to efforts currently underway to improve current service levels—by upgrading the information technology (IT) supporting UI call centers and redesigning the claims processing system—the EDD is also preparing to convert the aging database that currently serves both the UI and Disability Insurance (DI) programs. Among other things, this will enable the EDD to implement the recently adopted Alternative Base Period (ABP) for calculation of UI benefit eligibility (Chapter 23, Statutes of 2009; ABX3 29, Coto and Garrick).

The American Recovery and Reinvestment Act of 2009 (ARRA) made UI administrative grants available to states for various purposes such as implementing federal options (like ABP), and California is set to receive its share of these funds (approximately $60 million). The EDD indicates it will soon submit a plan to use those funds, including approximately $20 million to fund the database conversion and another $4 million or more for implementation of the ABP.

Staff Comments. Various UI automation projects are discussed in more detail below; however, a brief background on the UI program precedes for the sake of context.

<u>UI Background</u>
The UI program is a federal-state program authorized in federal law but with broad discretion for states to set benefit and employer contribution levels. The program is financed by unemployment tax contributions paid by employers for each covered worker, and provides weekly unemployment insurance payments to eligible workers who lose their jobs through no fault of their own. To be eligible for benefits, a claimant must be able to work, be seeking work, and be willing to accept a suitable job.

Each year, the UI program collects billions of dollars in payroll taxes and cuts billions of dollars in benefit checks for hundreds of thousands of unemployed Californians. This year, record numbers have accessed the system due to the poor economy. As depicted in Figure 1 (below), the statewide unemployment rate recently surpassed 11 percent, and, in the month of January 2009 alone, an all-time record 525,000 initial claims and extensions were filed.

Figure 1

California Unemployment Quick Facts **(from edd.ca.gov – as of March 2009)**		
	Workforce Population	**Percent of Workforce**
CA Civilian Labor Force	18.6 million	100%
Unemployed	2.1 million	11.2%
Unemployed and Eligible for UI Benefits	~1 million	5.1%

UI Automation Efforts

The historic highs in workload discussed above have taxed California's UI system, which has been undergoing incremental improvement (see "UIMOD" discussion below) but still relies heavily on outdated technology such as a legacy database system programmed in COBOL, a dying language first developed in 1959. As was heavily publicized this winter, EDD call centers were completely swamped by call traffic during peak periods in late 2008 and early 2009, with desperate, unemployed Californians dialing and re-dialing for hours in attempts to access service. These problems were not helped, and in some cases were exacerbated, by the limitations of the existing IT. For example, the current call center network is not flexible enough to allow a caller to one of six centers to be transferred to an adjudication center. Rather, the caller must hang up and begin dialing again from the back of a new queue. Other limitations stem from the difficulty of making any system upgrades involving newer technologies "work" with the existing COBOL system—to say nothing of the challenge of finding programmers still fluent in the dying language. As case in point, when the federal government recently approved a $25 per-week benefit augmentation, the EDD was short of COBOL programmers to implement the necessary system changes. In order to make the additional funds immediately available, the EDD utilized a set of program changes that had not been fully tested, with the result being that the system was incapable of re-writing any lost checks.

Currently, the EDD is engaged, or about to embark on, the following UI IT projects:

1) ***UIMOD*** – The UI Modernization Project (UIMOD) was first initiated using federal Reed Act funds received in March 2002 for the support of UI automation projects, and encapsulates two sub-projects that are entirely federally funded and are both managed by the Office of Systems Integration (OSI) within the Health and Human Services Agency:

    - ***Call Center Network Platform and Applications Upgrade (CCNPAU)***. The CCNPAU will allow adjudication centers to handle incoming UI calls, improve customer access to call center agents, and assist the EDD in meeting federal and state service-level objectives and performance measures. The system will additionally provide the EDD with information to better detect identity fraud, and with detailed information for trend analysis to improve call handling, system efficiency, and agent productivity. The CCNPAU is currently scheduled for deployment in August 2010, with system acceptance set for February 2011.
    - ***Continued Claims Redesign (CCR)***. The CCR will provide alternate ways for clients to certify for benefits using the telephone and the internet. The project will also redesign the UI payment programs, allowing the agents to interact with claimants during the certification process and collect additional information needed to verify a claimant's identity. A new database will allow the collection of information not currently available for client screening, profiling, and detecting potential fraud. The CCR is currently scheduled to award a contract in November 2009, with final system acceptance set for April 2013.

    Staff notes that, based on original timelines, both of the components of UIMOD discussed above would have been completed already (CCNPAU by late 2006; and CCR by mid-2008); however, both projects have been beset at various times by delays. Most notably, the projects were merged mid-stream into a single project, requiring a 13 month-delay. After a Request for Proposal (RFP) was completed on the unified project, the EDD and Department of General Services requested 14 amendments to the RFP, including the decision to split the project in two again (in May 2007), and this led to a 14-month delay. All told, UIMOD has now been delayed 4.5 years. The Committee may wish to inquire as to the current status of UIMOD and ask the EDD to briefly comment on lessons learned.

2) ***Single Client Database Conversion*** – The EDD is in the process of converting its Single Client Database, which was implemented in 1986 (based on 1970s technology) and supports both the UI and Disability Insurance (DI) programs. According to EDD staff, this database causes "90 percent" of the problems currently encountered by the department in updating its IT UI and DI systems. The conversion, which is poised to begin after a successful pilot conversion this past winter, is expected to take approximately 1 1/2 years and will provide the UI and DI programs with a "relational" database that will pave the way for other legacy updates as the EDD continues to phase-out its COBOL systems. The EDD anticipates using approximately $20 million of the $60 million available through ARRA to execute the conversion—details to follow in the May Revise.

   Staff notes that this database conversion is necessary before the EDD can adopt the system changes necessary to implement the ABP (discussed in more detail below). According to EDD staff, the primary challenge in terms of workload (and therefore time) is in converting the massive amount of existing data—most of which must occur before the project can "go live." Given that the existing database is a major roadblock to implementing additional improvements to the UI program, staff has explored with the EDD the possibility of further expediting the completion of the conversion; however, EDD staff indicate that, regardless of the availability of additional resources (i.e., federal ARRA funds), the speed with which database conversion can be carried out is constrained by certain limitations of the existing system. For example, the current mainframe environment where the Single Client Database resides is shared by 35 other departments, and can only support a limited number of EDD users at any given time and only for a portion of the day (i.e., not 24/7). In order to work to the maximum of the systems capabilities and complete the conversion as timely as possible, the EDD indicates it plans to hire additional outside help to augment its COBOL staff and supplement its data conversion expertise.

3) ***Alternative Base Period Modifications*** – As noted earlier, the EDD indicates a plan will be forthcoming in the May Revise to use approximately $4 million to implement the system changes necessary to process UI claims based on the newly adopted ABP (per ABX3 29). The EDD estimates this implementation would require approximately six months upon successful conversion of the Single Client Database, assuming other factors such as additional federal UI extensions do not require additional time and resources.

While the Legislature awaits a more detailed plan on the database conversion and ABP modifications, staff notes that the Administration has not yet provided an expenditure plan for the remaining ~$36 million in ARRA UI administration grants. One option under discussion is to implement a system for electronic benefit payments (e.g., direct deposit). Whatever the proposed plan, the Committee will want to carefully weigh the benefits versus the cost (particularly since the federal funds are one-time only). For example, between 30,000 and 60,000 additional workers, particularly those in seasonal jobs, are expected to qualify annually for UI benefits (totaling approximately $70 million) under the ABP. This population is relatively small in relation to those eligible under the existing standard base period, but provides a useful basis for comparison in thinking about the marginal benefit of other proposed expenditures.

Governor Declares State of Emergency

In a proclamation made April 17, 2009 (see full text in Appendix A), the Governor declared a state of emergency and waived existing statutes and regulations, including advertising and competitive bidding requirements, in order to allow the EDD and the California Unemployment Insurance Appeals Board (CUIAB) to expeditiously contract for additional space, personnel, equipment, or services in order to “immediately and effectively increase [their] ability to assist the people making unemployment claims, contacting EDD, or appealing their claims."

Further, the Proclamation stated:

> *State agencies including but not limited to the State Office of the Chief Information Officer (OCIO), the Department of General Services, the Department of Personnel Administration, and the Department of Finance shall expedite project, contracting, budget, and personnel action review and approval processes so as to expedite the hiring of EDD and CUIAB staff and the implementation of EDD and CUIAB information technology projects designed to expand and enhance unemployment insurance services, and personnel to support these efforts.*

The Committee may wish to ask the department how it intends to utilize this authority, particularly as it applies to expediting the projects identified above.

Committee Questions. Based on the comments above, the Committee may wish to ask the following questions:

- What is the current status of the UI call centers? For example, where is the EDD in the process of hiring additional staff, and what other steps are being taken to improve service levels?
- The recent federal UI benefit augmentation ($25/week) and UI benefits extension created great challenges to the UI program. In terms of IT, has the EDD fully addressed these issues? What continuing or additional challenges does the department anticipate relative to the existing system, planned upgrades, changes in law, and/or the rising unemployment rate?
- In the case of each UI automation project identified in the agenda, what will be the impact to service?
- Given the extensive delays experienced by the UIMOD project, what lessons has the EDD learned that might prove beneficial on forthcoming UI automation projects?
- If the EDD plans to submit a May Revise proposal to use approximately $24 million in UI automation funds on the database conversion and ABP

implementation, what options are under discussion for the use of the remaining $36 million? Could they be used to help further expedite the database conversion?
- How, and to what end, does the Administration plan to use the expedited contracting process authorized under the Governor's recent proclamation?

Staff Recommendation: NO ACTION necessary. The Subcommittee should await additional detail on the EDD's plans in the May Revise.

2. Workforce Investment Act (WIA): 15-Percent Discretionary Funds. The WIA Program is a state-operated federal program which offers a comprehensive range of workforce development activities through statewide and local organizations. Available workforce development activities provided via One-Stop Career Centers in local communities benefit job seekers and employers, laid-off workers, youth, incumbent workers, new entrants to the workforce, veterans, and persons with disabilities. These activities range from self-assisted access to employment-related information to job skills training programs. The purpose of these activities is to promote an increase in the employment, job retention, earnings, and occupational skills of participants.

WIA dollars are divided into multiple pots of funding. The Adult and Youth funds are split 85 percent to the local boards and 15-percent for discretionary funds allocation by the Governor and Legislature. The Dislocated Worker funds are divided 60 percent to the local boards, 25 percent to "rapid response," and 15-percent for discretionary allocation by the Governor and Legislature.

2009-10 Enacted Budget. Contains the Governor's proposed allocation of the $64 million in WIA 15-percent discretionary funds initially made available for state fiscal year 2009-10. Does not contain any of the roughly $74 million in additional 15-percent funds made available in the ARRA.

Staff Comments. While the Legislature typically provides input into the allocation of WIA discretionary funds, the 2009-10 enacted budget adopted all of the Governor's 15-percent priorities without discussion. Although the Administration indicates that the May Revise will contain the final installment of the Governor's plan (including additional ARRA funds), the Committee may wish to go ahead and initiate a conversation about funding priorities by having the EDD explain the rationale behind the Governor's January 10 allocation.

A comparison of 2008-09 and 2009-10 WIA 15-percent discretionary allocations is contained in Appendix B. Staff notes that the middle column reflects Administration adjustments made mid-year as authorized in budget bill language. As highlighted in the shaded cells, the primary differences between the priorities of the 2008 Budget Act and those reflected in the Governor's subsequent adjustments are in the following categories, where reductions (-) or augmentations (+) of at least $1 million have been made:

- Sector/Initiatives/Economic Stimulus (+)
- At Risk/Youthful Offender Gang Prevention (-)
- Health Care – Nurse Education Initiative (+)
- Critical Shortage Industries: Nurses/Healthcare/Infrastructure/Logistics (+)

- Parolee Services (California Department of Corrections and Parolee Services) (-)
- Governor's Award for Veterans' Grants (+)

Committee Questions. Based on the above (and the table contained in Appendix B), the Committee may wish to ask the following questions:

- In the categories receiving significant augmentations in the current year (noted above), how have additional funds been used and to what benefit? For example, have any of the efforts produced measurable benefits to employment or GF revenues?
- Why has the "At Risk/Youthful Offender Gang Prevention" line item been reduced so significantly?

Staff Recommendation: NO ACTION necessary. The Subcommittee should await additional detail on the Governor's WIA expenditure plan in the May Revise.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The DIR enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor's Budget proposes 2,844.3 positions (including 26 new positions) and $388.9 million in expenditures (a decrease of $4.2 million). Approximately half of the DIR expenditures are from the Workers' Compensation Administration Revolving Fund, which is reduced slightly in the budget year relative to fiscal year 2008-09. Additionally, the DIR budget contains approximately $66.9 million GF, which is about $3 million less than in the current fiscal year.

VOTE-ONLY ITEM:

Trailer Bill Language: Mediation Services Reimbursement Authority. The Governor requests trailer bill language to authorize the DIR to seek and collect reimbursement from private and public sector employers, labor unions, and employee organizations for election, arbitration, and training and facilitation services provided by the department through its State Mediation and Conciliation Service (SMCS).

Staff Comment: This request would provide the statutory authority for the DIR to utilize the two limited-term positions and $275,000 in reimbursement authority approved for the SMCS in the 2009-10 budget enacted in February. The positions are intended to help back-fill for the Governor's 10-percent reduction of the program in current fiscal year.

Staff Recommendation: APPROVE the trailer bill language.

VOTE:

DISCUSSION ITEM:

FL-1: Public Works Labor Compliance Program. The Governor requests 10 positions and $1.3 million (State Public Works Enforcement Fund) to support start-up activities, including promulgation of regulations and the development of a program structure, for enforcement of prevailing wage laws on public works projects under the Public Works Labor Compliance Program authorized by Chapter 7, Statutes of 2009 (SBX2 9, Padilla). The State Public Works Enforcement Fund was created to support SBX2 9 activities and will derive its revenue entirely from fees assessed on public works projects; however, the Governor proposes to "seed" start-up activities with a GF loan of $1.3 million in both fiscal year 2009-10 and 2010-11 (until fee revenue begins to flow). The loan would be repaid no later than June 30, 2012.

Background. For more than sixty years, the California Labor Code has required that workers employed by contractors or subcontractors in the execution of public works contracts must be paid the state-determined prevailing wage.

The Division of Labor Standards Enforcement (DLSE), within the DIR, is the government agency primarily responsible for the enforcement of prevailing wage requirements on California public works projects. Beginning in 1989, the Legislature provided a statutory mechanism permitting political subdivisions of the state which award public contracts (awarding bodies) to initiate and enforce their own labor compliance programs (LCPs) in conjunction with the DIR and the DLSE. Awarding bodies on specified programs and public works projects were authorized to initiate and enforce a LCP, or to contract with a third party to do so.

Based on recommendations from the LAO citing the ineffectiveness of LCPs, with enactment of SBX2 9, the state began to move away from the LCP model and to move toward more direct oversight and enforcement of prevailing wage requirements on public works projects by the DIR.

Staff Comments. As noted above, this proposal would fund initial Public Works Labor Compliance Program start-up costs to: (1) develop the program structure; (2) perform a workload analysis on which to base future staffing levels; (3) conduct "test" audits in order to develop a fee schedule; and (4) write regulations. The Administration anticipates these activities would require the bulk of the 2009-10 fiscal year and that additional resources for the implementation and ongoing needs of the program would be requested through the 2010-11 budget process.

The primary question before the Committee with regard to this proposal is whether or not state coffers can support even the relatively small ($1.3 million) loan necessary to jump-start the program. While it might be tempting to ask whether an alternative fund source can be found to provide the loan (e.g., the Labor and Workforce Development Fund discussed in LWDA item #1), staff notes that recent legislation has made balances in nearly every available fund "borrowable" by the GF, and so, for cash flow purposes, whether the loan is taken from the GF or a special fund is moot. Either way, when the state reaches the cash flow-negative months of summer (when expenditures are high and revenues low), every dime will be needed to "pay the bills," and any funds loaned to this new program will be unavailable to meet other state obligations.

Staff Recommendation: HOLD OPEN pending additional information in the May Revise on the fiscal condition of the state.

Appendix A

Office of the Governor

ARNOLD SCHWARZENEGGER
THE PEOPLE'S GOVERNOR

PROCLAMATION

04/17/2009

State of Emergency - Unemployment Proclamation

PROCLAMATION
by the
Governor of the State of California

WHEREAS the people of California, like people throughout the nation and the world, continue to suffer from the current severe economic downturn; and

WHEREAS Californians have been hit hard by the mortgage and foreclosure crisis and the downturn in the housing market; and

WHEREAS in my prior Emergency Proclamation issued on February 27, 2009 in response to the drought, I noted that agricultural revenue losses exceed $300 million to date and could exceed $2 billion in the coming season, with a total economic loss of nearly $3 billion in 2009; and

WHEREAS many businesses are shutting their doors in this difficult economy, and other employers are laying off workers, eliminating jobs or reducing employee hours and income in an effort to stay in business; and

WHEREAS the income and job losses have adversely impacted entire communities and diverse sectors of the economy supported by those jobs and income; and

WHEREAS these conditions are causing a loss of livelihood for hundreds of thousands of people, an inability to provide for families, and increased harm to the communities that depend on them; and

WHEREAS this loss of income and jobs continues to lead to defaults, foreclosures, bankruptcies, loss of businesses and loss of property; and

WHEREAS when jobs, property and businesses are lost, some families will move away from their communities, causing further harm to local economies, lower enrollments in local schools and reduced funding for schools; and

WHEREAS the economic downturn has provided graphic examples of how people are struggling, including the growth of homeless tent cities around the country; and

WHEREAS on April 17, 2009, the State Employment Development Department (EDD) reported that the unemployment rate in California increased to 11.2 percent in March, that nonfarm payroll jobs declined by 62,100, that the year-over-change (from March 2008 to March 2009) showed a decrease of 637,400 jobs, and that the number of people unemployed in California was 2,080,000, up over 119,000 for the month, and up by 913,000 compared with March of 2008; and

WHEREAS in that same report, EDD indicated that there were 79,979 new claims for unemployment insurance in March 2009, compared with 76,303 in February 2009, and 48,282 in February 2008; and

WHEREAS EDD and the California Unemployment Insurance Appeals Board (CUIAB) have made significant efforts to expand its operations in response to the exponential increase in demand for their services, but more resources are needed to effectively serve the needs of Californians struggling in this economic downturn; and the services are of such an urgent nature that the delay incumbent in their implementation under state civil service and contracting rules would frustrate the very purpose of unemployment compensation under state law, and the federal stimulus payments under federal law; and

WHEREAS the circumstances of the economic downturn, and the circumstances of the resulting unemployment in California, by reason of their magnitude, are beyond the control of the services, personnel, equipment and facilities of any single county, city and county, or city and require the combined forces of a mutual aid region or regions to combat; and

WHEREAS under the provisions of section 8558(b) of the California Government Code, I find that conditions of extreme peril to the safety of persons and property exist in California caused by the current and continuing economic downturn and resulting unemployment in California.

NOW, THEREFORE, I, ARNOLD SCHWARZENEGGER, Governor of the State of California, in accordance with the authority vested in me by the California Constitution and the California Emergency Services Act, and in particular California Government Code sections 8625 and 8571, **HEREBY PROCLAIM A STATE OF EMERGENCY** to exist in California.

IT IS HEREBY ORDERED that all agencies of the state government utilize and employ state personnel, equipment and facilities for the performance of any and all activities consistent with the direction of the California Emergency Management Agency (CalEMA) and the State Emergency Plan.

I FURTHER DIRECT THAT:

1. EDD and the CUIAB shall, as deemed appropriate by the Labor and

Workforce Development Agency, contract for facility space, the services of qualified personnel, and/or for the supplies, materials, equipment, and other services needed to immediately and effectively increase EDD's and CUIAB's ability to assist the people making unemployment claims, contacting EDD, or appealing their claims. Because strict compliance with the provisions of the Government Code, the Unemployment Insurance Code, and the Public Contract Code applicable to the state hiring process and state contracts would prevent, hinder, or delay the mitigation of this emergency, applicable provisions of these statutes, including, but not limited to, advertising and competitive bidding requirements, are suspended to the extent necessary to enable EDD and CUIAB to enter into such contracts as expeditiously as possible. This suspension is limited to the scope and duration of this emergency.

2. State agencies and departments within my administration shall provide assistance and resources to EDD and CUIAB, as needed, including the use of state personnel, facilities, equipment, resources and state contractors to respond to this emergency.

3. State agencies including but not limited to the State Office of the Chief Information Officer (OCIO), the Department of General Services, the Department of Personnel Administration, and the Department of Finance shall expedite project, contracting, budget, and personnel action review and approval processes so as to expedite the hiring of EDD and CUIAB staff and the implementation of EDD and CUIAB information technology projects designed to expand and enhance unemployment insurance services, and personnel to support these efforts.

4. To the extent allowed by applicable law, state agencies within my administration shall prioritize and streamline permitting and regulatory compliance actions to provide for relief from the economic downturn and unemployment in California.

I FURTHER DIRECT that as soon as hereafter possible, this proclamation be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this proclamation.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 17th day of April, 2009.

ARNOLD SCHWARZENEGGER
Governor of California

ATTEST:
DEBRA BOWEN
Secretary of State

Appendix B – Comparison of 2008-09 and 2009-10 WIA 15 Percent Allocations

Projected WIA Revenue	2008-09 Budget Act	Revised SFY 2008-09	Proposed SFY 2009-10
State Allocation for WIA (Title I)	$426.7	$426.7	$426.7 [1]
Less: Formula Allocations to Local Areas and Rapi	($362.7)	($362.7)	($362.7)
Discretionary WIA 15% Funds	$64.0	$64.0	$64.0
WIA 15 Percent Carryforward Funds		$5.7	
Total Estimated Available WIA 15 Percent Fund	**$64.0**	**$69.7**	**$64.0**
61.35 WIA Administration and Program Services			
Employment Development Department	$1.4	$1.4	$1.4
California Unemployment Insurance Appeals Board	$0.1	$0.1	$0.1
California Workforce Investment Board (CalWIB) Adm	$0.3	$0.3	$0.3
Audit, Compliance and Fraud Prevention	$5.4	$5.4	$5.4
Labor Market Information Program	$2.3	$2.3	$2.3
Local Program Oversight and Technical Assistance	$8.2	$8.7	$8.7
Financial Management and Information Technology	$2.4	$3.0	$2.4
Policy Development and Partner/Program Coordinatio	$2.7	$2.2	$2.2
Clusters of Opportunity (CalWIB)	$0.5	$0.5	$0.5
Total WIA Administration and Program Service	**$23.3**	**$23.9**	**$23.3**
61.40 Growth Industries - High Wage/High Skill Job Training			
Community Colleges WIA Coordination/Program Inte	$0.6	$0.6	$0.6
Sector Initiatives/Economic Stimulus	$2.6	$5.5	$5.0
Incentive Grants	$0.2	$0.2	$0.2
At Risk/Youthful Offender Gang Prevention	$3.0	$0.5	$0.5
Green Technology/Green Collar Jobs	$1.0	$1.0	$1.0
Total Growth Industries	**$7.4**	**$7.8**	**$7.3**
61.50 Industries with a Statewide Need - Expansion of Workforce			
Health Care - Nurse Education Initiative	$6.2	$6.7	$7.4
Sector Initiatives/Economic Stimulus	$0.9	$3.2	$3.3
At Risk/Youthful Offender Gang Prevention	$3.0	$0.5	$1.9
Critical Shortage Industries: Nurses/Healthcare/Infras	$3.1	$6.5	$7.9
Total Industries with a Statewide Need	**$13.2**	**$16.9**	**$20.5**
61.60 Removing Barriers for Special Needs Populations			
Offenders			
CDCR Parolee Services	$8.5	$8.5	$1.3
EDD Parolee Services	$1.0	$1.0	$1.0
Incentive Grants	$0.5	$0.5	$0.5
Services to Long-Term Unemployed	$0.1	$0.1	$0.1
Veterans			
Governor's Award for Veterans' Grants	$3.0	$4.5	$4.5
Veterans/Disabled Veterans' Employment Services	$0.7	$0.7	$0.7
Engineer Training for Veterans		$0.0	
Youth and Young Adults			
Department of Education WIA Coordination/Progran	$0.4	$0.3	$0.4
Youth Grants	$0.5	$0.5	$0.5
At Risk/Youthful Offender Gang Prevention	$4.0	$4.0	$2.6
Green Technology/Green Collar Jobs	$1.0	$0.7	$1.0
Low Wage Earners, Special Needs Populations, o	$0.4	$0.3	$0.3
Total Removing Barriers for Special Needs Po	**$20.1**	**$21.1**	**$12.9**

[1]The SFY 2009-10 state allocation is an estimation based on the SFY 2008-09 WIA allocation

2. Requires that a PBB utilized by a state agency annually identify or update all of the following:
   - ✓ The mission of the agency or judicial branch;
   - ✓ The goals established to accomplish the mission;
   - ✓ The activities developed to achieve the goals;
   - ✓ A performance goal and outcome-oriented performance measure for each activity for which an appropriation is made or requested;
   - ✓ Legislatively approved output and performance standards to measure progress toward program objectives;
   - ✓ Prior-year performance data on approved performance measures and an explanation of any deviation from expected performance; and
   - ✓ Proposed performance incentives and disincentives.
3. Requires the administration, for each introduced Budget, to include performance standards, which may then be amended by the Legislature. The standards would be applied to each state agency, and include a method for evaluating whether the performance standards are met for the purpose of determining the effectiveness and efficiency of a state agency.
4. Requires a task force, presumably in 2010, consisting of the DOF, the State Controller, and the Chairperson of the Joint Legislative Budget Committee to:
   - ✓ Develop guidelines and procedures for use by state agencies in developing PBBs for the 2011-12 fiscal year, including procedures for implementing activity-based costing or other managerial cost accounting systems in each state agency.
   - ✓ Develop a training and education program for agency budget personnel to facilitate the development of PBB methods.
5. Defines "budgetary unit" as the smallest significant operational unit within a state agency that has programmatic responsibilities, as specified.

<u>FISCAL EFFECT</u>

1. Unknown General Fund (GF) costs, approximately $1 million, to DOF, SCO, and Legislature to develop meaningful guidelines and procedures needed to begin PBB implementation. Additional costs to develop a training and education program, as specified.
2. Unknown significant GF costs, likely in the tens of millions, to State departments and agencies to implement a PBB system of budgeting. Some costs may be offset with savings in the long-run; however, in the short-run the resource intensive nature of developing performance measures, provide quality training, and instituting a general culture change will require fiscal resources. According to the LAO, in their 1996 Analysis of the Budget, they generally estimated costs of $5 million for implementation of a PBB pilot for four departments.
3. Unknown GF and Special Fund (SF) costs for possible information technology (IT) necessary to collect, maintain, and analyze data in order to ensure a good quality PBB

system. To the extent a department/agency is upgrading IT systems some of these costs could be offset; however, to guarantee timing is consistent with PBB implementation, as specified, it is likely additional costs would be incurred.

COMMENTS:

1. Rationale. According to information provided by the author's office, there is a general lack of performance goals and metrics in development of the state budget. The current budget model does not facilitate discussion or agreement on priorities, goals, desired results, and the inevitable tradeoffs. State program's goals and targets must be supported with information on results – or performance measures – that allows public managers to report their progress and future targets.

2. State Efforts in the Area of PBB; No Definitive Outcome. In 1993, the Governor proposed a performance-budgeting pilot program involving four departments (General Services, Consumer Affairs, Parks and Recreation, and the CA Conservation Corps). The purpose of the pilot was to test the concept that performance budgeting could result in substantial cost savings, improved program performance, enhanced citizen satisfaction, and greater accountability. The program was subsequently enacted in Chapter 641, Statutes of 1993 (SB 500, Hill), as the Performance and Results Act of 1993. In accordance with Chapter 641, DOF was responsible for the oversight of the program, and was required to evaluate the pilot.

   In 1997, the Legislative Analyst's Office reported that…performance budgeting has not yet fulfilled its primary objective, which was to change fundamentally the state's budget process, nor is it clear that the pilot project has met other specific objectives outlined by the Governor when the pilot program was established.

   In 1996, the DOF reported it was too soon to come to final conclusions, but that consideration should be given to expanding the pilot only after pilot program departments documented that the PBB process results in cost-effective program and performance innovations and identifiable savings.

3. Constitutional Budget Vote Requirement Hinder Statutory Processes. In California, the State Constitution requires a two-thirds (or supermajority) affirmative vote of the Legislature to pass an annual Budget. California is one of three states with this requirement. As clearly evidenced in the most recent budget passage, numerous budget and non-budgetary issues must be resolved for an affirmative budget vote – in many instances undoing what the majority has accomplished via the Budget Committee (and subcommittee) processes. Shifting to an alternative process, such as PBB, does not address this fundamental accountability issue to the voters and public generally, and in some instances outcomes will be ignored in search of a two-thirds vote.

4. Issues / Concerns. While PBB emphasizes funding based on the performance outcomes of departments and in some states and localities may provide enhanced oversight and accountability – this bill will need to address various concerns.

- ✓ Unrealistic Implementation Timeline. This bill requires implementation of PBB in time for the 2011-12 Budget submission by the Governor. It is not feasible, from a practical view, to believe implementation of a new budget process for all State agencies can be accomplished in the time envisioned.

  It seems that in order to develop guidelines, procedures, training programs, and actual performance measures it could take anywhere from between two and five years depending on the size and complexity of programs for which a department currently is appropriated funding.

- ✓ Implementation will Require Resources. The various tasks that are required to implement PBB by agencies and departments are resource intensive (both staff and funding); for example, the development of meaningful performance measure outcomes and the training of appropriate departmental personnel will require not only a fundamental culture commitment, but also resources. Many programs/departments have been reduced by upwards of ten percent in the past two fiscal years. Given the State's sensitive fiscal condition, is it realistic to either: (a) provide new resources or (b) allow for the redirection of existing resources in order to implement PBB?

- ✓ Carrots and Sticks. Depending on the types of performance incentives and disincentives developed by state agencies, further changes in underlying statute (outside the Budget Committees purview) may be required. For example, one conceivable incentive for meeting performance measures could be greater flexibility in hiring and dismissal processes in stark contrast to current collective bargaining approaches. Under a PBB system, do the ends justify the means? How would conflicts with existing law be dealt with?

- ✓ Data quality and gathering. Even though there is much data currently collected by departments, this information may not be of much use if the performance measures developed require the collection of information that is not currently in existence.

- ✓ Legislative Considerations. In addition to the supermajority vote to pass a budget, another constitutional requirement may inhibit implementation of PBB – Legislative term limits may not create an ideal environment of stability and consistency needed for an effective PBB approach. For the Legislature, due to term limits, changing institutional budget culture may require more time than envisioned. Most legislative terms will be over before PBB will actually occur statewide.

  Acceptance of PBB requires acknowledging baseline performance standards and measures; developed by the administration under this bill, the Legislature could amend performance standards and measures annually (during the budget process) rendering them ineffective as a tool for outcome accountability.

  Furthermore, if PBB were to become a reality, the Legislature will need to accept a longer-term view of implementation and results – in some respects this may diminish other Legislative oversight and appropriation prerogatives depending on the level of budget flexibility granted agencies.

Finally, would the legislative process (i.e., legislation) be affected by this proposal? Would the administration have to support only those pieces of legislation that were consistent with the statewide goals and core programs?

- ✓ Some Definitional Clarity Required. For example, on page 3, lines 17-20, the bill requires development of guidelines and procedures for state agencies to use in developing PBB including procedures for "activity-based costing or other managerial cost accounting systems." What is envisioned by the author?

  In addition, on lines 28-34, the bill specifies "a budgetary unit means the smallest significant operational unit within a state agency that has programmatic responsibilities…" – it is unclear what this means or how it fits into the PBB approach.

- ✓ Other Measures Dealing with PBB: (1) SB 8 (Huff) is a pilot program approach to implementing PBB, and (2) AB 1382 (Niello) which is an almost identical version to SB 777.

Support:
1. California Forward (sponsor)
2. San Jose Unified School District
3. Fresno Unified School District
4. North Bay Leadership Council
5. Cal-Tax
6. California Association of Nonprofits
7. Saving California Communities

Opposed:
None on file.

SENATE BILL No. 777

Introduced by Senator Wolk
(Principal coauthor: Assembly Member Niello)
(Coauthor: Senator Ashburn)
(Coauthor: Assembly Member Buchanan)

February 27, 2009

An act to amend Section 13320 of, and to add Section 13335.5 to, the Government Code, relating to the state budget.

LEGISLATIVE COUNSEL'S DIGEST

SB 777, as introduced, Wolk. State budget.

(1) The California Constitution requires the Governor to submit annually to the Legislature a budget itemizing state expenditures and estimating state revenues and requires the Legislature to pass the Budget Bill by midnight on June 15.

This bill would require that the budget submitted by the Governor to the Legislature for the 2011–12 fiscal year and each fiscal year thereafter be developed pursuant to performance-based budgeting methods, as defined, for each state agency.

(2) Under existing law, a state agency for which an appropriation is made is generally required to submit to the Department of Finance for approval a complete and detailed budget setting forth all proposed expenditures and estimated revenues for the ensuing fiscal year.

The bill would require the budget of the state agency submitted to the department to utilize a performance-based budgeting method, as defined. The bill also would establish a task force comprised of the Director of Finance, the Controller, and the Chairperson of the Joint Legislative Budget Committee to develop performance-based budgeting guidelines and procedures and to develop a training and education program for state agency personnel involved in the budget process.

Vote: majority. Appropriation: no. Fiscal committee: yes. State-mandated local program: no.

The people of the State of California do enact as follows:

SECTION 1. Section 13320 of the Government Code is amended to read:

13320. *(a)* Every ~~State~~ *state* agency and court for which an appropriation has been made~~,~~ shall submit to the department for approval~~,~~ a complete and detailed budget at ~~such~~ *the* time and in ~~such~~ *the* form ~~as may be~~ prescribed by the department, setting forth all proposed expenditures and estimated revenues for the ensuing fiscal year.

(b) The budget submitted to the department for approval shall utilize performance-based budgeting methods.

(c) A performance-based budget shall identify or update all of the following:

(1) The mission of the agency or judicial branch.

(2) The goals established to accomplish the mission.

(3) The activities developed to achieve state goals.

(4) A performance goal and an outcome-oriented performance measure for each activity for which an appropriation is made or requested.

(5) Legislatively approved output and performance standards to measure progress toward program objectives. Each performance measure must identify the associated activity contributing to it.

(6) Prior-year performance data on approved performance measures and an explanation of deviation from expected performance.

(7) Proposed performance incentives and disincentives.

(d) As used in this article, "performance-based budgeting method" means establishing clear accountability by achieving measurable performance results from the expenditure of state resources.

SEC. 2. Section 13335.5 is added to the Government Code, to read:

13335.5. (a) For the 2011–12 fiscal year, and each fiscal year thereafter, the budget that the Governor submits to the Legislature, as required by Section 12 of Article IV of the California

Constitution, shall be developed by utilizing performance-based budgeting methods.

(b) The amount of each appropriation made in the Budget Act for the 2011–12 fiscal year, and each fiscal year thereafter, for expenditure by any state agency shall be determined by each budgetary unit utilizing performance-based budgeting methods. The Budget Act introduced by the Governor also shall include performance standards, which shall be proposed by the Governor and may be amended by the Legislature in the same manner as amendments to appropriations in the Budget Bill. These standards shall be applied to each state agency, including a method for evaluating whether those standards are met in order to ascertain the effectiveness and efficiency of the state agency.

(c) A task force consisting of the Director of Finance, the Controller, and the Chairperson of the Joint Legislative Budget Committee shall do both of the following:

(1) Develop guidelines and procedures to be used by state agencies in developing performance-based budgets for the 2011–12 fiscal year and following fiscal years, including procedures for implementing activity-based costing or other managerial cost accounting systems in each state agency.

(2) Develop a training and education program for appropriate budget personnel to facilitate the development of performance-based budgeting methods by state agencies for the 2011–12 fiscal year and following fiscal years.

(e) For purposes of this article, the following terms have the following meanings:

(1) "Budgetary unit" means the smallest significant operational unit within a state agency that has programmatic responsibilities, including local assistance programs, and authority distinct from other units at the same level in the entity's organizational structure, and that does not have subdivisions or other units under it that have policy or administrative authority with respect to programmatic responsibilities.

(2) "State agency" means any agency, department, or other entity of the state, including a court, that is required to submit a budget pursuant to Article 2 (commencing with Section 13320).

O

SUBCOMMITTEE NO. 5 Agenda

Senator Denise Moreno Ducheny, Chair
Senator Robert Dutton
Senator Alex Padilla

Thursday, April 30, 2009
9:30 a.m. or Upon Adjournment of Session
Room 113

Consultant: Bryan Ehlers

Hearing Outcomes

Item Number and Title **Page**

Discussion Items

Appendix

0559 Labor & Workforce Development Agency

The Labor and Workforce Development Agency (LWDA) brings together the departments, boards, and commissions, which train, protect, and provide benefits to employees. The LWDA is primarily responsible for three different types of functions: labor law enforcement, workforce development, and benefit payment and adjudication. The LWDA includes the Department of Industrial Relations, the Employment Development Department, the Agricultural Labor Relations Board (which is heard in Subcommittee #2), and the Workforce Investment Board and is funded through reimbursements from those departments. The LWDA provides policy and enforcement coordination of California's labor and employment programs and policy and budget direction for the departments and boards.

The Governor's Budget proposes 17.0 positions (no new positions) and $4.7 million in expenditures (an increase of approximately $1.8 million). The LWDA is primarily funded through reimbursements from the various departments under its purview; however, the proposed 2009-10 budget contains approximately $2 million in expenditures from the Labor and Workforce Development Fund, which was established to fund efforts aimed at educating the employers and employees about their rights and responsibilities under labor law and which is supported by revenues from penalty assessments.

DISCUSSION ITEM:

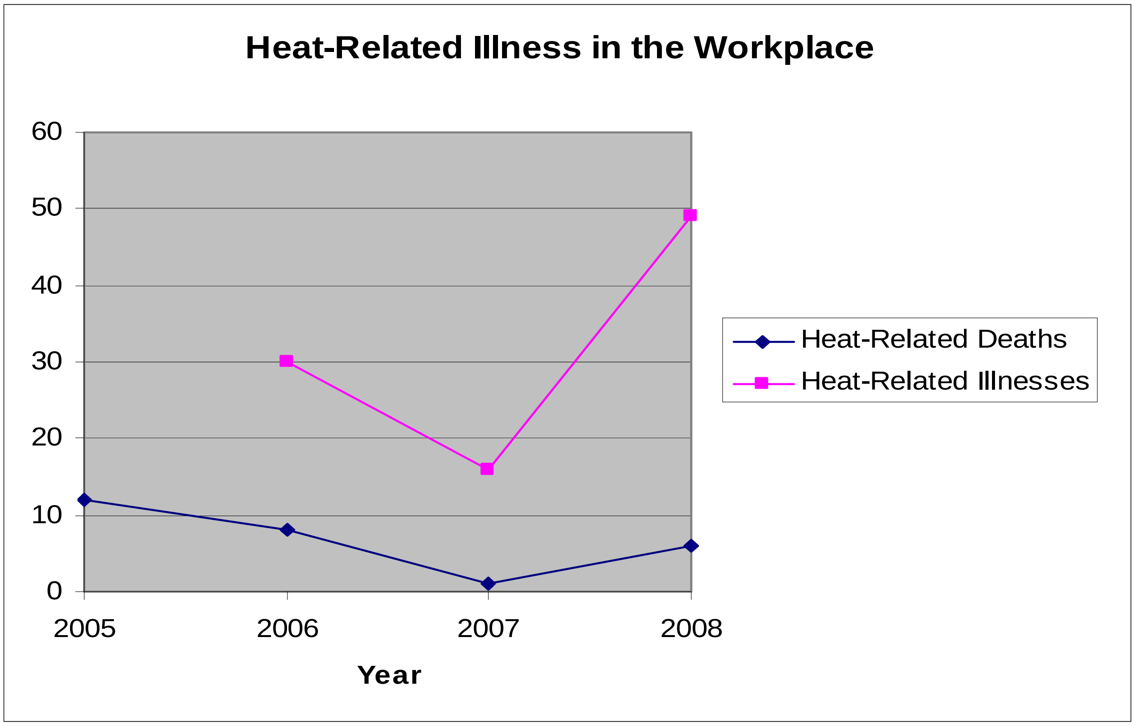
1. BCP-1: Heat Illness Prevention Campaign. The LWDA requested $1.5 million (Labor and Workforce Development Fund) in fiscal year 2009-10 (and $1.4 million in 2010-11) to develop and implement a two-year media campaign designed to help prevent heat illness in the workplace.

2009-10 Enacted Budget. Contains the $1.5 million requested by the Governor.

Background. Following eight reported heat-related deaths in July 2005, the California Division of Occupational Safety and Health (Cal/OSHA) promulgated emergency regulations, which became permanent July 27, 2006, requiring employers to train all supervisors and employees about how to prevent heat illness and to provide access to shade for at least five minutes of rest when an employee believes he or she needs a preventative recovery period (before the employee feels sick). Additionally, the regulations refocused attention on existing law requiring that water be made available to every outdoor worker at all times.

Staff Comments. The LWDA notes that heat-related deaths in the workplace have fallen since adoption of new regulations; however, as depicted in Figure 1 (below), the trend line has not been entirely consistent year-over-year.

Figure 1



* Prior to the existence of the emergency standard which took effect on August 22, 2005, heat-related illness data was not collected in a standardized format.

In order to further reduce the occurrence of heat-related incidents in the workplace, the LWDA proposes to spend approximately $2.9 million over two years from the Labor and Workforce Development Fund (Fund) for an educational media campaign. Staff notes that the Governor's Budget projected a current year reserve of $2.7 million based on modest current year and out-year revenue projections of $750,000 annually. Given signficantly higher revenues in the current year to-date—$3.9 million—the fund is more than able to support the proposed expenditures.

The LWDA provided the rough expenditure plan in Figure 2 (see the following page) as part of the Governor's Budget. The plan envisioned a target audience of largely Spanish-speaking adults age 18-54 engaged in agriculture, construction, landscaping, oil production, and outdoor manufacturing across four state regions (inland, desert, Central Valley, and coastal agricultural).

Staff notes that in the intervening months since the building of the Governor's Budget, the LWDA has put together a Request for Proposal (RFP) to identify the target and secondary target audience, respectively as follows: (1) working adults 18 and older, primarily Spanish-speaking, primarily immigrants, annual household income of less than $50,000 with low-paying jobs at outdoor worksites; and (2) employers and front-line supervisors of outdoor workers. The RFP additionally requests a vendor to:

> *Develop and implement a comprehensive multi-media marketing campaign designed to best reach target audience; evaluate and track benchmarks for heat illness campaign; provide creative expertise and guidance for all aspects of marketing campaigns; negotiate all media placement; plan creative design for all*

media, provide budgets and timelines for campaigns, along with qualitative and quantitative data; manage creative development, production, media placement, and staff, including subcontractors and vendors.

Figure 2

Expenditure	Line Item	Purpose
$170,000 (one-time)	Creative	Strategy; and design production of TV, radio, and collateral materials
$650,000	TV Airtime (English & Spanish)	Ads running in four regions throughout the summer at prime time and in the early morning (and more frequently during heat waves)
$170,000	Radio Airtime (English & Spanish)	Ads running in four regions throughout the summer during commute hours (and more frequently during heat waves)
$100,000	Spanish Language	Ads running specifically on Spanish television during prime time novellas and radio during commute hours
$240,000	Bus Production & Installation	English and Spanish cards inside buses (and possibly some exterior displays) on highly traveled routes throughout the summer in four regions of the state
$200,000	Outdoor Production & Placement	Signs and billboards placed along highly traveled commuter routes throughout the summer in four regions of the state

Committee Questions. Based on the above expenditure plan, the Committee may wish the Administration to respond to the following questions.

- What recent steps have LWDA and Cal/OSHA (Department of Industrial Relations) taken to ensure adequate enforcement of labor code laws? For example, as of May 2008, there was a nine percent vacancy rate among Cal/OSHA inspectors. Has this number improved, and what, if anything, is the department doing to address the issue?
- Has the LWDA conducted a media campaign like this in the past? What was the basis for the above level and allocation of resources? For example, the LWDA indicates that the cost estimate for this proposal was based in-part on the "Spare the Air" campaign. Did the LWDA consult that campaign or others in order to determine what practices were most effective in educating the public?
- How does the LWDA plan to measure the effectiveness of the proposed campaign in order to better inform future state expenditures of this nature?

Staff Recommendation: NO ACTION necessary.

No Action. However, the Committee asked the LWDA to return with a revised proposal that incorporated more direct outreach/training utilizing existing program structures and relied less on "shatter-shot" media campaigns.

7100 Employment Development Department

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

The Governor's Budget proposes 9,793.6 positions (754.7 new positions, including approximately 600 for state operation of the Unemployment Insurance program) and $14.5 billion in expenditures (a decrease of approximately $1.7 billion, primarily in the Unemployment Fund, reflecting the fluctuation in unemployment benefits expected to be paid out in the budget year relative to the current year).

VOTE-ONLY ITEMS:

1. FL: Deferment of Interest on Federal Unemployment Trust Account (FUTA) Loans. The Governor requests a reduction of $20.2 million in EDD Contingent Fund expenditure authority in recognition of the fact that the recent federal stimulus package provides for deferment of interest payments and interest accrual (until December 31, 2010) on FUTA loans provided to states with insolvent unemployment funds. The enacted 2009-10 budget anticipated the need to make $20.2 million in federal interest payments, but these monies, if unexpended at year's end, will now be available for transfer to the GF.

2. FL-1: Disability Insurance Automation (DIA) Project Budget Bill Language (BBL). The Governor requests BBL in order to allow a mid-year adjustment to DIA expenditure authority after evaluation and selection of the System Integrator vendor is concluded and project costs are updated. The selection process and a post-vendor-procurement Special Project Report will not be completed within the timeframe of the budget process. The language proposed for addition to Item 7100-001-0588 is as follows:

Provisions:

X. (a) Of the funds appropriated in this item, $11,261,000 is to support the development of the Disability Insurance Automation (DIA) Project. These funds may not be used for items outside the approved project scope. Changes in the project scope must receive approval using the established administrative and legislative reporting requirements.

(b) The Director of Finance is authorized to increase or decrease this item to fund DIA implementation workload upon receipt of a new post-vendor procurement special project report. Notwithstanding any other provision of law, any adjustment under this provision shall be authorized not sooner than 30 days after notification in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.

(c) The Department of Finance shall report to the Legislature the number of positions to be administratively established for the Employment Development Department.

Staff Recommendation: APPROVE Vote-Only Items #1 and #2.

VOTE:

Action: Approved as budgeted on a 3–0 vote.

DISCUSSION ITEMS:

1. Informational Issue: Unemployment Insurance Automation. Hundreds of thousands of unemployed workers rely upon the EDD Unemployment Insurance (UI) Program each week to timely process their unemployment claims and benefits. In addition to efforts currently underway to improve current service levels—by upgrading the information technology (IT) supporting UI call centers and redesigning the claims processing system—the EDD is also preparing to convert the aging database that currently serves both the UI and Disability Insurance (DI) programs. Among other things, this will enable the EDD to implement the recently adopted Alternative Base Period (ABP) for calculation of UI benefit eligibility (Chapter 23, Statutes of 2009; ABX3 29, Coto and Garrick).

The American Recovery and Reinvestment Act of 2009 (ARRA) made UI administrative grants available to states for various purposes such as implementing federal options (like ABP), and California is set to receive its share of these funds (approximately $60 million). The EDD indicates it will soon submit a plan to use those funds, including approximately $20 million to fund the database conversion and another $4 million or more for implementation of the ABP.

Staff Comments. Various UI automation projects are discussed in more detail below; however, a brief background on the UI program precedes for the sake of context.

<u>UI Background</u>

The UI program is a federal-state program authorized in federal law but with broad discretion for states to set benefit and employer contribution levels. The program is financed by unemployment tax contributions paid by employers for each covered worker, and provides weekly unemployment insurance payments to eligible workers who lose their jobs through no fault of their own. To be eligible for benefits, a claimant must be able to work, be seeking work, and be willing to accept a suitable job.

Each year, the UI program collects billions of dollars in payroll taxes and cuts billions of dollars in benefit checks for hundreds of thousands of unemployed Californians. This year, record numbers have accessed the system due to the poor economy. As depicted in Figure 1 (below), the statewide unemployment rate recently surpassed 11 percent, and, in the month of January 2009 alone, an all-time record 525,000 initial claims and extensions were filed.

Figure 1

California Unemployment Quick Facts **(from edd.ca.gov – as of March 2009)**		
	Workforce Population	**Percent of Workforce**
CA Civilian Labor Force	18.6 million	100%

Unemployed	2.1 million	11.2%
Unemployed and Eligible for UI Benefits	~1 million	5.1%

UI Automation Efforts

The historic highs in workload discussed above have taxed California's UI system, which has been undergoing incremental improvement (see "UIMOD" discussion below) but still relies heavily on outdated technology such as a legacy database system programmed in COBOL, a dying language first developed in 1959. As was heavily publicized this winter, EDD call centers were completely swamped by call traffic during peak periods in late 2008 and early 2009, with desperate, unemployed Californians dialing and re-dialing for hours in attempts to access service. These problems were not helped, and in some cases were exacerbated, by the limitations of the existing IT. For example, the current call center network is not flexible enough to allow a caller to one of six centers to be transferred to an adjudication center. Rather, the caller must hang up and begin dialing again from the back of a new queue. Other limitations stem from the difficulty of making any system upgrades involving newer technologies "work" with the existing COBOL system—to say nothing of the challenge of finding programmers still fluent in the dying language. As case in point, when the federal government recently approved a $25 per-week benefit augmentation, the EDD was short of COBOL programmers to implement the necessary system changes. In order to make the additional funds immediately available, the EDD utilized a set of program changes that had not been fully tested, with the result being that the system was incapable of re-writing any lost checks.

Currently, the EDD is engaged, or about to embark on, the following UI IT projects:

1) ***UIMOD*** – The UI Modernization Project (UIMOD) was first initiated using federal Reed Act funds received in March 2002 for the support of UI automation projects, and encapsulates two sub-projects that are entirely federally funded and are both managed by the Office of Systems Integration (OSI) within the Health and Human Services Agency:

    - ***Call Center Network Platform and Applications Upgrade (CCNPAU)***. The CCNPAU will allow adjudication centers to handle incoming UI calls, improve customer access to call center agents, and assist the EDD in meeting federal and state service-level objectives and performance measures. The system will additionally provide the EDD with information to better detect identity fraud, and with detailed information for trend analysis to improve call handling, system efficiency, and agent productivity. The CCNPAU is currently scheduled for deployment in August 2010, with system acceptance set for February 2011.
    - ***Continued Claims Redesign (CCR)***. The CCR will provide alternate ways for clients to certify for benefits using the telephone and the internet. The project will also redesign the UI payment programs, allowing the agents to interact with claimants during the certification process and collect additional information needed to verify a claimant's identity. A new database will allow the collection of information not currently available for client screening, profiling, and detecting potential fraud. The CCR is currently scheduled to award a contract in November 2009, with final system acceptance set for April 2013.

Staff notes that, based on original timelines, both of the components of UIMOD discussed above would have been completed already (CCNPAU by late 2006; and CCR by mid-2008); however, both projects have been beset at various times by delays. Most notably, the projects were merged mid-stream into a single project, requiring a 13 month-delay. After a Request for Proposal (RFP) was completed on the unified project, the EDD and Department of General Services requested 14 amendments to the RFP, including the decision to split the project in two again (in May 2007), and this led to a 14-month delay. All told, UIMOD has now been delayed 4.5 years. The Committee may wish to inquire as to the current status of UIMOD and ask the EDD to briefly comment on lessons learned.

2) ***Single Client Database Conversion*** – The EDD is in the process of converting its Single Client Database, which was implemented in 1986 (based on 1970s technology) and supports both the UI and Disability Insurance (DI) programs. According to EDD staff, this database causes “90 percent” of the problems currently encountered by the department in updating its IT UI and DI systems. The conversion, which is poised to begin after a successful pilot conversion this past winter, is expected to take approximately 1 1/2 years and will provide the UI and DI programs with a “relational” database that will pave the way for other legacy updates as the EDD continues to phase-out its COBOL systems. The EDD anticipates using approximately $20 million of the $60 million available through ARRA to execute the conversion—details to follow in the May Revise.

   Staff notes that this database conversion is necessary before the EDD can adopt the system changes necessary to implement the ABP (discussed in more detail below). According to EDD staff, the primary challenge in terms of workload (and therefore time) is in converting the massive amount of existing data—most of which must occur before the project can “go live.” Given that the existing database is a major roadblock to implementing additional improvements to the UI program, staff has explored with the EDD the possibility of further expediting the completion of the conversion; however, EDD staff indicate that, regardless of the availability of additional resources (i.e., federal ARRA funds), the speed with which database conversion can be carried out is constrained by certain limitations of the existing system. For example, the current mainframe environment where the Single Client Database resides is shared by 35 other departments, and can only support a limited number of EDD users at any given time and only for a portion of the day (i.e., not 24/7). In order to work to the maximum of the systems capabilities and complete the conversion as timely as possible, the EDD indicates it plans to hire additional outside help to augment its COBOL staff and supplement its data conversion expertise.

3) ***Alternative Base Period Modifications*** – As noted earlier, the EDD indicates a plan will be forthcoming in the May Revise to use approximately $4 million to implement the system changes necessary to process UI claims based on the newly adopted ABP (per ABX3 29). The EDD estimates this implementation would require approximately six months upon successful conversion of the Single Client Database, assuming other factors such as additional federal UI extensions do not require additional time and resources.

While the Legislature awaits a more detailed plan on the database conversion and ABP modifications, staff notes that the Administration has not yet provided an expenditure plan for the remaining ~$36 million in ARRA UI administration grants. One option under discussion is to implement a system for electronic benefit payments (e.g., direct deposit). Whatever the proposed plan, the Committee will want to carefully weigh the benefits versus the cost (particularly since the federal funds are one-time only). For example, between 30,000 and 60,000 additional workers, particularly those in seasonal jobs, are expected to qualify annually for UI benefits (totaling approximately $70 million) under the ABP. This population is relatively small in relation to those eligible under the existing standard base period, but provides a useful basis for comparison in thinking about the marginal benefit of other proposed expenditures.

<u>Governor Declares State of Emergency</u>

In a proclamation made April 17, 2009 (see full text in Appendix A), the Governor declared a state of emergency and waived existing statutes and regulations, including advertising and competitive bidding requirements, in order to allow the EDD and the California Unemployment Insurance Appeals Board (CUIAB) to expeditiously contract for additional space, personnel, equipment, or services in order to "immediately and effectively increase [their] ability to assist the people making unemployment claims, contacting EDD, or appealing their claims."

Further, the Proclamation stated:

> *State agencies including but not limited to the State Office of the Chief Information Officer (OCIO), the Department of General Services, the Department of Personnel Administration, and the Department of Finance shall expedite project, contracting, budget, and personnel action review and approval processes so as to expedite the hiring of EDD and CUIAB staff and the implementation of EDD and CUIAB information technology projects designed to expand and enhance unemployment insurance services, and personnel to support these efforts.*

The Committee may wish to ask the department how it intends to utilize this authority, particularly as it applies to expediting the projects identified above.

Committee Questions. Based on the comments above, the Committee may wish to ask the following questions:

- What is the current status of the UI call centers? For example, where is the EDD in the process of hiring additional staff, and what other steps are being taken to improve service levels?
- The recent federal UI benefit augmentation ($25/week) and UI benefits extension created great challenges to the UI program. In terms of IT, has the EDD fully addressed these issues? What continuing or additional challenges does the department anticipate relative to the existing system, planned upgrades, changes in law, and/or the rising unemployment rate?
- In the case of each UI automation project identified in the agenda, what will be the impact to service?

- Given the extensive delays experienced by the UIMOD project, what lessons has the EDD learned that might prove beneficial on forthcoming UI automation projects?
- If the EDD plans to submit a May Revise proposal to use approximately $24 million in UI automation funds on the database conversion and ABP implementation, what options are under discussion for the use of the remaining $36 million? Could they be used to help further expedite the database conversion?
- How, and to what end, does the Administration plan to use the expedited contracting process authorized under the Governor's recent proclamation?

Staff Recommendation: NO ACTION necessary. The Subcommittee should await additional detail on the EDD's plans in the May Revise.

No Action.

2. Workforce Investment Act (WIA): 15-Percent Discretionary Funds. The WIA Program is a state-operated federal program which offers a comprehensive range of workforce development activities through statewide and local organizations. Available workforce development activities provided via One-Stop Career Centers in local communities benefit job seekers and employers, laid-off workers, youth, incumbent workers, new entrants to the workforce, veterans, and persons with disabilities. These activities range from self-assisted access to employment-related information to job skills training programs. The purpose of these activities is to promote an increase in the employment, job retention, earnings, and occupational skills of participants.

WIA dollars are divided into multiple pots of funding. The Adult and Youth funds are split 85 percent to the local boards and 15-percent for discretionary funds allocation by the Governor and Legislature. The Dislocated Worker funds are divided 60 percent to the local boards, 25 percent to "rapid response," and 15-percent for discretionary allocation by the Governor and Legislature.

2009-10 Enacted Budget. Contains the Governor's proposed allocation of the $64 million in WIA 15-percent discretionary funds initially made available for state fiscal year 2009-10. Does not contain any of the roughly $74 million in additional 15-percent funds made available in the ARRA.

Staff Comments. While the Legislature typically provides input into the allocation of WIA discretionary funds, the 2009-10 enacted budget adopted all of the Governor's 15-percent priorities without discussion. Although the Administration indicates that the May Revise will contain the final installment of the Governor's plan (including additional ARRA funds), the Committee may wish to go ahead and initiate a conversation about funding priorities by having the EDD explain the rationale behind the Governor's January 10 allocation.

A comparison of 2008-09 and 2009-10 WIA 15-percent discretionary allocations is contained in Appendix B. Staff notes that the middle column reflects Administration adjustments made mid-year as authorized in budget bill language. As highlighted in the shaded cells, the primary differences between the priorities of the 2008 Budget Act and those reflected in the Governor's subsequent adjustments are in the following categories, where reductions (-) or augmentations (+) of at least $1 million have been made:

- Sector/Initiatives/Economic Stimulus (+)
- At Risk/Youthful Offender Gang Prevention (-)
- Health Care – Nurse Education Initiative (+)
- Critical Shortage Industries: Nurses/Healthcare/Infrastructure/Logistics (+)
- Parolee Services (California Department of Corrections and Parolee Services) (-)
- Governor's Award for Veterans' Grants (+)

Committee Questions. Based on the above (and the table contained in Appendix B), the Committee may wish to ask the following questions:

- In the categories receiving significant augmentations in the current year (noted above), how have additional funds been used and to what benefit? For example, have any of the efforts produced measurable benefits to employment or GF revenues?
- Why has the "At Risk/Youthful Offender Gang Prevention" line item been reduced so significantly?

Staff Recommendation: NO ACTION necessary. The Subcommittee should await additional detail on the Governor's WIA expenditure plan in the May Revise.

No Action.

7350 Department of Industrial Relations

The objective of the Department of Industrial Relations (DIR) is to protect the workforce in California; improve working conditions; and advance opportunities for profitable employment. The DIR enforces workers' compensation insurance laws and adjudicates workers' compensation insurance claims; works to prevent industrial injuries and deaths; promulgates and enforces laws relating to wages, hours, and conditions of employment; promotes apprenticeship and other on-the-job training; assists in negotiations with parties in dispute when a work stoppage is threatened; and analyzes and disseminates statistics which measure the condition of labor in the state.

The Governor's Budget proposes 2,844.3 positions (including 26 new positions) and $388.9 million in expenditures (a decrease of $4.2 million). Approximately half of the DIR expenditures are from the Workers' Compensation Administration Revolving Fund, which is reduced slightly in the budget year relative to fiscal year 2008-09. Additionally, the DIR budget contains approximately $66.9 million GF, which is about $3 million less than in the current fiscal year.

VOTE-ONLY ITEM:

Trailer Bill Language: Mediation Services Reimbursement Authority. The Governor requests trailer bill language to authorize the DIR to seek and collect reimbursement from private and public sector employers, labor unions, and employee organizations for election, arbitration, and training and facilitation services provided by the department through its State Mediation and Conciliation Service (SMCS).

Staff Comment: This request would provide the statutory authority for the DIR to utilize the two limited-term positions and $275,000 in reimbursement authority approved for the SMCS in the 2009-10 budget enacted in February. The positions are intended to help back-fill for the Governor's 10-percent reduction of the program in current fiscal year.

Staff Recommendation: APPROVE the trailer bill language.

VOTE:

Action: Approved as budgeted on a 3–0 vote.

DISCUSSION ITEM:

FL-1: Public Works Labor Compliance Program. The Governor requests 10 positions and $1.3 million (State Public Works Enforcement Fund) to support start-up activities, including promulgation of regulations and the development of a program structure, for enforcement of prevailing wage laws on public works projects under the Public Works Labor Compliance Program authorized by Chapter 7, Statutes of 2009 (SBX2 9, Padilla). The State Public Works Enforcement Fund was created to support SBX2 9 activities and will derive its revenue entirely from fees assessed on public works projects; however, the Governor proposes to "seed" start-up activities with a GF loan of $1.3 million in both fiscal year 2009-10 and 2010-11 (until fee revenue begins to flow). The loan would be repaid no later than June 30, 2012.

Background. For more than sixty years, the California Labor Code has required that workers employed by contractors or subcontractors in the execution of public works contracts must be paid the state-determined prevailing wage.

The Division of Labor Standards Enforcement (DLSE), within the DIR, is the government agency primarily responsible for the enforcement of prevailing wage requirements on California public works projects. Beginning in 1989, the Legislature provided a statutory mechanism permitting political subdivisions of the state which award public contracts (awarding bodies) to initiate and enforce their own labor compliance programs (LCPs) in conjunction with the DIR and the DLSE. Awarding bodies on specified programs and public works projects were authorized to initiate and enforce a LCP, or to contract with a third party to do so.

Based on recommendations from the LAO citing the ineffectiveness of LCPs, with enactment of SBX2 9, the state began to move away from the LCP model and to move toward more direct oversight and enforcement of prevailing wage requirements on public works projects by the DIR.

Staff Comments. As noted above, this proposal would fund initial Public Works Labor Compliance Program start-up costs to: (1) develop the program structure; (2) perform a workload analysis on which to base future staffing levels; (3) conduct "test" audits in order to develop a fee schedule; and (4) write regulations. The Administration anticipates these activities would require the bulk of the 2009-10 fiscal year and that additional resources for the implementation and ongoing needs of the program would be requested through the 2010-11 budget process.

The primary question before the Committee with regard to this proposal is whether or not state coffers can support even the relatively small ($1.3 million) loan necessary to jump-start the program. While it might be tempting to ask whether an alternative fund source can be found to provide the loan (e.g., the Labor and Workforce Development Fund discussed in LWDA item #1), staff notes that recent legislation has made balances in nearly every available fund "borrowable" by the GF, and so, for cash flow purposes, whether the loan is taken from the GF or a special fund is moot. Either way, when the state reaches the cash flow-negative months of summer (when expenditures are high and revenues low), every dime will be needed to "pay the bills," and any funds loaned to this new program will be unavailable to meet other state obligations.

Staff Recommendation: HOLD OPEN pending additional information in the May Revise on the fiscal condition of the state.

Held Open.

Appendix A

Office of the Governor

ARNOLD SCHWARZENEGGER
THE PEOPLE'S GOVERNOR

PROCLAMATION

04/17/2009

State of Emergency - Unemployment Proclamation

PROCLAMATION
by the
Governor of the State of California

WHEREAS the people of California, like people throughout the nation and the world, continue to suffer from the current severe economic downturn; and

WHEREAS Californians have been hit hard by the mortgage and foreclosure crisis and the downturn in the housing market; and

WHEREAS in my prior Emergency Proclamation issued on February 27, 2009 in response to the drought, I noted that agricultural revenue losses exceed $300 million to date and could exceed $2 billion in the coming season, with a total economic loss of nearly $3 billion in 2009; and

WHEREAS many businesses are shutting their doors in this difficult economy, and other employers are laying off workers, eliminating jobs or reducing employee hours and income in an effort to stay in business; and

WHEREAS the income and job losses have adversely impacted entire communities and diverse sectors of the economy supported by those jobs and income; and

WHEREAS these conditions are causing a loss of livelihood for hundreds of thousands of people, an inability to provide for families, and increased harm to the communities that depend on them; and

WHEREAS this loss of income and jobs continues to lead to defaults, foreclosures, bankruptcies, loss of businesses and loss of property; and

WHEREAS when jobs, property and businesses are lost, some families will move away from their communities, causing further harm to local economies, lower enrollments in local schools and reduced funding for schools; and

WHEREAS the economic downturn has provided graphic examples of how people are struggling, including the growth of homeless tent cities around the country; and

WHEREAS on April 17, 2009, the State Employment Development Department (EDD) reported that the unemployment rate in California increased to 11.2 percent in March, that nonfarm payroll jobs declined by 62,100, that the year-over-change (from March 2008 to March 2009) showed a decrease of 637,400 jobs, and that the number of people unemployed in California was 2,080,000, up over 119,000 for the month, and up by 913,000 compared with March of 2008; and

WHEREAS in that same report, EDD indicated that there were 79,979 new claims for unemployment insurance in March 2009, compared with 76,303 in February 2009, and 48,282 in February 2008; and

WHEREAS EDD and the California Unemployment Insurance Appeals Board (CUIAB) have made significant efforts to expand its operations in response to the exponential increase in demand for their services, but more resources are needed to effectively serve the needs of Californians struggling in this economic downturn; and the services are of such an urgent nature that the delay incumbent in their implementation under state civil service and contracting rules would frustrate the very purpose of unemployment compensation under state law, and the federal stimulus payments under federal law; and

WHEREAS the circumstances of the economic downturn, and the circumstances of the resulting unemployment in California, by reason of their magnitude, are beyond the control of the services, personnel, equipment and facilities of any single county, city and county, or city and require the combined forces of a mutual aid region or regions to combat; and

WHEREAS under the provisions of section 8558(b) of the California Government Code, I find that conditions of extreme peril to the safety of persons and property exist in California caused by the current and continuing economic downturn and resulting unemployment in California.

NOW, THEREFORE, I, ARNOLD SCHWARZENEGGER, Governor of the State of California, in accordance with the authority vested in me by the California Constitution and the California Emergency Services Act, and in particular California Government Code sections 8625 and 8571, **HEREBY PROCLAIM A STATE OF EMERGENCY** to exist in California.

IT IS HEREBY ORDERED that all agencies of the state government utilize and employ state personnel, equipment and facilities for the performance of any and all activities consistent with the direction of the California Emergency Management Agency (CalEMA) and the State Emergency Plan.

I FURTHER DIRECT THAT:

1. EDD and the CUIAB shall, as deemed appropriate by the Labor and

Workforce Development Agency, contract for facility space, the services of qualified personnel, and/or for the supplies, materials, equipment, and other services needed to immediately and effectively increase EDD's and CUIAB's ability to assist the people making unemployment claims, contacting EDD, or appealing their claims. Because strict compliance with the provisions of the Government Code, the Unemployment Insurance Code, and the Public Contract Code applicable to the state hiring process and state contracts would prevent, hinder, or delay the mitigation of this emergency, applicable provisions of these statutes, including, but not limited to, advertising and competitive bidding requirements, are suspended to the extent necessary to enable EDD and CUIAB to enter into such contracts as expeditiously as possible. This suspension is limited to the scope and duration of this emergency.

2. State agencies and departments within my administration shall provide assistance and resources to EDD and CUIAB, as needed, including the use of state personnel, facilities, equipment, resources and state contractors to respond to this emergency.

3. State agencies including but not limited to the State Office of the Chief Information Officer (OCIO), the Department of General Services, the Department of Personnel Administration, and the Department of Finance shall expedite project, contracting, budget, and personnel action review and approval processes so as to expedite the hiring of EDD and CUIAB staff and the implementation of EDD and CUIAB information technology projects designed to expand and enhance unemployment insurance services, and personnel to support these efforts.

4. To the extent allowed by applicable law, state agencies within my administration shall prioritize and streamline permitting and regulatory compliance actions to provide for relief from the economic downturn and unemployment in California.

I FURTHER DIRECT that as soon as hereafter possible, this proclamation be filed in the Office of the Secretary of State and that widespread publicity and notice be given of this proclamation.

IN WITNESS WHEREOF I have hereunto set my hand and caused the Great Seal of the State of California to be affixed this 17th day of April, 2009.

ARNOLD SCHWARZENEGGER
Governor of California

ATTEST:
DEBRA BOWEN
Secretary of State

Appendix B – Comparison of 2008-09 and 2009-10 WIA 15 Percent Allocations

Projected WIA Revenue	2008-09 Budget Act	Revised SFY 2008-09	Proposed SFY 2009-10
State Allocation for WIA (Title I)	$426.7	$426.7	$426.7 [1]
Less: Formula Allocations to Local Areas and Rapi	($362.7)	($362.7)	($362.7)
Discretionary WIA 15% Funds	$64.0	$64.0	$64.0
WIA 15 Percent Carryforward Funds		$5.7	
Total Estimated Available WIA 15 Percent Fund	**$64.0**	**$69.7**	**$64.0**
61.35 WIA Administration and Program Services			
Employment Development Department	$1.4	$1.4	$1.4
California Unemployment Insurance Appeals Board	$0.1	$0.1	$0.1
California Workforce Investment Board (CalWIB) Adm	$0.3	$0.3	$0.3
Audit, Compliance and Fraud Prevention	$5.4	$5.4	$5.4
Labor Market Information Program	$2.3	$2.3	$2.3
Local Program Oversight and Technical Assistance	$8.2	$8.7	$8.7
Financial Management and Information Technology	$2.4	$3.0	$2.4
Policy Development and Partner/Program Coordinatio	$2.7	$2.2	$2.2
Clusters of Opportunity (CalWIB)	$0.5	$0.5	$0.5
Total WIA Administration and Program Service	**$23.3**	**$23.9**	**$23.3**
61.40 Growth Industries - High Wage/High Skill Job Training			
Community Colleges WIA Coordination/Program Inte	$0.6	$0.6	$0.6
Sector Initiatives/Economic Stimulus	$2.6	$5.5	$5.0
Incentive Grants	$0.2	$0.2	$0.2
At Risk/Youthful Offender Gang Prevention	$3.0	$0.5	$0.5
Green Technology/Green Collar Jobs	$1.0	$1.0	$1.0
Total Growth Industries	**$7.4**	**$7.8**	**$7.3**
61.50 Industries with a Statewide Need - Expansion of Workforce			
Health Care - Nurse Education Initiative	$6.2	$6.7	$7.4
Sector Initiatives/Economic Stimulus	$0.9	$3.2	$3.3
At Risk/Youthful Offender Gang Prevention	$3.0	$0.5	$1.9
Critical Shortage Industries: Nurses/Healthcare/Infras	$3.1	$6.5	$7.9
Total Industries with a Statewide Need	**$13.2**	**$16.9**	**$20.5**
61.60 Removing Barriers for Special Needs Populations			
Offenders			
CDCR Parolee Services	$8.5	$8.5	$1.3
EDD Parolee Services	$1.0	$1.0	$1.0
Incentive Grants	$0.5	$0.5	$0.5
Services to Long-Term Unemployed	$0.1	$0.1	$0.1
Veterans			
Governor's Award for Veterans' Grants	$3.0	$4.5	$4.5
Veterans/Disabled Veterans' Employment Services	$0.7	$0.7	$0.7
Engineer Training for Veterans		$0.0	
Youth and Young Adults			
Department of Education WIA Coordination/Progran	$0.4	$0.3	$0.4
Youth Grants	$0.5	$0.5	$0.5
At Risk/Youthful Offender Gang Prevention	$4.0	$4.0	$2.6
Green Technology/Green Collar Jobs	$1.0	$0.7	$1.0
Low Wage Earners, Special Needs Populations, o	$0.4	$0.3	$0.3
Total Removing Barriers for Special Needs Pop	**$20.1**	**$21.1**	**$12.9**

[1] The SFY 2009-10 state allocation is an estimation based on the SFY 2008-09 WIA allocation

Senate Budget and Fiscal Review—Denise Moreno Ducheny, Chair

SUBCOMMITTEE NO. 5 Agenda

Denise Moreno Ducheny, Chair
Robert Dutton
Alex Padilla

Thursday, May 7, 2009
9:30 a.m.
Room 113

Consultant: Brian Annis

Cashflow and Revenue Collection

Note on the 2009-10 Budget Process: On February 19, the Legislature approved the 2009 Budget Act (SB 1XXX). However, certain items were withheld from the budget, without prejudice, pending a more thorough discussion in the budget subcommittees. Items withheld generally met one or more of the following criteria: (1) were rejected in a prior budget year; (2) have substantial policy implications – for example, information technology of the state's bond capacity; or (3) represent a new program or expansion. Additionally, there are numerous pieces of trailer bill language proposed by the Administration that were not adopted and that require further consideration. The issues in this agenda are these aforementioned issues, April Finance Letters, and other issues of interest to the Subcommittee.

9620 Payment of Interest on General Fund Loans

This budget item appropriates funds to pay interest costs on anticipated General Fund borrowing used to overcome cash flow imbalances during the fiscal year. Because receipts and disbursements occur unevenly throughout the fiscal year, the General Fund borrows in most years, even though each budget is balanced when enacted and funds are repaid within the fiscal year. Interest is paid on both internal borrowing (such as cashflow loans from special funds) and for external borrowing (such as Revenue Anticipation Notes (RANs)). The 2009 Budget Act (SB 1XXX) includes $100 million for interest costs on internal borrowing and $350 million for interest costs on external borrowing. Funding related to internal borrowing is included in the annual budget bill, but funding for external borrowing costs is continuously appropriated in order to reduce risk for borrowers and lower interest costs.

1. **Additional Interest Costs (April Finance Letter):** After the passage of the 2009 Budget Act (SB 1XXX), the Department of Finance recalculated cashflow borrowing and now believes additional borrowing will be required, especially in the first few months of 2009-10. The external cashflow borrowing need for 2009-10 is currently estimated at about $13 billion, which would exceed any past year's borrowing. This higher level of borrowing will result in increased internal borrowing costs of $50 million (to a new total of $150 million) and higher external borrowing costs of $250 million (to a new total of $600 million). Legislative action is requested only for the internal borrowing because it is a budget bill appropriation. The higher external borrowing costs can be administratively addressed due to the continuous appropriation.

   Amendments to Budget Bill Language: In additional to the augmentation, the administration requests the following revisions to budget bill language (changes are underlined). The amendments would essentially allow funds in the budget item to be used for late payment penalties and Registered Warrant (or "IOU") costs. This would help the State fund costs that would be incurred if the Controller has to again delay payments, and possibly take the additional step of issuing Registered Warrants.

   > **Amendments to 9620-001-0001, Provision 3:**
   > In the event that Revenue Anticipation Warrants *(RAWs) or Registered Warrants (IOUs)* are issued, or considered to be issued, there is hereby appropriated any amount necessary, in excess of the amount appropriated by this item, to pay the expenses incurred by the Controller, Treasurer, Attorney General, and the Department of Finance in providing for the preparation, sale, issuance, advertising, legal services, credit enhancement, liquidity facility, or any other act which, as approved by the Department of Finance, is necessary for such issuance. Funds appropriated by this item shall not be expended prior to 30 days after the Department of Finance notifies the Joint Legislative Budget Committee of the amounts necessary or not sooner than such lesser time as the Chairperson of the Joint Legislative Budget Committee may determine.

Addition to 9620-001-0001, new Provision 5

In the event that the Controller must implement a payment delay plan to manage emergency cash needs with the concurrence of Department of Finance, there is hereby appropriated any amount necessary, in excess of the amount appropriated by this item, to pay the interest expenses, late payment penalties, and other costs incurred by the Controller which, as approved by the Department of Finance, are necessary to implement the payment delay plan. Amounts appropriated pursuant to this provision shall be transferred, upon approval of the Department of Finance, to augment Item 0840-001-0001 of this act. Funds appropriated by this item shall not be transferred or expended prior to 30 days after the Department of Finance notifies the Joint Legislative Budget Committee of the amounts necessary or not sooner than such lesser time as the Chairperson of the Joint Legislative Budget Committee may determine.

Outlook for Cashflow: New estimates for cashflow may be necessary after the May election and May Revision estimates of revenue. The discussion here is based on the outlook at the time the 2009 Budget Act passed in February. Another possible change would be assistance from the federal government in the form of loan guarantees, or other cashflow support to states. Staff understands a representative from the Treasurer's Office will be available at the hearing to discuss how possible federal assistance could benefit the State.

Staff Comment: The Administration should update the Subcommittee on the cashflow outlook, indicating the anticipated RAN or Revenue Anticipation Warrant (RAW) borrowing need.

Staff Recommendation: Approve the April Finance Letter funding request and approve, as placeholder, the DOF budget bill language. Additional measures may be necessary and proposed by the Administration with the May Revision.

Vote:

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers the personal income tax (PIT) program and the corporation tax (Corp) program. The FTB administers the Homeowners' and Renters' Assistance Programs. The Department also performs some non-tax collection activities, such as the collection of child support payments and other court-ordered payments. The FTB is governed by a three-member board, consisting of the Director Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the Board, manages the daily functions of the Department.

Governor's Budget: The January Governor's Budget proposed expenditures of $560.3 million ($524.4 million General Fund) and 5,259 positions for FTB – a decrease of $6.1 million ($10.4 million General Fund) and a decrease of 141 positions. The reduction primarily reflects the completion of the Child Support Automation Project and the transfer of ongoing implementation to the Department of Child Support Services.

Adopted 2009-10 Framework Budget: The budget adopted in February (SB 1XXX) differed from the Governor's Budget request in that the amount was reduced to eliminate, without prejudice, the following item to allow for a more thorough Subcommittee review:

- $3.9 million for the Enterprise Data to Revenue (EDR) Project (see issue # 4).

Tax Gap Measures: Some of the FTB budget proposals include a General Fund cost, but produce an offsetting General Fund revenue benefit. Recent budgets have augmented FTB staff and funding to specifically narrow the "tax gap," or the difference between taxes owed and taxes paid. The 2008 Budget Act included various tax gap proposals – in total the FTB budget was augmented by $20.1 million (General Fund) and 211 positions – this augmentation was expected to result in a revenue gain of $118 million (General Fund). Some of the 2009-10 proposals and options in this agenda are directed at further narrowing the tax gap – although the proposals increase expenditures, the costs are expected to be fully offset in new revenues over the long term.

Issues proposed for Discussion / Vote:

1. **Employee Furloughs and Revenue Collection (Informational Issue):** FTB employees have *not* been exempted from furloughs. Since reduced work hours reduce audit and collection activity, there is concern that furloughs at revenue departments could result in more revenue loss than cost savings. The FTB has implemented 2-day-per-month "self-directed" furloughs. However, many FTB employees are represented by bargaining units affiliated with the Service Employees International Union (SEIU), and should a proposed Memorandum of Understanding (MOU) with SEIU be implemented, the furloughs for those employees would fall to 1 day per month. Under the SEIU MOU, employee wages would be reduced by the equivalent of 1 day per month, but employees would have discretion, in cooperation with management, to work a full schedule and take off furlough days at a later time. The self-directed furloughs would extend through June 2010. Employees would have until July 1, 2012 to use any deferred furlough days.

   Information from FTB: According to FTB staff, the savings under the self-directed furlough policy will be roughly $20 million. However, FTB also estimates that the SEIU 1-day-per-month furlough would result in the loss of $30 million to $50 million of revenue (by reducing staff time available for tax administration, audits, and collections). The department indicates that the revenue loss is less than originally anticipated because February data suggest that at least 75-percent of furlough hours are used to *replace* paid leave hours (March data suggest that 51-percent of furlough hours *replace* paid leave hours). Additionally, FTB is implementing other mitigation measures to maintain collection and audit work hours – these measures include: (1) restricting use of vacation time to low-workload months; (2) increasing production hours by canceling or deferring training and meetings; and (3) increasing production hours by delaying or decreasing special project work and initiatives. Overall, the FTB estimates reflect a loss or deferral of about $1.50 to $2.50 of revenue for each dollar of savings.

   Information from the Department of Finance: The Department of Finance (DOF) indicates that they are not scoring any revenue loss from furloughs at FTB, because they believe FTB will be able to manage (and limit if necessary) staff time off.

   Staff Comment: The Subcommittee may want to hear from FTB, DOF, and the LAO on the amount of revenue loss from the furloughs.

   Staff Recommendation: Take no action at this time.

2. **Tax-Gap Options for 2009-10 (from the Legislative Analyst).** The LAO *Analysis* lists several options for the Legislature to consider in this year's budget. If all the LAO options were adopted, a General Fund revenue gain of $80 million would be realized in 2009-10, growing to $178 million in 2011-12. The first option on the LAO list is the Financial Institutions Records Match (FIRM) information technology (IT) system – this is agendized separately as issue #3 and should be discussed under that issue. The Administration's Enterprise Data to Revenue (EDR) IT system also has tax-gap features and is agendized separately as issue #4.

   Background / Detail: The following LAO table lists the various options. Most of these would apply to FTB, but some apply to the Board of Equalization – Committee Staff has amended the table to indicate the applicable department.

Tax Administration Reforms and Federal Tax Conformity Recommendations[a]

(General Fund Benefit, in Millions)

	2008-09	2009-10	2010-11	2011-12
Administrative Modifications				
Implement financial institutions records match system (FTB)	—	$33.0	$61.0	$101.0
Faster use of liens in collections process (BOE)	—	1.0	1.0	1.0
Comply with federal withholding requirement[b] (SCO)	—	—	26.0	1.0
Subtotals Administrative Modifications	(—)	($34.0)	($88.0)	($103.0)
Penalty and Interest Modifications				
Penalize "baseless" overstated claims for refunds (FTB)	$0.5	$1.3	$6.2	$12.2
Extend period before interest is suspended on tax returns (FTB)	1.3	4.0	4.3	4.7
Increase penalty for failure to file partnership returns (FTB)	—	0.9	1.7	1.8
Assess penalty for failure to file S corporation returns (FTB)	—	0.6	1.0	1.4
Increase penalty for bad checks and money orders (FTB & BOE)	—	0.4	1.0	1.0
Assess penalty if tax preparer understates taxpayer liability (FTB)	—	—	0.3	0.6
Subtotals Penalty and Interest Modifications	($1.8)	($7.2)	($14.5)	($21.7)
Fee Modifications				
Modify fees for installment agreements (BOE)	—	$4.0	$4.0	$4.0
Modify and assess fees for offers in compromise (BOE and FTB)	—	0.4	0.4	0.4
Subtotals Fee Modifications	(—)	($4.4)	($4.4)	($4.4)
Federal Tax Conformity Issues				
Partially conform to federal backup withholding (FTB)	—	$35.0	$35.0	$38.0
Conform to the IRS's "kiddie tax" rules for unearned income (FTB)	—	—	15.0	11.0
Subtotals Federal Tax Conformity Issues	(—)	($35.0)	($50.0)	($49.0)
Totals	**$1.8**	**$80.6**	**$156.9**	**$178.1**

[a] Revenue estimates assume recommendations are effective January 1, 2010, and are net of implementation costs.
[b] Estimate reflects total revenues rather than net revenues.

Staff Comment: The LAO should present their options to the subcommittee. Staff understands the Administration is still reviewing these options and would come forward in the May Revision with any proposals they support.

Staff Recommendation: Hold action pending May Revision.

3. **Financial Institutions Records Match (FIRM) (LAO Option).** FIRM is an IT project that would require financial institutions doing business in California to match FTB information on delinquent tax and non-tax debtors against their customer records on a quarterly basis. The FTB scores the General Fund revenue gain at $35 million in 2009-10, growing to $101 million by 2011-12. The 2009-10 cost to begin implementation would be $3.2 million and total project cost would be $20.8 million over four years. Last year FIRM was discussed in the Budget Conference Committee – the Department of Finance opposed FIRM, citing no completed Feasibility Study Report (FSR), as is required for new IT projects. The FSR has since been completed, but the Administration has not, to date, proposed the project for the 2009-10 budget.

Background / Detail: FIRM is patterned after the FTB's Financial Institution Data Match (FIDM), a project FTB implemented as a result of federal legislation to identify the assets of delinquent child support debtors. The success of FIDM prompted FTB to extend the asset identification effort – via FIRM – to other classes of debtors. The FTB would use the new data to aid in the collection of debts under the authority of the existing Order to Withhold (OTW) statutes. The proposal would not impact existing law that provides the applicable constitutional due process protections and appeal rights available in either the audit or collection processes. FIRM would take about 18 months to implement, so the 2009-10 revenue gain is accrued back from the date of anticipated collection. The IT system, as proposed, would only include FTB, but the system could be easily modified after implementation to support debt collection for the Board of Equalization (BOE) and the Employment Development Department (EDD).

Policy Bill on FIRM: Senate Bill 402 (Wolk), as amended April 28, 2009, would enact the statutory authority for FIRM, but the bill specifies actual implementation would require an appropriation by the Legislature. The bill includes a provision to reimburse banks up to $2,500 for implementation and up to $250 per quarter thereafter. Staff understands that with this provision, no banks are on record opposing this bill. If SB 402 is enacted this year, but no funding is appropriated for 2009-10, the net General Fund benefits of the program would be delayed.

Staff Comment: The FTB should present the FIRM proposal and the LAO and Department of Finance should comment. The Subcommittee may want to consider taking action to adopt this proposal in light of: (1) the budget situation and the projected revenue gain of $35 million in 2009-10, growing to $101 million by 2011-12; (2) the fact that there is precedent for this bank records matching with child support collections; (3) that banks are no longer opposed to the measure; and (4) that all taxpayer due process protections would continue.

Staff Recommendation: Approve budget funding (about $3.2 million General Fund) to begin implementing FIRM in 2009-10, and approve the SB 402 language as placeholder trailer bill language.

Vote:

4. **Enterprise Data Revenue (EDR) IT Project (BCP and April FL).** As noted earlier, $3.9 million of funding and 58 positions requested for the EDR project were deleted (without prejudice) in the 2009 Budget Act. That action reflected a desire to give this proposal thorough review in the Subcommittee. This is the initial request for a major new data integration project at FTB that would cost about $300 million (through 2017-18) to implement. The Administration has since submitted an April Finance Letter that modifies the proposal by accelerating, from January 2010 to July 2009, the hiring of staff such that the 2009-10 costs increase to $5.2 million. The FTB also estimates that the project will generate about $2.8 billion of additional revenue over the project timeline, and that ongoing net revenue would be in excess of $900 million annually.

   EDR Budget Proposal and Project Description: The 2009-10 EDR budget proposal consists of $5.2 million (General Fund) and the addition of 58 positions for FTB to: (1) resolve an existing backlog in business entity return processing and collections correspondence; (2) hire additional staff and consultants to document FTB's business processes as a precursor to development of the EDR Project; and (3) begin planning for the EDR project, including issuing a request for proposals. The FTB estimates that the proposal will increase General Fund revenue collected by $7 million in 2009-10 and by $19.9 million in 2010-11, primarily by adding staff to process the current backlog of business entity returns and begin collection correspondence in order to accelerate revenue. The EDR project would take approximately seven years to implement and, once completed, would replace several older FTB information technology systems and streamline other existing systems. The FTB estimates the project will incur costs of $317 million during implementation (2008–09 through 2017–18) with annual costs thereafter estimated to be $13.5 million.

   Main Goals: The EDR Project has three major goals. First, it seeks to capture all tax return data in an electronic form. Second, the project will integrate the various existing "siloed" tax databases at FTB into a data warehouse. Third, the project will enable FTB to add third-party data (county assessor data, for example) to its data warehouse. The FTB asserts that the EDR Project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, the FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

Project Components*:* The project includes the following improvements to FTB's systems that process personal income tax (PIT) and business entity tax returns:

- An underpayment modeling process that would be integrated with the Accounts Receivable Collections System and Taxpayer Information System.
- An enterprise data warehouse with data search and analysis tools.
- A taxpayer records folder that is accessible to the taxpayer and allows taxpayers and FTB staff to access the information.
- Re–engineering of existing business processes—including imaging of tax returns, data capture, fraud and underpayment detection, tax return validation, filing enforcement, and other audit processes—and integration of these enhanced business processes with FTB's existing tax systems.
- Improved business services at FTB such as address verification, issuance of notices, and a single internal password sign-on for its IT systems.

Benefit-Funded Approach: FTB indicates that it plans to finance the EDR Project using a benefit-funded approach. Contractor payment for system development and implementation will be conditioned on generating additional revenue that will more than cover the cost. This approach is intended to protect the state and also gives the contractors a strong incentive to develop the project in a manner that produces significant revenue quickly. The FTB has used this approach previously.

LAO Recommendation: The LAO originally recommended deferral of this project but has since changed its recommendation to support implementation of the project beginning in 2009-10.

Staff Comments:

1. FTB's benefit-funded approach makes use of revenue gains from reducing the backlog to fully offset costs in 2009-10 through 2012-13. However, these gains can be accomplished regardless of whether project development goes forward. In subsequent years, the estimates in the project's Feasibility Study Report (FSR) indicate large increases in annual revenue gains that would be more directly attributable to the project. From 2012-13 through 2016-17 annual revenue gains increase from $86.4 million to $940 million, while project implementation costs increase from $58.8 million in 2012-13 to a peak of $111.6 million in 2014-15 and then decline to $14.1 million by 2016-17.

2. Because the net benefit of this project (as estimated in the FSR) ramps up quickly and becomes very large, the net present value loss to the General Fund that results from delaying the project by one year is somewhere between $600 million and $900 million (depending on discount rate). The investment required to avoid this loss is about $24 million over the next three years (disregarding revenue from backlog reduction). As noted above, the project begins to produce significant net revenues starting in 2013-14. Of course, these calculations critically depend on the accuracy of both the estimates and the schedules in the FSR.

3. The FTB has, perhaps, the best track record in California state government for the successful development and implementation of major information technology projects. However, FTB projects have experienced some significant delays and cost increases, although these problems generally have not prevented successful completion.
4. Due to the large cost of this project and the large projected revenue benefit, the Subcommittee may want to consider adding an annual reporting requirement (if the proposal is approved). An annual report requirement is common with large IT projects, and would keep the Legislature informed of any cost or schedule changes.

Staff Recommendation: Approve the EDR proposal, as revised by the April Finance Letter. Add an annual report requirement.

Vote:

5. **Staffing for Suspended Senior Homeowners and Renters Assistance (HRA) Program (Staff Issue):** The FTB budget includes $6.4 million in the current year and $6.5 million in 2009-10 (all General Fund) for administration of the Senior Homeowners and Renters Assistance Program. This funding supports 79 positions, of which 33 are temporary help. The HRA program provided annual payment to low-income seniors and disabled renters and homeowners. Although the program continues to be authorized in law, the Governor vetoed all funding for payments in the 2008-09 Budget Act, and no funding for payments was included in the Governor's January Budget or in the 2009 Budget Act (SB 1XXX).

   FTB Comment: The FTB indicates that it continued to include administrative funding in its budget in the event that funding was restored for the assistance payments. The department also indicates that some ongoing administrative work is needed to process claims for prior years, to maintain the existing data systems, and to fund central administrative costs.

   If the program suspension is ongoing, the FTB suggests that the budget could be reduced by $4.8 million in 2009-10 and by an additional $500,000 in 2010-11. This would result in the residual funding of $1.6 million in 2009-10 and $1.2 million ongoing for FTB operations. The FTB indicates the retained $1.2 million would be for fixed costs of rent ($600,000) and the HRA share of centralized information technology maintenance ($550,000). The FTB would also request to retain $500,000 and 7 positions for 2009-10 to complete prior-year claims and appeals related to 2007-08 HRA activity.

   Staff Comment: While funding for the Senior Homeowners and Renters Program may be reinstated in a better budget year, maintaining staff at FTB for a suspended program seems a luxury the state cannot afford. Presumably, if the positions and funding is eliminated, program staff would be absorbed into vacant positions at FTB. Some program staff may be willing to return to the Senior Program in the future if funding is stored. While some departments claim centralized administration costs for all new positions, the FTB appears to have been conservative in requesting funding for new positions in other areas. Specifically, they have not requested rent funding or centralized IT funding for recently added positions. Given this, their request to retain and shift $1.2 million for centralized costs seems defensible.

   Staff Recommendation: Approve a budget reduction for HRA administration as suggested by FTB – reduce funding by $4.8 million in 2009-10 and $5.3 million ongoing. (This results in funding of $500,000 and 7.0 positions to complete prior HRA workload in 2009-10, and a funding shift of $1.2 million in centralized costs from the HRA program to other FTB programs).

   Vote:

6. **Implementation of New Tax Credits (April FL#14):** The Governor requests $663,000 General Fund and 8 positions in 2009-10 and $145,000 and 1.5 positions ongoing to implement and administer the provisions of SB 15XX and SB 15XXX – two tax credit measures enacted with the February 2009 budget package.

   Detail on the New Tax Credits. SB 15XX and SB 15XXX enacted new tax credits, each of which is limited-term with a total credit cap. The credits and costs are as follows:

   - **Homebuyer's Credit**: This credit is capped at a total of $100 million and is available for the purchaser of a new home who would use the home as a principal residence. Homebuyers would receive a state income tax credit of the lesser of 5 percent of the purchase price of the qualified principal residence or $10,000. Credits are allocated by FTB. FTB requests $219,000 and 2.8 positions in 2009-10 for associated workload, with no ongoing costs or positions.
   - **Small Business Hiring Credit**: This credit is capped at a total of $400 million and is available as a $3,000 tax credit for each new full-time equivalent employee at a qualified small business. Credits are allocated by FTB. FTB requests $289,000 and 3.2 positions in 2009-10 for associated workload, with $34,000 and 0.5 positions ongoing.
   - **Film/Television Production Credit**: This credit is capped at a total of $500 million with no more that $100 million allocated each year for five years. Credits can be allocated starting in the 2009-10 fiscal year, but can only be claimed in tax years beginning in 2011. The Film Commission within the Business, Transportation and Housing Agency is charged with awarding the credits. The FTB will have to verify that the taxpayer claiming the credit is in fact the qualified taxpayer allocated credits by the Film Commission or the purchaser of such credits. FTB requests $154,000 and 2.0 positions in 2009-10 for associated workload, with $111,000 and 1.0 position ongoing.

   FTB Workload: Most of the workload associated with this request is one-time information-technology modifications. Five one-year limited-term Programmer Analyst positions are requested to create new forms, develop a secure transmission process for the receipt of the certifications, make system changes to collect data from the returns upfront, and monitor the allowance of credits. The 1.5 positions ongoing are 1.0 Program Specialist in the audit division (related to the Film Credit) and 0.5 Tax Program Technicians in the Filing Division (related to the Hiring Credit). The ongoing positions would maintain data on credits, answer inquires, etc.

   Staff Comment: The FTB should describe how they are working with the Film Commission to insure that the Commission structures the program in a way that allows appropriate FTB tracking and audits.

   The Subcommittee may want to consider the approach of funding one-time implementation costs (such as new forms or information technology changes), but have the FTB absorb the longer-term workload. Since the longer-term workload is relatively small it should be absorbable within what is already a constantly changing environment with changes in the number of taxpayers, federal law changes, etc.

Staff Recommendation: Approve the one-time information technology workload by approving 5.0 IT positions. Reject the remainder of the 2009-10 request and the 1.5 ongoing positions.

Vote:

0860 Board of Equalization

The Board of Equalization (BOE) administers the sales and use tax programs, administers a variety of business and excise taxes and fees, and oversees the administration of the property tax by county assessors. The BOE is governed by a five-member board, consisting of four regionally elected members and the State Controller. The Board is also the final administrative appellate body for personal income and corporation taxes, which the Franchise Tax Board administers.

The January Governor’s Budget proposed expenditures of $456.5 million ($256.8 million General Fund) and 4,186.5 positions for BOE – an increase of $28.5 million ($17.3 million General Fund) and an increase of 169.8 positions. Much of the staffing increase reflects the annualization of positions added on a partial-year basis in 2008-09, primarily for efforts to reduce the "Tax Gap" – the difference between taxes owed and taxes collected.

2009 Budget Act. The budget adopted in February for the BOE differed from the Governor's Budget request in the following two respects:

- $13.5 million ($9.9 million General Fund) was vetoed by the Governor on the basis that the board should be subject to savings equivalent to the amount that would result from applying the Governor's employee furlough order to BOE staff (see Issue #1, later in the agenda).
- $1.328 million and 5.9 positions that had been requested to implement board regulations imposing distilled-spirit tax rates on flavored malt beverages was deleted (see Issue #2 later in the agenda).

Tax Gap Measures: Some of the BOE budget proposals include a General Fund cost, but produce an offsetting General Fund revenue benefit. Recent budgets have augmented BOE staff and funding to specifically narrow the “tax gap,” or the difference between taxes owed and taxes paid. The 2008 Budget Act included various tax gap proposals – in total the BOE budget was augmented by $29.9 million ($17.3 million General Fund) and 296 positions, which were expected to result in a 2008-09 revenue gain of $118 million ($70.7 million General Fund).

Issues proposed for Discussion / Vote:

1. **Employee Furloughs and Revenue Collection (Informational Issue):** BOE employees have *not* been exempted by the Governor from the furlough plan. However, BOE indicates that their employees are *not* currently being furloughed because the case is on appeal concerning the ability of the Governor to implement furloughs for workers employed by Constitutional Officers of the State (here the BOE Board). Since reduced work hours would reduce audit and collection activity, there is concern that furloughs at revenue departments could result in more revenue loss than cost savings. If BOE does ultimately implement the furloughs, they would extend through June 2010. Employees would have until July 1, 2012, to use any deferred furlough days.

   Information from BOE: According to BOE staff, the savings under the self-directed furlough policy would be roughly \$13.5 million (about \$9.9 million General Fund). The BOE estimates that the furlough policy (by reducing staff time available for tax administration, audits, and collections) would result in the loss or deferral of \$88 million of revenue, of which \$52 million will be General Fund revenue. Overall, this reflects a loss or deferral of about \$6.50 of total revenue for each dollar of total savings—and a loss or deferral of about \$5.25 of General Fund revenue for each dollar of General Fund savings. These BOE estimates assume a one-day per month "self directed" furlough (consistent with the Service Employees' International Union (SEIU) MOU with the Administration). However, unlike the FTB assumptions, BOE does not assume any offset to furlough days from reduced use of vacation leave. Assuming this offset would reduce the revenue loss significantly.

   Information from the Department of Finance: The Department of Finance (DOF) indicates that they are not scoring any revenue loss from possible furloughs at BOE, because they believe BOE will be able to manage (and limit if necessary) staff time off.

   Staff Comment: The Subcommittee may want to hear from FTB, DOF, and the LAO on the amount of revenue loss from the furloughs.

   Staff Recommendation: Take no action at this time.

2. **Taxation of Flavored Malt Beverages (January BCP #4):** The Governor's Budget for 2009-10 included a request for $1.3 million (General Fund) to implement regulations adopted by the Board in April 2008 defining Flavored Malt Beverages (FMBs) as alcoholic beverages that (a) use a fermented malt base (as with beer or ale), (b) are treated to remove the malt characteristics, and (c) to which are added flavorings or other ingredients containing distilled alcohol that constitutes at least 0.5 percent of the final beverage's alcohol by volume. This funding was excluded from the 2009 Budget Act (SB 1XXX), without prejudice, for further Subcommittee consideration. FMBs typically are flavored alcoholic drinks that are sold alongside beer and have similar alcohol contents. Under the regulations, FMBs are taxed at the much higher rates that apply to distilled spirits, rather than as beer or wine. The regulations provide for a rebuttable presumption that all alcoholic beverages, other than wine, are distilled spirits (including FMBs). Manufacturers may present evidence to rebut the presumption that their beverage contains distilled alcohol and be taxed as beer. The Governor's Budget included $38.3 million of additional General Fund revenue related to this budget request.

Industry Reformulates and Rebuts: Manufacturers of the targeted beverages recently have filed rebuttals with the BOE indicating that they have reformulated their drinks to be below the 0.5 percent distilled alcohol threshold for FMBs. Consequently, BOE is unable to apply the higher tax rates to these beverages.

Revised BOE Request: Given the action of the industry to reformulate their products, the workload assumptions in the budget request are no longer valid. BOE staff have indicated an alternative option of $250,000 and one position for scientific tests to verify the reformulation.

Staff Comment: The BOE, Department of Finance, and LAO should update the Subcommittee on the status of this issue and indicate their current recommendation on staff and budget funding. The revised BOE proposal would allow the State to verify that producers have indeed reformulated their beverages and to verify that their claim to be exempt from the higher tax rate is valid. However, if the producers did fail the test they would likely reformulate again to avoid the higher tax. It appears that the BOE regulation cannot bring in the anticipated $38.2 million in new General Fund revenue due to legally-allowable reformulation by producers. Staff notes, that the Legislature could, through tax legislation, impose a higher tax on FMBs regardless of the source of their alcohol. The BOE's regulatory approach was based on the structure of the existing alcoholic beverage tax law.

Staff Recommendation: Reject both the January budget request and the revised BOE request. While it would be desirable to test compliance, it would not ultimately be revenue producing and would, therefore, not be a top priority in a budget year such as this.

Vote:

3. **Use Tax Voluntary Disclosure Program:** The 2009 Budget Act includes $126,000 ($87,000 General Fund) to establish one permanent position to reinstate the Use Tax Voluntary Disclosure Program. This program sunset on January 1, 2008, but was reinstated by AB 3079 (Committee on Revenue and Taxation) of 2008. Under the program, California purchasers of taxable goods who voluntarily come forward and pay unpaid use tax liability receive penalty relief and a shorter statute of limitations period (three years instead of eight years). The BOE estimates that this proposal will increase revenue by $2.5 million annually—almost a 20:1 benefit/cost ratio.

   Assembly Subcommittee Action: The Assembly Subcommittee rejected this request and suggested BOE fund this one position through redirection. Staff understands the Assembly action to suggest that BOE should internally manage their staff resources with ongoing consideration of moving staff from lower benefit-to-cost activities to higher benefit-to-cost activities. There are many revenue-related activities at BOE that have a smaller revenue benefit, so the revenue benefit of this proposal might better be calculated as the revenue from the lower benefit-to-cost activity from which staff would otherwise be redirected from. Additionally, the BOE information indicates that when the program was previously in effect, the workload was absorbed within existing staff.

   Staff Recommendation: Reject the budget request (conform to the Assembly action).

   Vote:

4. **New Special Taxing Jurisdictions (April Finance Letter):** The Governor requests $570,000 (General Fund) and $1.7 million in reimbursements to permanently establish 22.5 positions to perform the increased workload arising from the establishment of 52 additional Special Taxing Jurisdictions (STJ) since 2005-06. A Special Taxing Jurisdiction generally has the same boundaries as a city or county and is created by the adoption of a local add-on sales and use tax. Generally these local add-on taxes support important transportation, public safety, education, or health and welfare programs.

    Background on Special Taxing Jurisdictions: By law, STJs are required to contract with BOE for administration of the district taxes. BOE indicates there are currently 115 STJs in the sales and use tax area. The high number of STJs increases the complexity of tax returns and audits. If this request were denied, BOE would have to redirect staff away from normal audit and collection work negatively impacting the General Fund revenue by approximately $2 million each year. The budget request is funded primarily through reimbursements from the STJs, but also includes some General Fund due to the fact that all taxpayers are registered and file returns based on all taxing jurisdictions, including STJs, and therefore an employee's work covers both areas.

    Staff Comment: While existing law allows the BOE to charge a new Special Taxing Jurisdiction for related administration costs, a budget augmentation is needed to allow BOE to add staff for this workload. According to BOE, the General Fund cost of this proposal is fully offset on the revenue side.

    While the majority of this request would be funded from local funds, any additional cost for the locals, as well as the State, is difficult at this time. The BOE's budget has not been augmented specifically for STJs in recent years; however, last year 134 new positions were added in the general audit and collections area as part of the initiative to reduce the tax gap. The Subcommittee may want to consider a measured approach of only funding STJ workload associated with local taxes added since July 1, 2008 – this would cut the requested funding and positions approximately in half. It would require BOE to continue to absorb the base workload from prior years as they did in last year's budget. Additional adjustments could be made in future years as warranted.

    Staff Recommendation: Approve half the funding requested – approve 11 positions and approximately $1.2 million (about $285,000 General Fund).

    Vote:

5. **Implementation of the temporary 1-cent sales tax (April Finance Letters):** The Governor requests several changes related to the BOE's implementation of the temporary 1-cent sales and use tax increase implemented by AB 3XXX as part of the February budget package. In total, the requests increase General Fund expenditures by $7.3 million in 2009-10 – this is comprised of $6.4 General Fund for administrative cost reallocation and $880,000 General Fund for 13.3 new limited-term positions.

   Background / Detail: Under current law, the BOE allocates administrative costs across various revenue recipients based primarily on the amount of revenue collected for each level of government (the state, cities and counties, and Special Taxing Jurisdictions). This cost allocation methodology is found in Revenue and Taxation Code Sections 7204.3 and 7273. With the 1-cent tax increase at the State level, the State's share of revenue collections is increased and that triggers a reallocation of administrative costs for _base_ collection activities. Secondarily, the _marginal_ collections associated with the tax increase are not only borne by the General Fund, but rather allocated by the revenue formula – so the cost of the 13.3 new positions would be funded by $880,000 General Fund and $342,000 in reimbursements from local entities. While the accounting methodology is defensible, BOE's cost of $1.2 million for implementing the State tax increase is combined with a $6.1 million revenue benefit to cities, counties, and Special Taxing Jurisdictions at the expense of the State General Fund. The below table shows the 2009-10 costs of the BOE budget request – similar annual costs would continue for the life of the tax (either 2 years or 3 years depending on voter action on Proposition 1A). The BOE indicates the 13.3 new positions are needed based on their estimate of new workload: (1) 40 additional minutes to complete each audit; (2) 41,000 additional return errors taking an average of 15 minutes to resolve; (3) 72,000 additional calls taking an average of 15 minutes each; and (4) various centralized administration costs.

	General Fund	Reimbursement from locals	Total (net across funds)
Reallocation of base BOE admin costs	$6,438	-$6,438	$0
BOE implementation Cost for tax increase	880	342	1,222
Net General Fund cost	$7,318		
Net local government benefit		-$6,096	

   Staff Comment: There are really two issues before the subcommittee in this request:

   1. Whether the existing statutory cost-allocation methodology should be suspended in the case of the temporary sales tax to lower General Fund

costs. If the cost allocation were separately calculated for the 1-cent tax, the state General Fund cost would be $1.2 million and the local cost would be held harmless. The statutory methodology of allocating collection costs among the State and local entities based on revenue shares is fair and good policy. However, here the state is dealing with a temporary tax, and unable to fund many worthy General Fund priorities.

2. The second issue is whether the 13.3 new positions are the appropriate staffing for the marginal cost of the new tax, and if the workload is reasonable, should it be absorbed within the existing budget or funded via an augmentation. The Subcommittee may want to consider the approach of funding one-time implementation costs (such as new forms or information technology changes), but have the BOE absorb the longer-term workload. Since the longer-term workload is relatively small it should be absorbable within what is already a constantly changing environment with changes in the number of taxpayers, local add-on taxes, etc. For BOE, most of the one-time work has been done in the current year, because the tax increase was effective April 1, 2009. Staff understands the Administration is considering a Section 26.00 Letter to internally shift BOE budget funding from facility funding to these one-time costs.

Staff Recommendation: Reject this proposal, including both the administrative cost reallocation ($6.4 million General Fund), and the new staff for the 1-cent sales tax workload ($880,000 General Fund). This recommendation is without criticism to the cost allocation methodology, or the BOE workload calculations – it is simply based on the General Fund condition.

Vote:

6. **BOE Headquarters Building:** The enacted 2009 Budget Act (SB 1XXX) includes an augmentation of $5.7 million ($3.3 million General Fund) to establish 6 permanent positions and to relocate about 500 employees from the current Sacramento headquarters building at 450 N Street, including the establishment of 6 permanent positions to handle the relocation and also for leasing and relocation work at other BOE sites. The budget estimates that the annual cost of this proposal will grow to $8.5 million in 2010-11 and subsequent years.

   Background: The HQ building has a long, sad, and expensive history of problems. Construction was completed in 1993. The original owner was CalPERS, and the state leased the building on behalf of BOE. The state purchased the building several years ago because financing a purchase appeared more cost-effective than the ongoing lease payments. However, the building has a history of construction defects causing water leakage, mold, and glass falling out of the building curtain wall. A major project to replace the curtainwall glass and seals and to remediate areas of water leakage was completed in 2006. Leakage problems, other building system problems, and employee complaints of building-induced illness continue nevertheless. According to BOE, bond financing for the purchase was never completed due to the ongoing problems and temporary financing from the Pooled Money Investment Account remains in place. Compounding this situation, in March of this year, a major hot water pipe burst flooding several floors.

   Occupancy Exceeds Design Level: The BOE indicates that the recommended maximum occupancy for the building is 2,200 and that estimated occupancy will exceed this level by 415 in the current year. The Board indicates that leasing additional space and reducing crowding is necessary to maintain employee productivity and morale and to protect the health and safety of employees because the building's HVAC and other systems are being stretched and because remediation of ongoing problems requires continually shifting employees out of the areas affected by the remediation work.

   Options Under Consideration: The $5.7 million appropriated in the 2009 Budget Act is a partial step in resolving issues with the headquarters building. Repairs are needed for water-related damage in many restrooms and for the recent major pipe burst. The multiple problems over multiple years have resulted in calls to perform a more extensive overhall or to sell the building. The Department of General Services provides a list of options that are being analyzed for cost and risk:

   1. Move BOE out of building, repair when empty, then re-occupy.
   2. Repair, while occupied by BOE, utilizing “swing space” within the building where employees are temporarily relocated two floors at a time.
   3. Repair floors, while occupied, by sealing off the work areas and directing employees to restrooms and breakrooms on other floors.
   4. Sell the building.

Staff understand that BOE and DGS are working together to analyze these options, but at the time the agenda was finalized, there was no specific proposal from the Administration.

Related Budget Issues: BOE changed their costing for the "Facilities Operations" component (rent cost) of new positions from the $2,819 used last year to $11,351 for new Headquarters positions and $6,040 for new district positions. This new costing is included in new positions approved in SB 1XXX and in April Finance Letters. This new costing appears high for either methodology of (1) costing for the actual marginal cost of the new positions, or (2) costing based on the overall average for base and new staff. The higher costing seems instead related to the facility issues in this BCP #1. Those costs related to problems with the headquarters building should already have been included in BCP #1, so a budget reduction to use last year's costing of $2,819 per position (instead of either $11,351 or $6,040) would seem appropriate. BOE indicates another cross-cutting issue is what was budgeted for new positions related to workstations. BOE staff reviewed the costing and indicate $7,500 per position was double-counted. Therefore, BOE indicates a budget reduction of $285,000 is necessary to correct for the double-counting.

Use of Bond Funding: The BOE budget includes $5.9 million to pay the cost of bond debt service. However, this cost would not be incurred if the facility bonds are not sold in 2009-10 and discussions with the Administration suggest it is very unlikely the bonds can be sold in 2009-10 given problems with the building. In the recent past, the BOE has redirected the bond debt-service funding for mold and water mitigation and repair costs. BOE and the Department of General Services indicate there are water and mold mitigation costs, in 2009-10 that go beyond funds appropriated for that purpose. It seems likely the Administration would again in 2009-10 shift the $5.9 million for bonds debt-service to building repairs. Given that this is the likelihood, the Subcommittee may want to consider a budget action to correctly score the $5.9 million as building repairs instead of debt service (this would not amend the budget bill, but rather indicate the adjustment in the Department of Finance Changebook budget tracking system).

Staff Comment: Problems with the facility are costing the State money and causing inconvenience for BOE employees. A sizable number of BOE employees have also filed workers compensation claims or otherwise reported negative health consequences. These issues make a comprehensive resolution plan essential. It is not clear, however, that BOE, DGS, and the Department of Finance will be able to develop a comprehensive plan during this spring's budget process.

Staff Recommendation: Take the following action in addition to the $5.7 million already approved in the 2009 Budget Act:

- Shift the $5.9 million for bonds debt service to building repair (this would likely occur anyway through internal redirection).
- Fix the facilities / general expense budgeting in the other BCPs and Finance Letters: cut $286,000 for workstation double-counting, and cut $1.1 million for

over-budgeted per employee rent costs (these changes would also have to be adjusted to conform to action on the BCPs and FLs in other issues).

Vote:

9655 Statewide Accounts Receivable Management Enhancements

This budget item is newly created in the 2009-10 budget to provide centralized budget authority for statewide accounts-receivable management enhancements. In this case, Accounts Receivable (AR) are outstanding obligations owed to the State including taxes, fees, penalties and other payments. The new funding in the budget is $8.3 million ($3.3 million General Fund) and gross revenue gain is anticipated at $32.5 million ($13.8 million General Fund). The budget funding in this item supports two efforts: (1) $197,000 for two new positions (two-year limited-term) at the State Controllers Office (SCO) to centrally track statewide AR and (2) $8.1 million to pay for private collection agency fees or departmental costs for collections work. This proposal would affect both revenue and non-revenue departments – i.e., it would affect the Board of Equalization (BOE) and the Franchise Tax Board (FTB), but also departments such as the Department of Motor Vehicles, the California Highway Patrol, and the State Lands Commission.

The enacted 2009 Budget Act (SB 1XXX) included the Governor's proposed funding of $8.3 million for this new item. However, to fully implement the proposal, trailer bill language must also be adopted and action on statutory changes was withheld from the adopted budget package, without prejudice, to allow for a thorough Subcommittee review of the proposal.

1. **Administration Accounts Receivable Proposal for 2009-10:** As indicated above, the Administration requests new budget funding and statutory change to improve the State collection of accounts receivable. The proposal includes the following main components:

   - Establish 2.0 new limited-term positions at the SCO and $197,000 to collect and analyze AR data from departments and to periodically report on the results of this effort for policy considerations and for management action.
   - Establish a new mechanism to pay for private collection agencies fees, which could generate a net gain of up to $19.8 million (up to $7.8 million General Fund).
   - Establish general statutory authority to allow all departments to charge a fee for their costs of collecting delinquent ARs, potentially increasing revenues up to $1.4 million. Amend existing statute to allow the Board of Equalization (BOE) to add the contingency fee for in-state private collection agencies' fees to tax liabilities, potentially increasing revenues up to $3.2 million.
   - Revise statute to increase the size of ARs departments can internally discharge from $250 to $500.

   Current practice: The State Administrative Manual (SAM) provides direction to departments for collection of ARs. Departments are generally directed to send three letters in an attempt to collect ARs and then can turn the debt over for collection by private collection agencies. Practices vary somewhat at the tax collection departments. Initial surveys by the administration indicate that over $6.3 billion in ARs are outstanding. Few departments, only 9 out of 40 in a recent review, use private collections agencies. For those that do use private collectors, collection rates range from 1 percent to 40 percent. Under current practice, private collectors receive a share of any collections – the Administration indicates it would explore another option of the sale of ARs, such that the purchaser assumes all risk of collection, but keeps 100 percent of debt collected.

Another option for some departments is to turn over non-tax collections to the Franchise Tax Board. Statute defines certain non-tax collection activity for FTB such as collection of child support and court-ordered debt. Departments can also turn debts over to FTB, and if the debtor has a tax refund due, the refund is instead redirected to debt payment.

Problems indicated with current practice: The four components of the request (listed above) seek to address the following issues:

- Centralized data on department ARs is not compiled – records are only kept at the department level. This hampers transparency, but also reduces the opportunity of the state to package and sell ARs.
- No flexible mechanism exists to pay private collectors when they are successful in collecting ARs – departments must fund this out of their base budget or request additional funds through the annual budget process.
- No general statutory authority exists for departments to charge a fee for the cost of collection for delinquent ARs.
- Current statue limits the amount that departments can internally discharge (or drop from the books as uncollectible) to $250. The administration argues this should be increase to $500 to focus department efforts on more cost-effective AR collection.

Staff Comment: The Department of Finance should present this proposal to the Subcommittee. The BOE and FTB should comment on this proposal relative to their collection experience and explain how this proposal might affect their work. Additionally, the Administration should speak to the use of private collectors, versus the option of State staff, such as additional positions at FTB.

Since existing statute allows for use of private collections agencies in most cases, this proposal seems to more facilitate existing departmental use of private collections agencies, than to chart a new direction in state policy. At the same time, it would be helpful to understand the cost and effectiveness of private collectors versus state employees, and the Administration indicated no such analysis has been performed.

Staff Recommendation: Approve this request – both budget and placeholder trailer bill language. Add a legislative reporting requirement so the Budget Committee can stay apprised of Administration activities in this area.

Vote:

SUBCOMMITTEE NO. 5 Agenda

Denise Moreno Ducheny, Chair
Robert Dutton
Alex Padilla

Hearing Outcomes

Senators in attendance were Ducheny and Dutton – all 2-0 votes reflect the votes of those Senators

Thursday, May 7, 2009
9:30 a.m.
Room 113

Consultant: Brian Annis

Cashflow and Revenue Collection

Note on the 2009-10 Budget Process: On February 19, the Legislature approved the 2009 Budget Act (SB 1XXX). However, certain items were withheld from the budget, without prejudice, pending a more thorough discussion in the budget subcommittees. Items withheld generally met one or more of the following criteria: (1) were rejected in a prior budget year; (2) have substantial policy implications – for example, information technology of the state's bond capacity; or (3) represent a new program or expansion. Additionally, there are numerous pieces of trailer bill language proposed by the Administration that were not adopted and that require further consideration. The issues in this agenda are these aforementioned issues, April Finance Letters, and other issues of interest to the Subcommittee.

9620 Payment of Interest on General Fund Loans

This budget item appropriates funds to pay interest costs on anticipated General Fund borrowing used to overcome cash flow imbalances during the fiscal year. Because receipts and disbursements occur unevenly throughout the fiscal year, the General Fund borrows in most years, even though each budget is balanced when enacted and funds are repaid within the fiscal year. Interest is paid on both internal borrowing (such as cashflow loans from special funds) and for external borrowing (such as Revenue Anticipation Notes (RANs)). The 2009 Budget Act (SB 1XXX) includes $100 million for interest costs on internal borrowing and $350 million for interest costs on external borrowing. Funding related to internal borrowing is included in the annual budget bill, but funding for external borrowing costs is continuously appropriated in order to reduce risk for borrowers and lower interest costs.

1. **Additional Interest Costs (April Finance Letter):** After the passage of the 2009 Budget Act (SB 1XXX), the Department of Finance recalculated cashflow borrowing and now believes additional borrowing will be required, especially in the first few months of 2009-10. The external cashflow borrowing need for 2009-10 is currently estimated at about $13 billion, which would exceed any past year's borrowing. This higher level of borrowing will result in increased internal borrowing costs of $50 million (to a new total of $150 million) and higher external borrowing costs of $250 million (to a new total of $600 million). Legislative action is requested only for the internal borrowing because it is a budget bill appropriation. The higher external borrowing costs can be administratively addressed due to the continuous appropriation.

   Amendments to Budget Bill Language: In additional to the augmentation, the administration requests the following revisions to budget bill language (changes are underlined). The amendments would essentially allow funds in the budget item to be used for late payment penalties and Registered Warrant (or "IOU") costs. This would help the State fund costs that would be incurred if the Controller has to again delay payments, and possibly take the additional step of issuing Registered Warrants.

   Amendments to 9620-001-0001, Provision 3:
   In the event that Revenue Anticipation Warrants *(RAWs) or Registered Warrants (IOUs)* are issued, or considered to be issued, there is hereby appropriated any amount necessary, in excess of the amount appropriated by this item, to pay the expenses incurred by the Controller, Treasurer, Attorney General, and the Department of Finance in providing for the preparation, sale, issuance, advertising, legal services, credit enhancement, liquidity facility, or any other act which, as approved by the Department of Finance, is necessary for such issuance. Funds appropriated by this item shall not be expended prior to 30 days after the Department of Finance notifies the Joint Legislative Budget Committee of the amounts necessary or not sooner than such lesser time as the Chairperson of the Joint Legislative Budget Committee may determine.

Addition to 9620-001-0001, new Provision 5
In the event that the Controller must implement a payment delay plan to manage emergency cash needs with the concurrence of Department of Finance, there is hereby appropriated any amount necessary, in excess of the amount appropriated by this item, to pay the interest expenses, late payment penalties, and other costs incurred by the Controller which, as approved by the Department of Finance, are necessary to implement the payment delay plan. Amounts appropriated pursuant to this provision shall be transferred, upon approval of the Department of Finance, to augment Item 0840-001-0001 of this act. Funds appropriated by this item shall not be transferred or expended prior to 30 days after the Department of Finance notifies the Joint Legislative Budget Committee of the amounts necessary or not sooner than such lesser time as the Chairperson of the Joint Legislative Budget Committee may determine.

Outlook for Cashflow: New estimates for cashflow may be necessary after the May election and May Revision estimates of revenue. The discussion here is based on the outlook at the time the 2009 Budget Act passed in February. Another possible change would be assistance from the federal government in the form of loan guarantees, or other cashflow support to states. Staff understands a representative from the Treasurer's Office will be available at the hearing to discuss how possible federal assistance could benefit the State.

Staff Comment: The Administration should update the Subcommittee on the cashflow outlook, indicating the anticipated RAN or Revenue Anticipation Warrant (RAW) borrowing need.

Staff Recommendation: Approve the April Finance Letter funding request and approve, as placeholder, the DOF budget bill language. Additional measures may be necessary and proposed by the Administration with the May Revision.

Action: Approved April Finance Letter on a 2-0 vote, but revised the proposed Provision 5 (above) to delete "with the concurrence of the Department of Finance" from the second line.

1730 Franchise Tax Board

The Franchise Tax Board (FTB) administers the personal income tax (PIT) program and the corporation tax (Corp) program. The FTB administers the Homeowners' and Renters' Assistance Programs. The Department also performs some non-tax collection activities, such as the collection of child support payments and other court-ordered payments. The FTB is governed by a three-member board, consisting of the Director Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the Board, manages the daily functions of the Department.

Governor's Budget: The January Governor's Budget proposed expenditures of $560.3 million ($524.4 million General Fund) and 5,259 positions for FTB – a decrease of $6.1 million ($10.4 million General Fund) and a decrease of 141 positions. The reduction primarily reflects the completion of the Child Support Automation Project and the transfer of ongoing implementation to the Department of Child Support Services.

Adopted 2009-10 Framework Budget: The budget adopted in February (SB 1XXX) differed from the Governor's Budget request in that the amount was reduced to eliminate, without prejudice, the following item to allow for a more thorough Subcommittee review:

- $3.9 million for the Enterprise Data to Revenue (EDR) Project (see issue # 4).

Tax Gap Measures: Some of the FTB budget proposals include a General Fund cost, but produce an offsetting General Fund revenue benefit. Recent budgets have augmented FTB staff and funding to specifically narrow the "tax gap," or the difference between taxes owed and taxes paid. The 2008 Budget Act included various tax gap proposals – in total the FTB budget was augmented by $20.1 million (General Fund) and 211 positions – this augmentation was expected to result in a revenue gain of $118 million (General Fund). Some of the 2009-10 proposals and options in this agenda are directed at further narrowing the tax gap – although the proposals increase expenditures, the costs are expected to be fully offset in new revenues over the long term.

Issues proposed for Discussion / Vote:

1. **Employee Furloughs and Revenue Collection (Informational Issue):** FTB employees have *not* been exempted from furloughs. Since reduced work hours reduce audit and collection activity, there is concern that furloughs at revenue departments could result in more revenue loss than cost savings. The FTB has implemented 2-day-per-month "self-directed" furloughs. However, many FTB employees are represented by bargaining units affiliated with the Service Employees International Union (SEIU), and should a proposed Memorandum of Understanding (MOU) with SEIU be implemented, the furloughs for those employees would fall to 1 day per month. Under the SEIU MOU, employee wages would be reduced by the equivalent of 1 day per month, but employees would have discretion, in cooperation with management, to work a full schedule and take off furlough days at a later time. The self-directed furloughs would extend through June 2010. Employees would have until July 1, 2012 to use any deferred furlough days.

   Information from FTB: According to FTB staff, the savings under the self-directed furlough policy will be roughly $20 million. However, FTB also estimates that the SEIU 1-day-per-month furlough would result in the loss of $30 million to $50 million of revenue (by reducing staff time available for tax administration, audits, and collections). The department indicates that the revenue loss is less than originally anticipated because February data suggest that at least 75-percent of furlough hours are used to *replace* paid leave hours (March data suggest that 51-percent of furlough hours *replace* paid leave hours). Additionally, FTB is implementing other mitigation measures to maintain collection and audit work hours – these measures include: (1) restricting use of vacation time to low-workload months; (2) increasing production hours by canceling or deferring training and meetings; and (3) increasing production hours by delaying or decreasing special project work and initiatives. Overall, the FTB estimates reflect a loss or deferral of about $1.50 to $2.50 of revenue for each dollar of savings.

   Information from the Department of Finance: The Department of Finance (DOF) indicates that they are not scoring any revenue loss from furloughs at FTB, because they believe FTB will be able to manage (and limit if necessary) staff time off.

   Staff Comment: The Subcommittee may want to hear from FTB, DOF, and the LAO on the amount of revenue loss from the furloughs.

   Staff Recommendation: Take no action at this time.

   Action: No action taken.

2. **Tax-Gap Options for 2009-10 (from the Legislative Analyst).** The LAO *Analysis* lists several options for the Legislature to consider in this year's budget. If all the LAO options were adopted, a General Fund revenue gain of $80 million would be realized in 2009-10, growing to $178 million in 2011-12. The first option on the LAO list is the Financial Institutions Records Match (FIRM) information technology (IT) system – this is agendized separately as issue #3 and should be discussed under that issue. The Administration's Enterprise Data to Revenue (EDR) IT system also has tax-gap features and is agendized separately as issue #4.

   Background / Detail: The following LAO table lists the various options. Most of these would apply to FTB, but some apply to the Board of Equalization – Committee Staff has amended the table to indicate the applicable department.

Tax Administration Reforms and Federal Tax Conformity Recommendations[a]

(General Fund Benefit, in Millions)

	2008-09	2009-10	2010-11	2011-12
Administrative Modifications				
Implement financial institutions records match system (FTB)	—	$33.0	$61.0	$101.0
Faster use of liens in collections process (BOE)	—	1.0	1.0	1.0
Comply with federal withholding requirement[b] (SCO)	—	—	26.0	1.0
Subtotals Administrative Modifications	(—)	($34.0)	($88.0)	($103.0)
Penalty and Interest Modifications				
Penalize "baseless" overstated claims for refunds (FTB)	$0.5	$1.3	$6.2	$12.2
Extend period before interest is suspended on tax returns (FTB)	1.3	4.0	4.3	4.7
Increase penalty for failure to file partnership returns (FTB)	—	0.9	1.7	1.8
Assess penalty for failure to file S corporation returns (FTB)	—	0.6	1.0	1.4
Increase penalty for bad checks and money orders (FTB & BOE)	—	0.4	1.0	1.0
Assess penalty if tax preparer understates taxpayer liability (FTB)	—	—	0.3	0.6
Subtotals Penalty and Interest Modifications	($1.8)	($7.2)	($14.5)	($21.7)
Fee Modifications				
Modify fees for installment agreements (BOE)	—	$4.0	$4.0	$4.0
Modify and assess fees for offers in compromise (BOE and FTB)	—	0.4	0.4	0.4
Subtotals Fee Modifications	(—)	($4.4)	($4.4)	($4.4)
Federal Tax Conformity Issues				
Partially conform to federal backup withholding (FTB)	—	$35.0	$35.0	$38.0
Conform to the IRS's "kiddie tax" rules for unearned income (FTB)	—	—	15.0	11.0
Subtotals Federal Tax Conformity Issues	(—)	($35.0)	($50.0)	($49.0)
Totals	**$1.8**	**$80.6**	**$156.9**	**$178.1**

[a] Revenue estimates assume recommendations are effective January 1, 2010, and are net of implementation costs.
[b] Estimate reflects total revenues rather than net revenues.

   Staff Comment: The LAO should present their options to the subcommittee. Staff understands the Administration is still reviewing these options and would come forward in the May Revision with any proposals they support.

   Staff Recommendation: Hold action pending May Revision.

Action: Kept issue open.

3. **Financial Institutions Records Match (FIRM) (LAO Option).** FIRM is an IT project that would require financial institutions doing business in California to match FTB information on delinquent tax and non-tax debtors against their customer records on a quarterly basis. The FTB scores the General Fund revenue gain at $35 million in 2009-10, growing to $101 million by 2011-12. The 2009-10 cost to begin implementation would be $3.2 million and total project cost would be $20.8 million over four years. Last year FIRM was discussed in the Budget Conference Committee – the Department of Finance opposed FIRM, citing no completed Feasibility Study Report (FSR), as is required for new IT projects. The FSR has since been completed, but the Administration has not, to date, proposed the project for the 2009-10 budget.

   Background / Detail: FIRM is patterned after the FTB's Financial Institution Data Match (FIDM), a project FTB implemented as a result of federal legislation to identify the assets of delinquent child support debtors. The success of FIDM prompted FTB to extend the asset identification effort – via FIRM – to other classes of debtors. The FTB would use the new data to aid in the collection of debts under the authority of the existing Order to Withhold (OTW) statutes. The proposal would not impact existing law that provides the applicable constitutional due process protections and appeal rights available in either the audit or collection processes. FIRM would take about 18 months to implement, so the 2009-10 revenue gain is accrued back from the date of anticipated collection. The IT system, as proposed, would only include FTB, but the system could be easily modified after implementation to support debt collection for the Board of Equalization (BOE) and the Employment Development Department (EDD).

   Policy Bill on FIRM: Senate Bill 402 (Wolk), as amended April 28, 2009, would enact the statutory authority for FIRM, but the bill specifies actual implementation would require an appropriation by the Legislature. The bill includes a provision to reimburse banks up to $2,500 for implementation and up to $250 per quarter thereafter. Staff understands that with this provision, no banks are on record opposing this bill. If SB 402 is enacted this year, but no funding is appropriated for 2009-10, the net General Fund benefits of the program would be delayed.

   Staff Comment: The FTB should present the FIRM proposal and the LAO and Department of Finance should comment. The Subcommittee may want to consider taking action to adopt this proposal in light of: (1) the budget situation and the projected revenue gain of $35 million in 2009-10, growing to $101 million by 2011-12; (2) the fact that there is precedent for this bank records matching with child support collections; (3) that banks are no longer opposed to the measure; and (4) that all taxpayer due process protections would continue.

   Staff Recommendation: Approve budget funding (about $3.2 million General Fund) to begin implementing FIRM in 2009-10, and approve the SB 402 language as placeholder trailer bill language.

Action: Kept issue open.

4. **Enterprise Data Revenue (EDR) IT Project (BCP and April FL).** As noted earlier, $3.9 million of funding and 58 positions requested for the EDR project were deleted (without prejudice) in the 2009 Budget Act. That action reflected a desire to give this proposal thorough review in the Subcommittee. This is the initial request for a major new data integration project at FTB that would cost about $300 million (through 2017-18) to implement. The Administration has since submitted an April Finance Letter that modifies the proposal by accelerating, from January 2010 to July 2009, the hiring of staff such that the 2009-10 costs increase to $5.2 million. The FTB also estimates that the project will generate about $2.8 billion of additional revenue over the project timeline, and that ongoing net revenue would be in excess of $900 million annually.

   EDR Budget Proposal and Project Description: The 2009-10 EDR budget proposal consists of $5.2 million (General Fund) and the addition of 58 positions for FTB to: (1) resolve an existing backlog in business entity return processing and collections correspondence; (2) hire additional staff and consultants to document FTB's business processes as a precursor to development of the EDR Project; and (3) begin planning for the EDR project, including issuing a request for proposals. The FTB estimates that the proposal will increase General Fund revenue collected by $7 million in 2009-10 and by $19.9 million in 2010-11, primarily by adding staff to process the current backlog of business entity returns and begin collection correspondence in order to accelerate revenue. The EDR project would take approximately seven years to implement and, once completed, would replace several older FTB information technology systems and streamline other existing systems. The FTB estimates the project will incur costs of $317 million during implementation (2008–09 through 2017–18) with annual costs thereafter estimated to be $13.5 million.

   Main Goals: The EDR Project has three major goals. First, it seeks to capture all tax return data in an electronic form. Second, the project will integrate the various existing "siloed" tax databases at FTB into a data warehouse. Third, the project will enable FTB to add third-party data (county assessor data, for example) to its data warehouse. The FTB asserts that the EDR Project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, the FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

Project Components: The project includes the following improvements to FTB's systems that process personal income tax (PIT) and business entity tax returns:

- An underpayment modeling process that would be integrated with the Accounts Receivable Collections System and Taxpayer Information System.
- An enterprise data warehouse with data search and analysis tools.
- A taxpayer records folder that is accessible to the taxpayer and allows taxpayers and FTB staff to access the information.
- Re–engineering of existing business processes—including imaging of tax returns, data capture, fraud and underpayment detection, tax return validation, filing enforcement, and other audit processes—and integration of these enhanced business processes with FTB's existing tax systems.
- Improved business services at FTB such as address verification, issuance of notices, and a single internal password sign-on for its IT systems.

Benefit-Funded Approach: FTB indicates that it plans to finance the EDR Project using a benefit-funded approach. Contractor payment for system development and implementation will be conditioned on generating additional revenue that will more than cover the cost. This approach is intended to protect the state and also gives the contractors a strong incentive to develop the project in a manner that produces significant revenue quickly. The FTB has used this approach previously.

LAO Recommendation: The LAO originally recommended deferral of this project but has since changed its recommendation to support implementation of the project beginning in 2009-10.

Staff Comments:

1. FTB's benefit-funded approach makes use of revenue gains from reducing the backlog to fully offset costs in 2009-10 through 2012-13. However, these gains can be accomplished regardless of whether project development goes forward. In subsequent years, the estimates in the project's Feasibility Study Report (FSR) indicate large increases in annual revenue gains that would be more directly attributable to the project. From 2012-13 through 2016-17 annual revenue gains increase from $86.4 million to $940 million, while project implementation costs increase from $58.8 million in 2012-13 to a peak of $111.6 million in 2014-15 and then decline to $14.1 million by 2016-17.

2. Because the net benefit of this project (as estimated in the FSR) ramps up quickly and becomes very large, the net present value loss to the General Fund that results from delaying the project by one year is somewhere between $600 million and $900 million (depending on discount rate). The investment required to avoid this loss is about $24 million over the next three years (disregarding revenue from backlog reduction). As noted above, the project begins to produce significant net revenues starting in 2013-14. Of course, these calculations critically depend on the accuracy of both the estimates and the schedules in the FSR.

3. The FTB has, perhaps, the best track record in California state government for the successful development and implementation of major information technology projects. However, FTB projects have experienced some significant delays and cost increases, although these problems generally have not prevented successful completion.
4. Due to the large cost of this project and the large projected revenue benefit, the Subcommittee may want to consider adding an annual reporting requirement (if the proposal is approved). An annual report requirement is common with large IT projects, and would keep the Legislature informed of any cost or schedule changes.

Staff Recommendation: Approve the EDR proposal, as revised by the April Finance Letter. Add an annual report requirement.

Action: Kept issue open.

5. **Staffing for Suspended Senior Homeowners and Renters Assistance (HRA) Program (Staff Issue):** The FTB budget includes $6.4 million in the current year and $6.5 million in 2009-10 (all General Fund) for administration of the Senior Homeowners and Renters Assistance Program. This funding supports 79 positions, of which 33 are temporary help. The HRA program provided annual payment to low-income seniors and disabled renters and homeowners. Although the program continues to be authorized in law, the Governor vetoed all funding for payments in the 2008-09 Budget Act, and no funding for payments was included in the Governor's January Budget or in the 2009 Budget Act (SB 1XXX).

   FTB Comment: The FTB indicates that it continued to include administrative funding in its budget in the event that funding was restored for the assistance payments. The department also indicates that some ongoing administrative work is needed to process claims for prior years, to maintain the existing data systems, and to fund central administrative costs.

   If the program suspension is ongoing, the FTB suggests that the budget could be reduced by $4.8 million in 2009-10 and by an additional $500,000 in 2010-11. This would result in the residual funding of $1.6 million in 2009-10 and $1.2 million ongoing for FTB operations. The FTB indicates the retained $1.2 million would be for fixed costs of rent ($600,000) and the HRA share of centralized information technology maintenance ($550,000). The FTB would also request to retain $500,000 and 7 positions for 2009-10 to complete prior-year claims and appeals related to 2007-08 HRA activity.

   Staff Comment: While funding for the Senior Homeowners and Renters Program may be reinstated in a better budget year, maintaining staff at FTB for a suspended program seems a luxury the state cannot afford. Presumably, if the positions and funding is eliminated, program staff would be absorbed into vacant positions at FTB. Some program staff may be willing to return to the Senior Program in the future if funding is stored. While some departments claim centralized administration costs for all new positions, the FTB appears to have been conservative in requesting funding for new positions in other areas. Specifically, they have not requested rent funding or centralized IT funding for recently added positions. Given this, their request to retain and shift $1.2 million for centralized costs seems defensible.

   Staff Recommendation: Approve a budget reduction for HRA administration as suggested by FTB – reduce funding by $4.8 million in 2009-10 and $5.3 million ongoing. (This results in funding of $500,000 and 7.0 positions to complete prior HRA workload in 2009-10, and a funding shift of $1.2 million in centralized costs from the HRA program to other FTB programs).

   Action: Approved Staff Recommendation on a 2-0 vote.

6. **Implementation of New Tax Credits (April FL#14):** The Governor requests $663,000 General Fund and 8 positions in 2009-10 and $145,000 and 1.5 positions ongoing to implement and administer the provisions of SB 15XX and SB 15XXX – two tax credit measures enacted with the February 2009 budget package.

   Detail on the New Tax Credits. SB 15XX and SB 15XXX enacted new tax credits, each of which is limited-term with a total credit cap. The credits and costs are as follows:

   - **Homebuyer's Credit**: This credit is capped at a total of $100 million and is available for the purchaser of a new home who would use the home as a principal residence. Homebuyers would receive a state income tax credit of the lesser of 5 percent of the purchase price of the qualified principal residence or $10,000. Credits are allocated by FTB. FTB requests $219,000 and 2.8 positions in 2009-10 for associated workload, with no ongoing costs or positions.
   - **Small Business Hiring Credit**: This credit is capped at a total of $400 million and is available as a $3,000 tax credit for each new full-time equivalent employee at a qualified small business. Credits are allocated by FTB. FTB requests $289,000 and 3.2 positions in 2009-10 for associated workload, with $34,000 and 0.5 positions ongoing.
   - **Film/Television Production Credit**: This credit is capped at a total of $500 million with no more that $100 million allocated each year for five years. Credits can be allocated starting in the 2009-10 fiscal year, but can only be claimed in tax years beginning in 2011. The Film Commission within the Business, Transportation and Housing Agency is charged with awarding the credits. The FTB will have to verify that the taxpayer claiming the credit is in fact the qualified taxpayer allocated credits by the Film Commission or the purchaser of such credits. FTB requests $154,000 and 2.0 positions in 2009-10 for associated workload, with $111,000 and 1.0 position ongoing.

   FTB Workload: Most of the workload associated with this request is one-time information-technology modifications. Five one-year limited-term Programmer Analyst positions are requested to create new forms, develop a secure transmission process for the receipt of the certifications, make system changes to collect data from the returns upfront, and monitor the allowance of credits. The 1.5 positions ongoing are 1.0 Program Specialist in the audit division (related to the Film Credit) and 0.5 Tax Program Technicians in the Filing Division (related to the Hiring Credit). The ongoing positions would maintain data on credits, answer inquires, etc.

   Staff Comment: The FTB should describe how they are working with the Film Commission to insure that the Commission structures the program in a way that allows appropriate FTB tracking and audits.

   The Subcommittee may want to consider the approach of funding one-time implementation costs (such as new forms or information technology changes), but have the FTB absorb the longer-term workload. Since the longer-term workload is relatively small it should be absorbable within what is already a constantly changing environment with changes in the number of taxpayers, federal law changes, etc.

Staff Recommendation: Approve the one-time information technology workload by approving 5.0 IT positions. Reject the remainder of the 2009-10 request and the 1.5 ongoing positions.

Action: Chair recommendation on a 2-0 vote. Three limited-term positions; no ongoing PYs.

0860 Board of Equalization

The Board of Equalization (BOE) administers the sales and use tax programs, administers a variety of business and excise taxes and fees, and oversees the administration of the property tax by county assessors. The BOE is governed by a five-member board, consisting of four regionally elected members and the State Controller. The Board is also the final administrative appellate body for personal income and corporation taxes, which the Franchise Tax Board administers.

The January Governor's Budget proposed expenditures of $456.5 million ($256.8 million General Fund) and 4,186.5 positions for BOE – an increase of $28.5 million ($17.3 million General Fund) and an increase of 169.8 positions. Much of the staffing increase reflects the annualization of positions added on a partial-year basis in 2008-09, primarily for efforts to reduce the "Tax Gap" – the difference between taxes owed and taxes collected.

2009 Budget Act. The budget adopted in February for the BOE differed from the Governor's Budget request in the following two respects:

- $13.5 million ($9.9 million General Fund) was vetoed by the Governor on the basis that the board should be subject to savings equivalent to the amount that would result from applying the Governor's employee furlough order to BOE staff (see Issue #1, later in the agenda).
- $1.328 million and 5.9 positions that had been requested to implement board regulations imposing distilled-spirit tax rates on flavored malt beverages was deleted (see Issue #2 later in the agenda).

Tax Gap Measures: Some of the BOE budget proposals include a General Fund cost, but produce an offsetting General Fund revenue benefit. Recent budgets have augmented BOE staff and funding to specifically narrow the "tax gap," or the difference between taxes owed and taxes paid. The 2008 Budget Act included various tax gap proposals – in total the BOE budget was augmented by $29.9 million ($17.3 million General Fund) and 296 positions, which were expected to result in a 2008-09 revenue gain of $118 million ($70.7 million General Fund).

Issues proposed for Discussion / Vote:

1. **Employee Furloughs and Revenue Collection (Informational Issue):** BOE employees have *not* been exempted by the Governor from the furlough plan. However, BOE indicates that their employees are *not* currently being furloughed because the case is on appeal concerning the ability of the Governor to implement furloughs for workers employed by Constitutional Officers of the State (here the BOE Board). Since reduced work hours would reduce audit and collection activity, there is concern that furloughs at revenue departments could result in more revenue loss than cost savings. If BOE does ultimately implement the furloughs, they would extend through June 2010. Employees would have until July 1, 2012, to use any deferred furlough days.

   Information from BOE: According to BOE staff, the savings under the self-directed furlough policy would be roughly $13.5 million (about $9.9 million General Fund). The BOE estimates that the furlough policy (by reducing staff time available for tax administration, audits, and collections) would result in the loss or deferral of $88 million of revenue, of which $52 million will be General Fund revenue. Overall, this reflects a loss or deferral of about $6.50 of total revenue for each dollar of total savings—and a loss or deferral of about $5.25 of General Fund revenue for each dollar of General Fund savings. These BOE estimates assume a one-day per month "self directed" furlough (consistent with the Service Employees' International Union (SEIU) MOU with the Administration). However, unlike the FTB assumptions, BOE does not assume any offset to furlough days from reduced use of vacation leave. Assuming this offset would reduce the revenue loss significantly.

   Information from the Department of Finance: The Department of Finance (DOF) indicates that they are not scoring any revenue loss from possible furloughs at BOE, because they believe BOE will be able to manage (and limit if necessary) staff time off.

   Staff Comment: The Subcommittee may want to hear from FTB, DOF, and the LAO on the amount of revenue loss from the furloughs.

   Staff Recommendation: Take no action at this time.

   Action: No action taken. Questions: DOF how much is currently being expended on court costs?

2. **Taxation of Flavored Malt Beverages (January BCP #4):** The Governor's Budget for 2009-10 included a request for $1.3 million (General Fund) to implement regulations adopted by the Board in April 2008 defining Flavored Malt Beverages (FMBs) as alcoholic beverages that (a) use a fermented malt base (as with beer or ale), (b) are treated to remove the malt characteristics, and (c) to which are added flavorings or other ingredients containing distilled alcohol that constitutes at least 0.5 percent of the final beverage's alcohol by volume. This funding was excluded from the 2009 Budget Act (SB 1XXX), without prejudice, for further Subcommittee consideration. FMBs typically are flavored alcoholic drinks that are sold alongside beer and have similar alcohol contents. Under the regulations, FMBs are taxed at the much higher rates that apply to distilled spirits, rather than as beer or wine. The regulations provide for a rebuttable presumption that all alcoholic beverages, other than wine, are distilled spirits (including FMBs). Manufacturers may present evidence to rebut the presumption that their beverage contains distilled alcohol and be taxed as beer. The Governor's Budget included $38.3 million of additional General Fund revenue related to this budget request.

Industry Reformulates and Rebuts: Manufacturers of the targeted beverages recently have filed rebuttals with the BOE indicating that they have reformulated their drinks to be below the 0.5 percent distilled alcohol threshold for FMBs. Consequently, BOE is unable to apply the higher tax rates to these beverages.

Revised BOE Request: Given the action of the industry to reformulate their products, the workload assumptions in the budget request are no longer valid. BOE staff have indicated an alternative option of $250,000 and one position for scientific tests to verify the reformulation.

Staff Comment: The BOE, Department of Finance, and LAO should update the Subcommittee on the status of this issue and indicate their current recommendation on staff and budget funding. The revised BOE proposal would allow the State to verify that producers have indeed reformulated their beverages and to verify that their claim to be exempt from the higher tax rate is valid. However, if the producers did fail the test they would likely reformulate again to avoid the higher tax. It appears that the BOE regulation cannot bring in the anticipated $38.2 million in new General Fund revenue due to legally-allowable reformulation by producers. Staff notes, that the Legislature could, through tax legislation, impose a higher tax on FMBs regardless of the source of their alcohol. The BOE's regulatory approach was based on the structure of the existing alcoholic beverage tax law.

Staff Recommendation: Reject both the January budget request and the revised BOE request. While it would be desirable to test compliance, it would not ultimately be revenue producing and would, therefore, not be a top priority in a budget year such as this.

Action: Staff recommendation 2-0 vote. Less filling, taste great.

3. **Use Tax Voluntary Disclosure Program:** The 2009 Budget Act includes $126,000 ($87,000 General Fund) to establish one permanent position to reinstate the Use Tax Voluntary Disclosure Program. This program sunset on January 1, 2008, but was reinstated by AB 3079 (Committee on Revenue and Taxation) of 2008. Under the program, California purchasers of taxable goods who voluntarily come forward and pay unpaid use tax liability receive penalty relief and a shorter statute of limitations period (three years instead of eight years). The BOE estimates that this proposal will increase revenue by $2.5 million annually—almost a 20:1 benefit/cost ratio.

   Assembly Subcommittee Action: The Assembly Subcommittee rejected this request and suggested BOE fund this one position through redirection. Staff understands the Assembly action to suggest that BOE should internally manage their staff resources with ongoing consideration of moving staff from lower benefit-to-cost activities to higher benefit-to-cost activities. There are many revenue-related activities at BOE that have a smaller revenue benefit, so the revenue benefit of this proposal might better be calculated as the revenue from the lower benefit-to-cost activity from which staff would otherwise be redirected from. Additionally, the BOE information indicates that when the program was previously in effect, the workload was absorbed within existing staff.

   Staff Recommendation: Reject the budget request (conform to the Assembly action).

   Action: Staff recommendation 2-0 vote

4. **New Special Taxing Jurisdictions (April Finance Letter):** The Governor requests $570,000 (General Fund) and $1.7 million in reimbursements to permanently establish 22.5 positions to perform the increased workload arising from the establishment of 52 additional Special Taxing Jurisdictions (STJ) since 2005-06. A Special Taxing Jurisdiction generally has the same boundaries as a city or county and is created by the adoption of a local add-on sales and use tax. Generally these local add-on taxes support important transportation, public safety, education, or health and welfare programs.

   Background on Special Taxing Jurisdictions: By law, STJs are required to contract with BOE for administration of the district taxes. BOE indicates there are currently 115 STJs in the sales and use tax area. The high number of STJs increases the complexity of tax returns and audits. If this request were denied, BOE would have to redirect staff away from normal audit and collection work negatively impacting the General Fund revenue by approximately $2 million each year. The budget request is funded primarily through reimbursements from the STJs, but also includes some General Fund due to the fact that all taxpayers are registered and file returns based on all taxing jurisdictions, including STJs, and therefore an employee's work covers both areas.

   Staff Comment: While existing law allows the BOE to charge a new Special Taxing Jurisdiction for related administration costs, a budget augmentation is needed to allow BOE to add staff for this workload. According to BOE, the General Fund cost of this proposal is fully offset on the revenue side.

   While the majority of this request would be funded from local funds, any additional cost for the locals, as well as the State, is difficult at this time. The BOE's budget has not been augmented specifically for STJs in recent years; however, last year 134 new positions were added in the general audit and collections area as part of the initiative to reduce the tax gap. The Subcommittee may want to consider a measured approach of only funding STJ workload associated with local taxes added since July 1, 2008 – this would cut the requested funding and positions approximately in half. It would require BOE to continue to absorb the base workload from prior years as they did in last year's budget. Additional adjustments could be made in future years as warranted.

   Staff Recommendation: Approve half the funding requested – approve 11 positions and approximately $1.2 million (about $285,000 General Fund).

   Action: LAO recommendation 2-0 vote – approve 11 positions, however reduce GF $600,000 and increase reimbursements $600,000

5. **Implementation of the temporary 1-cent sales tax (April Finance Letters):** The Governor requests several changes related to the BOE's implementation of the temporary 1-cent sales and use tax increase implemented by AB 3XXX as part of the February budget package. In total, the requests increase General Fund expenditures by $7.3 million in 2009-10 – this is comprised of $6.4 General Fund for administrative cost reallocation and $880,000 General Fund for 13.3 new limited-term positions.

   Background / Detail: Under current law, the BOE allocates administrative costs across various revenue recipients based primarily on the amount of revenue collected for each level of government (the state, cities and counties, and Special Taxing Jurisdictions). This cost allocation methodology is found in Revenue and Taxation Code Sections 7204.3 and 7273. With the 1-cent tax increase at the State level, the State's share of revenue collections is increased and that triggers a reallocation of administrative costs for *base* collection activities. Secondarily, the *marginal* collections associated with the tax increase are not only borne by the General Fund, but rather allocated by the revenue formula – so the cost of the 13.3 new positions would be funded by $880,000 General Fund and $342,000 in reimbursements from local entities. While the accounting methodology is defensible, BOE's cost of $1.2 million for implementing the State tax increase is combined with a $6.1 million revenue benefit to cities, counties, and Special Taxing Jurisdictions at the expense of the State General Fund. The below table shows the 2009-10 costs of the BOE budget request – similar annual costs would continue for the life of the tax (either 2 years or 3 years depending on voter action on Proposition 1A). The BOE indicates the 13.3 new positions are needed based on their estimate of new workload: (1) 40 additional minutes to complete each audit; (2) 41,000 additional return errors taking an average of 15 minutes to resolve; (3) 72,000 additional calls taking an average of 15 minutes each; and (4) various centralized administration costs.

	General Fund	Reimbursement from locals	Total (net across funds)
Reallocation of base BOE admin costs	$6,438	-$6,438	$0
BOE implementation Cost for tax increase	880	342	1,222
Net General Fund cost	$7,318		
Net local government benefit		-$6,096	

   Staff Comment: There are really two issues before the subcommittee in this request:

   1. Whether the existing statutory cost-allocation methodology should be suspended in the case of the temporary sales tax to lower General Fund

costs. If the cost allocation were separately calculated for the 1-cent tax, the state General Fund cost would be $1.2 million and the local cost would be held harmless. The statutory methodology of allocating collection costs among the State and local entities based on revenue shares is fair and good policy. However, here the state is dealing with a temporary tax, and unable to fund many worthy General Fund priorities.

2. The second issue is whether the 13.3 new positions are the appropriate staffing for the marginal cost of the new tax, and if the workload is reasonable, should it be absorbed within the existing budget or funded via an augmentation. The Subcommittee may want to consider the approach of funding one-time implementation costs (such as new forms or information technology changes), but have the BOE absorb the longer-term workload. Since the longer-term workload is relatively small it should be absorbable within what is already a constantly changing environment with changes in the number of taxpayers, local add-on taxes, etc. For BOE, most of the one-time work has been done in the current year, because the tax increase was effective April 1, 2009. Staff understands the Administration is considering a Section 26.00 Letter to internally shift BOE budget funding from facility funding to these one-time costs.

Staff Recommendation: Reject this proposal, including both the administrative cost reallocation ($6.4 million General Fund), and the new staff for the 1-cent sales tax workload ($880,000 General Fund). This recommendation is without criticism to the cost allocation methodology, or the BOE workload calculations – it is simply based on the General Fund condition.

Action: Staff recommendation with LAO / BOE technical workgroup to determine base shift amount.

6. **BOE Headquarters Building:** The enacted 2009 Budget Act (SB 1XXX) includes an augmentation of $5.7 million ($3.3 million General Fund) to establish 6 permanent positions and to relocate about 500 employees from the current Sacramento headquarters building at 450 N Street, including the establishment of 6 permanent positions to handle the relocation and also for leasing and relocation work at other BOE sites. The budget estimates that the annual cost of this proposal will grow to $8.5 million in 2010-11 and subsequent years.

   Background: The HQ building has a long, sad, and expensive history of problems. Construction was completed in 1993. The original owner was CalPERS, and the state leased the building on behalf of BOE. The state purchased the building several years ago because financing a purchase appeared more cost-effective than the ongoing lease payments. However, the building has a history of construction defects causing water leakage, mold, and glass falling out of the building curtain wall. A major project to replace the curtainwall glass and seals and to remediate areas of water leakage was completed in 2006. Leakage problems, other building system problems, and employee complaints of building-induced illness continue nevertheless. According to BOE, bond financing for the purchase was never completed due to the ongoing problems and temporary financing from the Pooled Money Investment Account remains in place. Compounding this situation, in March of this year, a major hot water pipe burst flooding several floors.

   Occupancy Exceeds Design Level: The BOE indicates that the recommended maximum occupancy for the building is 2,200 and that estimated occupancy will exceed this level by 415 in the current year. The Board indicates that leasing additional space and reducing crowding is necessary to maintain employee productivity and morale and to protect the health and safety of employees because the building's HVAC and other systems are being stretched and because remediation of ongoing problems requires continually shifting employees out of the areas affected by the remediation work.

   Options Under Consideration: The $5.7 million appropriated in the 2009 Budget Act is a partial step in resolving issues with the headquarters building. Repairs are needed for water-related damage in many restrooms and for the recent major pipe burst. The multiple problems over multiple years have resulted in calls to perform a more extensive overhall or to sell the building. The Department of General Services provides a list of options that are being analyzed for cost and risk:

   1. Move BOE out of building, repair when empty, then re-occupy.
   2. Repair, while occupied by BOE, utilizing “swing space” within the building where employees are temporarily relocated two floors at a time.
   3. Repair floors, while occupied, by sealing off the work areas and directing employees to restrooms and breakrooms on other floors.
   4. Sell the building.

Staff understand that BOE and DGS are working together to analyze these options, but at the time the agenda was finalized, there was no specific proposal from the Administration.

Related Budget Issues: BOE changed their costing for the "Facilities Operations" component (rent cost) of new positions from the $2,819 used last year to $11,351 for new Headquarters positions and $6,040 for new district positions. This new costing is included in new positions approved in SB 1XXX and in April Finance Letters. This new costing appears high for either methodology of (1) costing for the actual marginal cost of the new positions, or (2) costing based on the overall average for base and new staff. The higher costing seems instead related to the facility issues in this BCP #1. Those costs related to problems with the headquarters building should already have been included in BCP #1, so a budget reduction to use last year's costing of $2,819 per position (instead of either $11,351 or $6,040) would seem appropriate. BOE indicates another cross-cutting issue is what was budgeted for new positions related to workstations. BOE staff reviewed the costing and indicate $7,500 per position was double-counted. Therefore, BOE indicates a budget reduction of $285,000 is necessary to correct for the double-counting.

Use of Bond Funding: The BOE budget includes $5.9 million to pay the cost of bond debt service. However, this cost would not be incurred if the facility bonds are not sold in 2009-10 and discussions with the Administration suggest it is very unlikely the bonds can be sold in 2009-10 given problems with the building. In the recent past, the BOE has redirected the bond debt-service funding for mold and water mitigation and repair costs. BOE and the Department of General Services indicate there are water and mold mitigation costs, in 2009-10 that go beyond funds appropriated for that purpose. It seems likely the Administration would again in 2009-10 shift the $5.9 million for bonds debt-service to building repairs. Given that this is the likelihood, the Subcommittee may want to consider a budget action to correctly score the $5.9 million as building repairs instead of debt service (this would not amend the budget bill, but rather indicate the adjustment in the Department of Finance Changebook budget tracking system).

Staff Comment: Problems with the facility are costing the State money and causing inconvenience for BOE employees. A sizable number of BOE employees have also filed workers compensation claims or otherwise reported negative health consequences. These issues make a comprehensive resolution plan essential. It is not clear, however, that BOE, DGS, and the Department of Finance will be able to develop a comprehensive plan during this spring's budget process.

Staff Recommendation: Take the following action in addition to the $5.7 million already approved in the 2009 Budget Act:

- Shift the $5.9 million for bonds debt service to building repair (this would likely occur anyway through internal redirection).
- Fix the facilities / general expense budgeting in the other BCPs and Finance Letters: cut $286,000 for workstation double-counting, and cut $1.1 million for

over-budgeted per employee rent costs (these changes would also have to be adjusted to conform to action on the BCPs and FLs in other issues).

Action: Held open pending receipt of further information.

9655 Statewide Accounts Receivable Management Enhancements

This budget item is newly created in the 2009-10 budget to provide centralized budget authority for statewide accounts-receivable management enhancements. In this case, Accounts Receivable (AR) are outstanding obligations owed to the State including taxes, fees, penalties and other payments. The new funding in the budget is $8.3 million ($3.3 million General Fund) and gross revenue gain is anticipated at $32.5 million ($13.8 million General Fund). The budget funding in this item supports two efforts: (1) $197,000 for two new positions (two-year limited-term) at the State Controllers Office (SCO) to centrally track statewide AR and (2) $8.1 million to pay for private collection agency fees or departmental costs for collections work. This proposal would affect both revenue and non-revenue departments – i.e., it would affect the Board of Equalization (BOE) and the Franchise Tax Board (FTB), but also departments such as the Department of Motor Vehicles, the California Highway Patrol, and the State Lands Commission.

The enacted 2009 Budget Act (SB 1XXX) included the Governor's proposed funding of $8.3 million for this new item. However, to fully implement the proposal, trailer bill language must also be adopted and action on statutory changes was withheld from the adopted budget package, without prejudice, to allow for a thorough Subcommittee review of the proposal.

1. **Administration Accounts Receivable Proposal for 2009-10:** As indicated above, the Administration requests new budget funding and statutory change to improve the State collection of accounts receivable. The proposal includes the following main components:

   - Establish 2.0 new limited-term positions at the SCO and $197,000 to collect and analyze AR data from departments and to periodically report on the results of this effort for policy considerations and for management action.
   - Establish a new mechanism to pay for private collection agencies fees, which could generate a net gain of up to $19.8 million (up to $7.8 million General Fund).
   - Establish general statutory authority to allow all departments to charge a fee for their costs of collecting delinquent ARs, potentially increasing revenues up to $1.4 million. Amend existing statute to allow the Board of Equalization (BOE) to add the contingency fee for in-state private collection agencies' fees to tax liabilities, potentially increasing revenues up to $3.2 million.
   - Revise statute to increase the size of ARs departments can internally discharge from $250 to $500.

   Current practice: The State Administrative Manual (SAM) provides direction to departments for collection of ARs. Departments are generally directed to send three letters in an attempt to collect ARs and then can turn the debt over for collection by private collection agencies. Practices vary somewhat at the tax collection departments. Initial surveys by the administration indicate that over $6.3 billion in ARs are outstanding. Few departments, only 9 out of 40 in a recent review, use private collections agencies. For those that do use private collectors, collection rates range from 1 percent to 40 percent. Under current practice, private collectors receive a share of any collections – the Administration indicates it would explore another option of the sale of ARs, such that the purchaser assumes all risk of collection, but keeps 100 percent of debt collected.

Another option for some departments is to turn over non-tax collections to the Franchise Tax Board. Statute defines certain non-tax collection activity for FTB such as collection of child support and court-ordered debt. Departments can also turn debts over to FTB, and if the debtor has a tax refund due, the refund is instead redirected to debt payment.

Problems indicated with current practice: The four components of the request (listed above) seek to address the following issues:

- Centralized data on department ARs is not compiled – records are only kept at the department level. This hampers transparency, but also reduces the opportunity of the state to package and sell ARs.
- No flexible mechanism exists to pay private collectors when they are successful in collecting ARs – departments must fund this out of their base budget or request additional funds through the annual budget process.
- No general statutory authority exists for departments to charge a fee for the cost of collection for delinquent ARs.
- Current statue limits the amount that departments can internally discharge (or drop from the books as uncollectible) to $250. The administration argues this should be increase to $500 to focus department efforts on more cost-effective AR collection.

Staff Comment: The Department of Finance should present this proposal to the Subcommittee. The BOE and FTB should comment on this proposal relative to their collection experience and explain how this proposal might affect their work. Additionally, the Administration should speak to the use of private collectors, versus the option of State staff, such as additional positions at FTB.

Since existing statute allows for use of private collections agencies in most cases, this proposal seems to more facilitate existing departmental use of private collections agencies, than to chart a new direction in state policy. At the same time, it would be helpful to understand the cost and effectiveness of private collectors versus state employees, and the Administration indicated no such analysis has been performed.

Staff Recommendation: Approve this request – both budget and placeholder trailer bill language. Add a legislative reporting requirement so the Budget Committee can stay apprised of Administration activities in this area.

Action: Chair recommendation, no action.

SUBCOMMITTEE NO. 5 Agenda

Denise Moreno Ducheny, Chair
Robert Dutton
Alex Padilla

Tuesday, August 25, 2009
10:00 a.m.
Room 112

Consultants: Brian Annis & Bryan Ehlers

Impact of the Furloughs on State Revenue

I. Presentation by Revenue Collection Departments:

Lisa Garrison, Chief Financial Officer, Franchise Tax Board
Ramon Hirsig, Executive Director, Board of Equalization
Laura Anderson, Deputy Director Administration, Employment Development Department

II. Presentation by State Finance / Personnel Entities:

Chris Hill, Principal Budget Analyst, Department of Finance
Pamela Schneider, Legislative Coordinator, Department of Personnel Administration

III. Public Comment

Attachments: Estimates of revenue impact of furloughs from the Franchise Tax Board, the Board of Equalization, and the Employment Development Department.

Franchise Tax Board Attachments

chair John Chiang
member Betty T. Yee
member Michael C. Genest

State of California
Franchise Tax Board

06.30.09

To: Mike Genest, Director
Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

From: Selvi Stanislaus

FTB Revenue Impacts of Furloughs and Layoffs

Memorandum

The Franchise Tax Board is committed to contributing solutions in dealing with the State's fiscal crises. Now, as in the past, we continue to look at additional ways of producing revenue and cutting expenditures. As a predominately General Fund department, we have been particularly hard hit by recent across-the-board cuts and will be further impacted if suggested reductions are put into place. As a department who's only product is revenue – voluntary and involuntary –cuts in our operations do impact our final revenue output. Understanding the huge constraints that the Administration and the Legislature are under, we felt that it was important that you at least be aware of those revenue impacts when making decisions.

SUMMARY OF IMPACTS OF CURRENT AND PROPOSED FURLOUGHS, LAYOFFS, AND PAY REDUCTIONS

- FTB collects over 67.7 percent or $63 billion of the General Fund annual revenue.

- For FY 9/10, we have projected $4.4 billion in revenue from our involuntary compliance programs – Audit, Collections, and Filing Enforcement. [1]

[1] Per May 4 DOF Estimating Meeting: Audit - $1.509 billion in assessments, $463 million in cash; Collections - $2.182 billion in cash; Filing Enforcement - $693 million cash.

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- For each 5 percent reduction in direct production hours through a furlough, we estimate roughly a $250 million revenue reduction from these programs ($150 million loss and $100 million delayed) prior to taking mitigating actions.

- The timing of any revenue loss is uncertain and would spread over a period of years depending upon employee behavior in using furlough and vacation time versus banking additional time. However, we assume that as the level of furlough days increase that employees will defer less, and use more in current years so revenue losses would be accelerated into current years.

- Mitigation efforts such as limiting vacation usage and reducing or eliminating indirect activities can lessen the revenue impact of personnel cuts, however, only to a limited degree. Some level of slippage will continue to occur, and that level will increase over time and with an increase in levels of cuts.

- After factoring in possible mitigating actions, we estimate that the various furlough proposals would have the following impacts on our involuntary compliance programs only. Attachment A provides a detailed analysis of each reduction item and impact.

Reduction	Salary Savings Generated	Incremental Revenue Loss Impact	Cumulative Revenue Loss Impact
One day furlough	$20 million	$30 - $50 million	$30 - $50 million
Two day furlough	$20 million + prior $20 mil.	$150 - $250 million	$180 - $300 million
Three day furlough	$20 million + prior $40 mil.	$200 - $250 million	$380 -$550 million
250 PY Layoffs	$15 million increment	$50 - $125 million	Depending upon combination of reductions.

- While more difficult to quantify and not included above, the impacts of reductions on our voluntary compliance areas should not be underestimated

- Reduced Call Center hours would increase taxpayer errors, increase processing times and costs, and impact revenue.
- Less growth in the development of self-service E-applications precludes achieving the efficiencies that these applications offer.

- FTB's ability to implement large-scale, long-term IT projects such as FIRM and EDR could become compromised. This might add to the risk-premium associated with any performance-based procurement that FTB would pursue, increase costs, and delay ultimate realization of project revenues.

FTB has been streamlining its operations, implementing best-practices and program efficiencies, and focusing resources to direct revenue production increasingly over the past three years as State revenues have weakened. As a consequence, we enter this period of unprecedented cuts as a very lean organization with the unavoidable result that future reductions will impact our revenue production. We hope that you view our information in the spirit of full-disclosure that it is presented in, and know that we are not seeking to be protectionist or alarmist. If you would like further detail about our analysis or any of our numbers and computations, please do not hesitate to contact me at (916) 845-4543 or at selvi.stanislaus@ftb.ca.gov.

Selvi Stanislaus

Executive Officer

Attachment

cc: Hon. John Chiang, FTB, Chair
Hon. Betty T. Yee, FTB, Member

Attachment A

Franchise Tax Board
Detailed Discussion of Each Revenue Loss Component
June 2009

Impacts of One Day Furloughs on FTB

FTB initially estimated that the potential revenue impact of the one-day furlough on revenues could be as high as $260 million over a 41 month period[1] and would generate $20 million in salary savings during FY 9/10. We have taken the following specific steps to mitigate this potential loss, and now estimate a revenue loss of between $30 and $50 million with a majority of that falling into later years:

- **Managing vacation time usage and substitution of furlough use for vacation use.** Initially, employees are substituting a portion of their furlough usage for normal vacation usage.[2] FTB is working with employees to manage their use of furlough time, providing incentives /marketing for additional time spent on revenue production, and temporarily suspending the vacation cap to encourage staff to accrue leave.
- **Increase direct hours and reduce case hours** – Program areas are reducing indirect hours in revenue producing areas, moving staff from support activities to revenue functions, and decreasing hours per case. Some of the measures include reducing training and meetings, and limiting some case development efforts. However, this is a short term option at best. From experience, we have found these actions result in poorly trained staff, poor planning, and low employee morale which negatively impacts on work quality, production, and revenue.
- **Delay or decrease key strategic efforts** – In the short term, the department will delay or decrease strategic and corporate planning efforts. These types of key strategic efforts are undertaken in order to maximize efficiencies in the current programs and to position the department for future revenue opportunities.

Revenue Update: Audit, Filing Enforcement and Collections revenues are on track to meet the May revenue estimate of $4.6 billion.[3] It is not surprising to see a minimal impact from the furlough in the current year because (1) it began in February; (2) due to uncertainty, staff held off on taking furlough days; and (3) staff substituted a significant amount of estimated vacation usage for furlough usage. These factors will not be present going forward. The three programs caution that a large percentage of the surplus revenue is in the B&C area which

[1] Furloughs as proposed are for 17 months beginning February 2009 and employees have 24 months after the end of the furlough period to use accrued furlough days.
[2] For February, we estimate 75% of the furlough hours used being substitutions for vacation usage. That figure has dropped to an average of 55% - 60% in March and April.
[3] This exceeds the projected revenue targets for 2008/2009 from November 2008 by approximately $400 million

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can fluctuate substantially, that this is the result of staff efforts over the past 12 to 18 months on prior tax years, and that they are seeing a “softening” in current in-process cases.

Impact of Two Furlough Days Per Month for 2009/2010

FTB estimates that it would experience an additional revenue delay or loss of $150 - $250 million and an additional salary savings of $20 million should the two day furloughs continue throughout 2009/2010. (This is in addition to the $30 million to $50 million revenue loss and $10 million savings associated with the first furlough day.)

- This loss is attributable to a decline in production hours in our filing enforcement, audit, and collections areas, as well as, lost interest income from processing delays in depositing incoming checks.

- 60 percent of the revenue decline will be a loss ($90 - $155 million), while the remaining 40 percent ($60 - $105 million) will be a revenue delay. The loss is attributable to the expiration of the statute of limitations, stale information about collection assets, and subsequent taxpayer losses.

- The timing of the revenue reduction would be spread over a number of years, based upon when employees used their furlough time.

- Few mitigation opportunities would be available to offset this decline since those available were taken in reaction to the 1-day furlough and could not fully offset that revenue loss.

- Implementing mandatory restrictions on the use of vacation or furlough days over a long-term period is unrealistic, infeasible, and counterproductive to revenue production:
    - Prohibitions on the usage of leave time for operational need have always been tied to peak seasons or project completion schedules. Any limits with no reasonable end in sight would cause union issues and majorly impact employee morale and productivity.
    - Employees are already using furlough days to work second jobs in order to meet mortgage payments and living expenses in the short run. This short-term need outweighs any long-term advantages of accumulating vacation.

  - Furlough days are being used by staff that either don't have vacation or are prohibited from using vacation due to probationary status. Assuming that any future contract language on limiting the use of furlough days reflects the language that is in the proposed contract, departments could only deny furlough day usage in situations of substantial operational impacts.

- Placing mandatory restrictions on the use of vacation/furlough time will push more employees towards retirement or leaving FTB for other employment. Currently, 32 percent of our workforce is over age 50 and eligible for retirement. This group includes our most senior audit staff that work on the highest revenue producing corporate audits. We are already losing staff at this level to the IRS and the private sector. This loss of expertise could have long-range revenue impacts.

- The lower end of the revenue loss projection reflects our recognition that in the best of circumstances, some portion of the projected loss could be mitigated by managing vacation and furlough usage.

Impact of Third Day Furloughs

For each additional furlough day imposed in 2009/2010, we would continue to expect an additional revenue delay/loss of approximately $250 million. Salary savings equates to approximately $20 million per year for each additional furlough day. Again, the timing over which that loss would be realized is unknown; however, we feel that with each additional day that you would be moving more of the revenue loss into the current years. While the causes would be roughly the same as explained above for two days, the magnitude of the impact would be greater:

- Employee willingness to cooperate with long-term management of vacation and furlough usage would decrease, limiting our ability to manage leave. Lawsuits and grievances would most likely increase, and additional supervisor and manager staff time would be necessary to handle increased personnel actions.

- The incidence of employees seeking outside employment would increase, thereby, increase the demand to use the banked furlough days.

- There would be more incentive for experienced revenue staff to retire and/or move to special fund agencies (BOE), IRS, or private industry. As previously stated, 32 percent of our staff is over 50 years of age and eligible for retirement.

- Long-term training and development of audit and collection staff would be totally eliminated to meet short-term revenue needs. This would result in remaining staff not being capable of assuming the high-value workloads currently being assigned to retiring staff. This has serious revenue impacts in the future.

Impact of Layoffs

FTB has been asked to lay off or give up 250 positions as part of the current layoff effort. Our initial layoff plan looked at seniority throughout the department within all classifications for the following reasons:

- Due to our current mitigation efforts on the current 2-day furlough we have already redirected indirect staff to direct revenue production. Therefore, there is no “excess non-revenue production” staff to eliminate.
- 88 percent of FTB staff are in direct revenue generating positions and the remainder are in revenue support positions in Administration and Financial Management. Therefore, any layoff of this magnitude would impact revenues regardless of the positions considered.
- Need for quick realization of layoff savings and the need to avoid time-consuming and disruptive “bumping”.
- We were informed that we could not use vacancies and permanent intermittent positions to meet our layoff quota. (It was subsequently determined that we could use PI positions for this purpose.)

As a result, 90 percent of the staff receiving SROA/Surplus letters are in direct audit, collection, information technology and filing revenue generating positions. Revenue loss associated with the layoff of these positions is $50 to $125 million per year once full production has been achieved. Since these are our newest auditors and collectors, we would estimate that the 9/10 revenue loss would be at the low end of the spectrum. This loss is in addition to the losses associated with the furloughs.

In an attempt to mitigate the short-term impact of the layoffs on revenue, FTB did propose to use a mix of least senior permanent and permanent intermittent filled positions and salary savings vacancies to meet our quota. However, DPA informed us that vacancies were not available for this purpose.

Board of Equalization Attachments

Board of Equalization
Impact of 2009/10 Budget Reduction on Revenues and Services

Fiscal Year 2009/10 Budget Estimated Reductions

The Governor's Budget included a reduction to BOE's personal services budget of $13.5 million, the amount equivalent to savings if BOE employees were furloughed one day a month. In addition, the Department of Finance (DOF) informed BOE to anticipate an additional budget reduction of approximately $27 million, which, when combined with the initial budget reduction, totals $40.5 million, this is the amount equivalent to savings that would be achieved if employees were furloughed three days a month. The $40.5 million reduction is equivalent to a 630 position reduction (assumes average cost of $64,000 per position) for BOE.

As of August 19, 2009, BOE has not received specific direction on how this additional budget reduction is to be allocated to our budget.

Furlough

The BOE has respectfully declined to participate in the furlough as they do not consider a Governor's Executive Order to have the authority to impact the employees of Constitutional Offices. BOE is party to a lawsuit on this issue that is at the Court of Appeals.

Estimated Revenue Impact

BOE estimates that the $40.5 million reduction in our Personal Services budget will result in a revenue loss/delay of approximately $264 million of which $156 million is General Fund ($79.2 million loss and $184.8 delayed). It would be very difficult to calculate the revenue loss versus delayed revenue; however, 30 percent of the revenue is estimated to be a loss. The remaining 70 percent will be delayed to future years.

Regardless of how it is categorized, it is revenue that will not be received in the 2009/10 fiscal year. Some of the factors that will cause revenue loss are:

- losing audit opportunities due to expiring statute of limitations on audit periods;
- taxpayers going out of business before collection activities can be initiated;
- loss of revenue due to a delay in identifying non-registered businesses;
- loss of interest and penalties which will be waived if the delay was the fault of the State; and
- loss of revenue due to untimely liens and bankruptcy claims.

Potential reductions in BOE legal staff, combined with a 27 percent reduction in Department of Justice billable hours available to defend the BOE against sales, use, and property tax refund actions, will imperil over $800 million in outstanding tax refund claims and actions pending against the BOE at present.

Accrued vs. Cash Revenue Impact

The estimated revenue loss/delay was projected on a cash basis utilizing information on cash received by each of the non-voluntary programs. The audit program revenues were adjusted for refunds, cancellations and uncollectible accounts. This was done to ensure only audit revenue received in the current FY was used to established the revenue impact. The BOE believes this is the most accurate method to quantify the impact of the furlough.

With regard to FY 10/11 and FY 11/12, the BOE believes that the actions being taken in FY 09/10 to reduce costs will have an impact on revenues in out going years. However, we do not have sufficient information at this time estimate a dollar amount. The following will impact revenue in out going years.

- So far out of 1100 employees who have elected to participate in the voluntary programs approximately 82% selected the Voluntary Personal Leave Program (VPLP). On average these employees will earn 1 day of additional leave per month. A portion of this staff will use the VPLP in outgoing years impacting revenue. However, we do not have a basis for predicting when the VPLP days will be used.
- The hard freeze on hiring and promotions will result in:
    - Many more audit and collection staff remaining in entry level positions limiting their workload to lower level, less productive assignments.
    - Less effective audit and collections actions will be required due to geographic limitations of staff.
        - If the BOE does not have qualified staff in a geographic location to complete workload it will have to be delayed or transferred to an office that does have the experienced staff.
    - A significant reduction in the ability to timely audit or collect from businesses that have closed.
    - Since vacancies occur without regard to program area, the hard freeze may also eventually impact the voluntary revenue as key staff cannot be replaced and the ability to redirect is limited to resources at hand, (i.e., there is a finite number of BOE employees who are qualified to be auditors or collectors).

Methodology used to estimate the Revenue Reduction
To calculate the impact of a personal services reduction, the BOE focused on the non-voluntary activities which account for approximately 3% or $1.6 billion of the total revenue BOE collects annually. BOE has not calculated the impact of a furlough on voluntary revenue collection. Non-voluntary activities include Board assessed liabilities such as audit determinations and billings on delinquent accounts, as well as collections on outstanding accounts receivable.

Of the $1.6 billion in revenue, BOE then estimated a 5% reduction for each furlough day per month (or 15% for 3 furlough day equivalents). Since non-voluntary revenues are dependent on BOE staff performing specific tasks, a 15% reduction to these staff corresponds to the same level in reduced revenue.

The BOE would expect delays in the tax return processing, local tax allocation and cashiering functions. Further delays can be expected in BOE's Call Center response time. If taxpayer questions are not answered timely, they may not voluntarily remit the correct tax owed; resulting in further BOE efforts to collect taxes owed.

In the weakening economy, if the public feels there is a lower audit presence, there may be an increase in underreporting and the potential for an increase in tax fraud.

Measures to Address Budget Reduction
With the support of the Board, the Executive Director has initiated several measures to try to address the budget uncertainty including implementing a hard freeze on hiring/promotions, releasing all temporary employees (students, retired annuitants and permanent intermittent) reducing travel to only essential travel, reducing/eliminating contract expenditures, and announcing to employees options to voluntarily reduce their work hours which would result in personal services savings for BOE.

The savings achieved through these efforts may not be enough to address the $40.5 million anticipated reduction. Therefore, BOE is preparing to initiate the SROA process; and layoffs may occur as a last resort.

Voluntary Leave Program
BOE has asked our employees to help meet this budget reduction by choosing to **"Step Up and Take The Lead"** by participating in a voluntary leave program. There are four different employee voluntary leave programs that are available including: 1) Voluntary Unpaid Leave Program, 2) Voluntary Personal Leave Program, 3) Voluntary Reduced Time Base Program, and 4) Partial Service Retirement Program. As of August 21st, over 1100 employees have agreed to voluntarily reduce their pay.

Impact to Program and Taxpayer Services
In addition to the revenue impact, BOE has been forced to implement cost savings measures that reduce service levels to taxpayers including the following:

- Delayed E-services expansion resulting in unrealized cost savings.
- Delayed sales & use tax, franchise & income tax and property & special tax appeals, which result in additional revenue delays.
- Delayed processing of petitioned liabilities and claims for refunds.
- Delayed processing of claims for the Welfare Exemption from property taxation.
- Delayed taxpayer assistance by telephone, e-mail and in-person office visits.
- Reduced or eliminated outreach meetings with industry or preparer groups and associations.
- Reduced or eliminated written guidance, training, and oversight of county assessors.

Board of Equalization
Revenue Impact of Proposed Furloughs
Updated as of July 2, 2009 based on Department of Finance Calculated Personal Services Reduction
(Dollar in Thousands)

	Option No. 1 (Exempt from Furlough)		Option No. 2 (1st and 3rd Friday)		Option No. 3 (Floating 1 Day Furlough)		Option No. 4 (Floating 2 Day Furlough)		Option No. 5 (Floating 3 Day Furlough)	
	Fund		Fund		Fund		Fund		Fund	
	All	General	All	General	All	General	All	General	All	General
FY 2008-09 (5 months)										
Gross Revenue Delay/Loss	$0	$0	$70,684	$42,412	$35,342	$20,905	$63,371	$37,805		
Savings Offset - Personal Services (PS) [1]	$0	$0	-$10,926	-$6,520	-$5,463	-$3,260	-$10,926	-$6,520		
Net Revenue Delay/Loss (2008-09)	$0	$0	$59,758	$35,892	$29,879	$17,645	$52,445	$31,285	$0	$0
FY 2009-10 (12 months)										
Gross Revenue Delay/Loss	$0	$0	$175,883	$105,722	$87,942	$52,128	$157,552	$94,173	$263,826	$156,384
Savings Offset - PS [1]	$0	$0	-$26,944	-$16,004	-$13,472	-$8,002	-$26,944	-$16,004	-$40,416	-$24,006
Net Revenue Delay/Loss (2009-10)	$0	$0	$148,939	$89,718	$74,470	$44,126	$130,608	$78,169	$223,410	$132,378
Total (17 months)										
Gross Revenue Delay/Loss	$0	$0	$246,567	$148,134	$123,284	$73,033	$220,923	$131,978		
Savings Offset - PS	$0	$0	-$37,870	-$22,524	-$18,935	-$11,262	-$37,870	-$22,524		
Net Revenue Delay/Loss (17 months)	**$0**	**$0**	**$208,697**	**$125,610**	**$104,349**	**$61,771**	**$183,053**	**$109,454**	**$0**	**$0**

Option No. 1	Exempt from furlough
Option No. 2	Furlough - 1st and 3rd Friday.
Option No. 3	Furlough - 1-day floating. This assumes that the furlough day would be taken by staff each month.
Option No. 4	Furlough - 2-day floating. SUTD assumes that the furlough day would be taken by staff within 24 months from the end of the furlough period. PSTD and Legal assume that the furlough days would be taken by staff each month.
Option No. 5	Furlough - 3-day floating. This assumes that the furlough days would be taken by staff each month.

[1] PS savings offset is determined by using the Department of Finance's calculated reduction and extrapolating the numbers for multiple days.

BOE projects that the furlough program will result in delayed revenue. In some cases this delay may lead to a loss of revenue.

All special funded programs will be impacted by the furlough program if implemented. Examples of programs include Transportation Fund Tax Program, Cigarette and Tobacco Products Tax Programs, E-Waste, and Underground Storage Tank Clean-up.

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