Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Michael Machado, Chair
Tom McClintock
Christine Kehoe

Wednesday, March 8, 2006
10:00 a.m.
Room 113

Consultant: Brian Annis

Business and Housing Departments

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Department Budgets Proposed for Consent / Vote Only

2120 Alcoholic Beverage Control Appeals Board

The Alcoholic Beverage Control Appeals Board consists of three members appointed by the Governor. The Board provides a forum of appeal to persons who are dissatisfied with the Department of Alcoholic Beverage Control's decision to order penalties or issue, deny, condition, transfer, suspend or revoke any alcoholic beverage license. Following the filing of an appeal, and submission of written briefs, the Board hears oral arguments in Northern and Southern California on the appropriateness of the Department's decision. The Board then prepares, publishes, and distributes a formal written opinion. A party seeking review of an Appeals Board decision must file a petition for writ of review with the Court of Appeals.

The Governor proposes total expenditures of $987,000 (no General Fund) and 8.8 positions for the ABC Appeals Board, – an increase of $24,000 from the current year. Board expenditures exceed fee revenue in 2006-07 by about $35,000; however, the ending fund balance is $587,000 and no fee changes are planned. The Administration did not submit any Budget Change Proposals for the ABC Appeals Board.

Staff Recommendation: Approve the Budget.

Vote:

0520 Secretary for Business, Transportation and Housing

The Secretary of the Business, Transportation and Housing Agency is a member of the Governor's Cabinet and oversees 16 departments, including the following:

- Alcoholic Beverage Control
- Corporations
- Housing and Community Development
- California Highway Patrol
- Motor Vehicles
- Financial Institutions
- Real Estate
- Managed Health Care
- Transportation

In addition, the Secretary's Office oversees programs, including the following, which are budgeted directly in the Secretary's Office:

- Infrastructure and Economic Development Bank
- Office of Military & Aerospace Support
- Division of Tourism
- Small Business Loan Guarantee Program
- Film Commission
- Manufacturing Technology Program

The Governor proposes total expenditures of $29.0 million ($15.6 million General Fund) and 59.5 positions for the Office of the Secretary – an increase of $3.3 million ($3.0 million General Fund) and no positions.

Budget Changes proposed for Consent / Vote Only

1. **Film Commission: Film Promotion and Marketing Fund (BCP #L1).** The Administration requests expenditure authority of $10,000 from the Film Promotion and Marketing Fund to promote motion picture and television filming in California. This fund was established with AB 1437 (Chapter 168, Statutes of 2005, Strictland). Fund revenues come from the sale of location library documents, other film-related documents, and any and all public or private sources that support the Film Commission.

   Staff Recommendation: Approve this request – this is a special fund expenditure that is consistent with the intent of the Legislature in enacting AB 1437.

   Vote:

2. **Chrome Plating Program Implementation (BCP #L2).** The Administration requests expenditure authority of $278,000 for state operations and $250,000 for local assistance (all special fund) for the Chrome Plating Pollution Prevention Program, established by AB 721 (Chapter 695, Statutes of 2005, Nunez). AB 721 directed BT&H to establish a loan guarantee program to assist eligible small businesses in purchasing pollution reduction equipment, and directs the Department of Toxic Substances Control to establish a Model Shop Program in Northern California that replicates its existing Chrome Plating Model Shop Pilot Program in Southern California. The Chrome Plating Program is funded by a transfer of $2.8 million from the defunct Hazardous Waste Reduction Loan Program. Additional Program funding of approximately $1.7 million is anticipated in 2005-06 through 2010-11 as loans made under the Hazardous Waste Reduction Loan Program are repaid.

   Detail: The BCP requests local assistance funding of $250,000 to establish a local assistance authority in the event there is a default. A total of $278,000 is requested for state operations which would be spent as follows:

   - $30,000 for BT&H staff – AB 721 limits BT&H administrative costs to 5 percent of money deposited in the fund, and BT&H indicates the request is within that limit. The Department of Finance indicates this workload is being absorbed by existing staff and that a corresponding reduction was made to expenditures from the Small Business Expansion Fund.
   - $162,500 to pay the 11 Financial Development Corporations (FDCs) for their Administration of the loan guarantees - this assumes 50 loan guarantees will be completed in 2006-07 and the FDCs will receive $3,250 per guarantee (BT&H indicates this is the same amount that is provided for other existing loan guarantees).
   - $85,000 for payment to the Department of Toxic Substances Control to establish the Northern California Model Shop Program.

   Staff Recommendation: Approve this request – this is a special fund expenditure that is consistent with the fiscal estimates and programmatic direction of the Legislature when AB 721 was enacted last year.

   Vote:

Issues for Discussion / Vote

1. **Loan Repayment (Informational Issue).** The table below summarizes, for all the departments on today's agenda, the status of outstanding special fund loans to the General Fund. Of the $120.6 million in outstanding loans, the Administration proposes to repay $40.6 million in 2006-07. On a statewide basis, the Department of Finance reported on February 1, 2006, that outstanding loans to the General Fund total $1.3 billion. This figure excludes Proposition 98 (education) and Proposition 42 (transportation) General Fund obligations.

Business, Transportation, and Housing Agency loans to the General Fund (excluding transportation – in millions)

	Currently Outstanding	Proposed Repayment in 2006-07
Small Business Loan Guarantee Program	$10.7	$10.7
Department of Financial Institutions	$2.7	$0
Department of Corporations	$18.5	$0
Department of Housing and Community Development	$74.8	$29.9
Office of Real Estate Appraisers	$3.0	$0
Department of Real Estate	$10.9	$0
TOTAL	**$120.6**	**$40.6**

Detail: Of the outstanding loans in the above table, the Administration proposes 2006-07 loan repayment for the Small Business Loan Guarantee Program and the Department of Housing and Community Development. No budget bill language or trailer bill language is necessary to implement these loan repayments – the Administration can repay the loans with an executive order citing existing budgetary authority. The Department of Housing and Community Development indicates their loan repayment is needed to support programs in 2006-07 and maintain a prudent fund reserve. The Small Business Loan Guarantee Program indicates that the repayment is needed so the Program will have the benefit of interest earnings to support operational costs (the principal amount of the loan is still considered an asset of the Program and available for loan guarantees pursuant to budget bill language in the 2002 Budget Act). Discussions with departments suggest further loan repayments may be needed for 2007-08 for the Department of Corporations and the Department of Housing and Community Development. The Department of Financial Institutions, the Office of Real Estate Appraisers, and the Department of Real Estate appear to have no cash need over the next several years.

Staff Comment: The Subcommittee may want to ask the Administration to explain their prioritization and long-term plan for loan repayment.

Staff Recommendation: Informational – no action necessary.

2. **Film Commission: Augmentation for Operating Expenses (BCP #3).** The Administration requests an ongoing augmentation of $80,000 (General Fund) for ongoing data processing costs related to the On-line Film Permitting System. The Permitting System was approved with the 2004 Budget Act with a one-time General Fund cost of $600,000. The Commission indicates that while they had originally hoped to absorb the ongoing maintenance costs, they now feel a budget augmentation of $80,000 is needed to maintain the system and meet other statutory obligations. Specifically, the BCP notes that outreach efforts, such as location show participation, handouts, and ad placements, are not taking place.

   Background: The Film Commission was transferred to the BT&H Agency when the Technology, Trade and Commerce Agency was eliminated in 2002-03. The Commission staff was cut from 19 to 8 positions and the remaining staff focused on the core workload of issuing film permits. The 2005-06 budget for the Commission is $882,000 (General Fund), and $968,000 ($958,000 General Fund) is requested for 2006-07. In the *Analysis of the 2004-05 Budget Bill* the Legislative Analysis recommended that the Commission use existing statutory authority (Government Code Section 14998.8) to charge fees for its film permitting activities to offset the cost to the General Fund. The Administration opposed new fees, and film permits are currently issued without charge.

   Staff Comment: Given the ongoing General Fund structural deficit and the number of other worthy programs that are not being funded, or not fully funded, the Subcommittee may want to hear testimony from the Agency on the criticality of outreach efforts such as location show participation, handouts, and ad placements. Additionally, the Agency should be prepared to discuss the option of instituting film-permit fees to pay the maintenance cost of the On-line Film Permitting System. About 1,800 permits are granted annually, so a fee in the range of $40 - $50 per permit would cover the cost.

   Staff Recommendation: Deny the request.

   Vote:

3. **Tourism Commission: Funding Augmentation (BCP #2).** The Administration requests a General Fund Augmentation of $2.7 million to increase the State's contribution to the Commission to $10 million. The Administration indicates this augmentation would leverage an additional $4 million in private sector funds, bringing the total marketing budget up to $25 million, of which $10 million would go directly to advertising.

   Staff Comment: Government Code 13995.70 states the following: *(a) Funding for the commission is a cooperative venture. Because of the benefits that accrue to the state and to its residents by virtue of having the travel and tourism industry participate cooperatively with the state for the purpose of effectively marketing travel and tourism to and within the state, it is the intent of the Legislature that the state shall be responsible for appropriating a minimum of seven million three hundred thousand dollars ($7,300,000) each fiscal year for travel and tourism, and the industry shall be responsible for targeting the level of assessments for each fiscal year at the amount determined to be appropriate by the commission and approved by referendum. However, that assessment level shall ultimately reach at least twenty-five million dollars ($25,000,000).*

   While the State zeroed-out support for a number of years, General Fund support was restored in 2005-06 to $7.3 million – the level that matches statutory intent. Industry support through self-assessment is approximately $10.9 million. Statutory language suggests that the State is currently funding at the intended minimum level of $7.3 million, but that industry is providing less than half of its intended minimum level of $25 million.

   LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the Analyst recommends the Legislature reject the proposed augmentation because the industry has not contributed its targeted share and the value of the subsidy is questionable. In addition, the Analyst recommends budget bill language making the state's existing contribution contingent on industry making its targeted contribution of $25 million.

   Staff Recommendation: Deny the requested augmentation, but do not adopt the LAO's budget bill language to make the State funds contingent on the $25 million industry match. While the industry is not currently meeting its full funding obligation, the State was not meeting its funding obligation until 2005-06. The Subcommittee can revisit this issue in future years if industry does not achieve the $25 million funding goal.

   Vote:

2100 Department of Alcoholic Beverage Control

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

The Governor proposes total expenditures of $51.8 million (no General Fund) and 445 positions, – an increase of $6.4 million and 3 positions from the current year.

Issues for Discussion / Vote

1. **Fund Balance / Past-Year Savings (Informational Issue).** The Alcoholic Beverage Control Fund has a projected balance of $6.8 million at the end of 2006-07 – down from $12.0 million at the end of 2005-06. No loans are outstanding to the General Fund. Total expenditures proposed for 2006-07 are $51.8 million. Savings (an unexpended appropriation) of $2.1 million occurred in 2003-04 and savings of $2.8 million occurred in 2004-05. AB 1298 (Chapter 488, Statutes of 2001, Wesson), increased annual ABC fees and then capped future fee increases, beginning in 2005, to the Consumer Price Index (CPI). The Department indicated that it has not increased fees to the maximum allowable level of the 2005 base plus CPI.

   Staff Comment. The Department should be prepared to discuss the following:
   - How will the ABC adjust revenues and expenditures in the future to keep the Alcoholic Beverage Control Fund solvent?
   - Does the Administration anticipate Finance Letters that would require additional expenditures in 2005-06?

   Staff Recommendation: Informational – no action required.

2. **Office Renovations & Cost Adjustment (BCP #3).** The Department requests a total of $234,000 (special fund) for facilities. Of this amount, $150,000 is one-time to perform renovations in the San Jose State Building and the remainder ($84,000) is ongoing for the rent costs in 2006-07 that exceed the standard price increase already built into the ABC budget. Renovations include new modular workstations as well as changes to doors and walls, which will allow Investigators (who sometimes go undercover) to better avoid being viewed from the public area.

   Staff Comment: Generally, departments are able to absorb minor office renovation costs and rent increases (rent costs beyond the baseline augmentation built into the budget), without needing additional budget authority. The Department had budgetary savings of over $2.0 million in both 2003-04 and 2004-05. ABC suggests savings in 2005-06 may be $150,000 to $672,000, depending on whether a software purchase occurs this year or next.

   Staff Recommendation: Deny the request – if the Department chooses to proceed with the renovation work, it should absorb the cost within the existing budget.

   Vote:

3. **Grant Assistance Program (GAP) Augmentation (BCP #2).** The Department requests an augmentation of $1.7 million (special fund) and 3.0 positions to increase the Department's grants to local law enforcement agencies to $3.0 million. This would double the number of grants awarded from about 20 to about 40. The state operations funding of $248,000 would fund three new Investigator II positions to supervise and consult with the new local law enforcement entities that receive the grants. With the 3 new staff, a total of 12 staff would administer this program. Assembly Bill 428 (Chapter 428, Statutes of 2005, Gordon), found that the GAP program was a successful law enforcement program and that annual funding should be no less than $1.5 million and no more than $3.0 million.

   Staff Comment: AB 428 states legislative intend to fund GAP in the range of $1.5 million to $3.0 million annually. The 2005-06 funding level of 1.5 million is not inconsistent with that intent. Notwithstanding the merits of the GAP, it is unclear that the Alcoholic Beverage Control Fund will have sufficient revenues to continue grants permanently at the $3 million level.

   Staff Recommendation: Deny the request. The ABC indicates it may have to reduce grants below $3.0 million in the future to close the budget shortfall. This issue can be considered again next year if additional revenue materializes.

   Vote:

4. **Overtime Augmentation (BCP #1**). The Department requests an ongoing augmentation of $1.7 million (special fund) to provide additional funding for cash overtime payments. The current overtime budget is $218,300 and the request would increase overtime funding as a percent of salary from 0.87 percent to 6.60 percent.

   Detail: The BCP indicates that the Department is proportionally under-funded for overtime relative to other law enforcement entities, and compensating time off has been used to compensate employees for work beyond the normal day. Additionally, the ABC has received grant funding from the Office of Traffic Safety, the National Highway Traffic Safety Association, and the Office of Juvenile Justice Delinquency Program that has provided about $330,000 annually for overtime costs. If the request is approved, the Department indicates it would be better able to respond to licensing workload fluctuation and achieve its performance goals such as completing person-to-person license applications within 40 days (40.9 days was the average in September) and reducing appointment wait times to a maximum of 5 business days (75 percent of offices achieved this in September).

   Staff Comment: Requested 2006-07 expenditures exceed revenues by about $5.2 million, and the Department indicates it may have to consider an overtime reduction in the future to close the budget shortfall. Notwithstanding the merits of additional overtime funding for enforcement and licensing activities, it is unclear that the Alcoholic Beverage Control Fund will have sufficient revenues to permanently continue overtime at the requested level.

   LAO Recommendation: In the *Analysis of the 2006-07 Budget Bill*, the Analyst recommends the Legislature reject the proposed overtime augmentation because ABC has not provided evidence that additional overtime hours are needed to meet workload demands.

   Staff Recommendation: Deny the request. The ABC indicates it may have to reduce overtime in the future to close the budget shortfall. This issue can be considered again next year if additional revenue materializes.

   Vote:

2150 Department of Financial Institutions

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

The Governor proposes total expenditures of $24.7 million (no General Fund) and 208 positions, - an increase of $1.2 million and 4 positions from the current year. No fee increases are anticipated for DFI, and the Department indicates Credit Union fees are being reduced. The Department has a $2.7 million loan outstanding to the General Fund – no loan repayment is proposed for 2006-07.

Issues for Discussion / Vote

1. **Bank Secrecy Act/Anti-Money Laundering Staffing Augmentation (BCP #1).** The Department requests a total of $408,000 (special fund) in ongoing funding to augment staff by two Senior Financial Institution Examiners and two Financial Institutional Examiners to meet the anticipated increase in hours for the examination and enforcement of the Bank Secrecy Act (BSA) Anti Money Laundering (AML) Control Act, Suspicious Activity Reporting, and the USA Patriot Act. DFI Program 10 (banks) and Program 60 (credit unions) would split this augmentation. DFI indicates there is increased workload as a result of a new BSA/AML *Examiner Manual* introduced on June 30, 2005, by federal banking agencies (agencies of the US Treasury including Financial Crimes Enforcement Network and the Internal Revenue Service).

   Staff Comment: The Department has provided the Committee Staff copies of the new federal BSA/AML Examination Manual and copies of the Memorandum of Understanding between the DFI and the federal agencies. The BCP identified 13 new or expanded activities and the additional audit hours that will result from each.

   Staff Recommendation: Approve the request.

   Vote:

2. **Special Licensee Operating Expense Augmentation (BCP #2).** The Department requests a total of $192,000 (special fund) in ongoing funding for operating expenses for Program 20 (Special Licenses). This Program examines financial institutions that sell payment instruments (money orders), travelers' checks, and transfer money internationally.

   Detail: The Department indicates that $192,000 in Operating Expenses and Equipment (OE&E) funding was shifted to Personal Services (PS) in 2003-04 for unfunded wage and salaries costs. DFI indicates the original intent was to reduce PS costs and shift the funds back to OE&E; however, workload demand has not allowed this. The Department submitted a Section 26.00 Letter in 2004-05 to shift $192,000 from Program 80 (Industrial Banks) to the Special License Program. Additionally, DFI indicates it intends to submit another Section 26.00 Letter for 2005-06 to shift $192,000 split between Program 80 and Program 10 (Banking) to the Special License Program. The Department indicates that continued shifts from other programs would hinder the ability of the Department to be responsive to the examination schedules of the licensees of other programs.

   Staff Comment: The Department didn't indicate any adverse affects to Program 80 or Program 10 from the transfers made in 2004-05 and anticipated for 2005-06. The Financial Institutions Fund had an unexpended appropriation balance of $480,000 in 2003-04 and $544,000 in 2004-05. While the Special Licensee Program may require additional funding, it is not clear that this need cannot be absorbed within the overall DFI budget by shifting existing funds.

   Staff Recommendation: Deny the request.

   Vote:

3. **California Financial Information Privacy Act (SB 1) (Staff Issue).** The 2004 Budget Act included provisional language that required the DFI to report to the Legislature by January 10, 2006, on the Department's implementation of the California Financial Information Privacy Act (as enacted by SB 1, Chapter 241, Statutes of 2003, Speier), the outcome of legal challenges, and the ongoing staffing need. The report suggests that the actual workload has been significantly less than anticipated. However, the Administration requests to keep all the existing SB 1 funding and positions.

Background: The Act had workload implications for the DFI, the Department of Corporations (Corporations), and the Attorney Generals (AGs) Office. DFI submitted a BCP in 2004 requesting 17.0 positions to implement the Act; Corporations requested 22.0 additional positions, and the AG's Office indicated they would absorb the workload. DFI and Corporations proposed to audit all firms for SB1 compliance during their regular audit visit. The Legislature approved reduced staffing for a complaint-driven process – 6.0 positions were approved for DFI and 10.0 positions were approved for Corporations.

Department of Financial Institutions – SB 1 Actual Workload vs. 2004 Estimates

Program Workload approved in 2004	**Anticipated annual activity when staffing was approved in 2004**	**Actual activity reported by Department January 10, 2006.**
Banking Program Workload 3 Examiners	Enforcement efforts could be significant (**5 enforcement actions** noted in BCP proposal)	3 complaints received, two found to not be violations, the third is under investigation. **No enforcement actions**.
Credit Union Program 1 Examiner		
Consumer Services Section 1 Staff Services Analyst	Respond to **560 letters** and **2068 calls**.	Responded to **31 inquires** (sum of both letters and phone calls).
Administration 1 Staff Counsel IV	Review complaints forwarded by Examiners, litigate enforcement actions.	3 complaints received, two found to not be violations, the third is under investigation, no enforcement actions.
Total approved new staff: 6 positions		

Staff Comment: The workload data suggest most of these SB 1 positions should be eliminated. The Committee may wish to consider keeping one Examiner position to perform SB 1 audits on a sample of companies (as part of a regular audit visit).

Staff Recommendation: The Subcommittee should direct staff to work with DFI to develop and cost-out staffing alternatives that would reduce the Department's budget by four to six positions.

Vote:

2180 Department of Corporations

The Department of Corporations (Corporations) administers and enforces State laws regulating securities, franchise investment, lenders, and fiduciaries.

The Governor proposes total expenditures of $31.7 million (no General Fund) and 277 positions, an increase of $1.0 million. No Budget Change Proposals were submitted by the Administration for Corporations. The State Corporations Fund has a projected balance of $259,000 at the end of 2006-07 – down from $4.9 million at the end of 2005-06. An $18.5 million loan is outstanding to the General Fund. The Department indicates it does not anticipate any fee changes in 2006-07; however, a loan repayment from the General Fund will likely be necessary in 2007-08.

Issues for Discussion / Vote:

1. **California Financial Information Privacy Act (Staff Issue).** The 2004 Budget Act included provisional language that required Corporations to report to the Legislature by January 10, 2006, on the Department's implementation of the California Financial Information Privacy Act (enacted by SB 1, Chapter 241, Statutes of 2003, Speier), the outcome of legal challenges, and the ongoing staffing need. The report suggests that the actual workload has been significantly less that anticipated. However, the Administration requests to keep all the existing SB 1 funding and positions.

   Background: The Act had workload implications for the DFI, the Department of Corporations (Corporations), and the Attorney Generals (AGs) Office. Corporations submitted a BCP in 2004 requesting 22.0 additional positions; DFI requested 17.0 positions to implement the Act;, and the AG's Office indicated they would absorb the workload. DFI and Corporations proposed to audit all firms for SB1 compliance during their regular audit visit. The Legislature approved reduced staffing for a complaint-driven process – 6.0 positions were approved for DFI and 10.0 positions were approved for Corporations.

(See chart on next page)

Department of Corporations – SB 1 Actual Workload vs. 2004 Estimates

Program Workload approved in 2004	**Anticipated annual activity when staffing was approved in 2004**	**Actual activity reported by Department January 10, 2006.**
Forms Review/Duty Consultant 1 Counsel	Review a "**high number**" of alternative privacy forms. Respond to legal questions	Reviewed a **"negligible number"** of alternative privacy forms.
Enforcement 3 Counsels 1 Legal Assistant	1 civil action & 8 administrative actions	No civil or administration actions taken
Complaint Review 3 Examiners 1 Office Technician	Respond to "**substantial**" number of complaints	Responded to "**two"** complaints
Call Center 1 Consumer Asst. Tech	Respond to approximately **50,000 calls** annually	Responded to **343 calls**
Total approved new staff: 10 positions		

Staff Comment: The workload data suggest most of these SB 1 positions should be eliminated. The Committee may wish to consider keeping one or two Examiner positions to perform SB 1 audits on a sample of companies (as part of a regular audit visit).

Staff Recommendation: Direct staff to work with Corporations to develop and cost-out staffing alternatives that would reduce the Department's budget by eight to ten positions.

2. **Elimination of Investigator Positions (Staff Issue**). In 2003-04, Corporations eliminated all 14.0 of its Investigator positions as part of the 2003 Budget Act Control Section 4.10 process which required a statewide reduction of 16,000 permanent positions, as specified. Newspaper reports indicate that the cases the Department referred for criminal prosecution declined from 27 in 2002 to none in 2004. Without Investigator positions, this function falls to local law enforcement and the State Attorney General, who received no additional funds to perform this activity. Since the elimination occurred through Control Section 4.10, the Legislature did not consider this reduction through the Budget Subcommittee process, and no public discussion occurred on the affect these reductions would have on consumer protection.

   Recent Legislative Action: Last year, Senator Speier, Chair of Banking, Finance, and Insurance Committee and Assemblymember Ron Calderon, Chair of the Banking and Finance Committee requested that the Joint Legislative Audit Committee approve a Bureau of State Audits study of Corporations activities. The audit was approved, but will not be complete until 2006-07.

   Staff Comment: The *Governor's Budget Summary* indicates the Administration will consider a restoration of the Investigator positions and other appropriate changes after the Bureau of State Audits releases its audit findings in 2006-07.

   Staff Recommendation: Leave issue open and direct staff to work with Corporations to develop and cost-out staffing alternatives that would partially or fully restore the Investigative function to the Department.

2240 Department of Housing and Community Development

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

The Governor proposes $477.5 million ($16.8 million General Fund) in total expenditures and 519 positions for the department – a decrease of $176.4 million (with a General Fund increase of $2.5 million) and an increase of 20 positions. The expenditure reduction reflects the declining balance of Proposition 46 bond funds available for HCD programs.

Issues for Discussion / Vote

1. **Office of Migrant Services Reconstruction Plan (BCP #2).** HCD requests a General Fund augmentation of $3.4 million ($2.4 million one-time) for the Office of Migrant Services (OMS). The augmentation would support the following:
    - $1.1 million to reconstruct a migrant childcare center in Hollister.
    - $1.2 million to reconstruct a migrant childcare center in Watsonville.
    - $1.0 million (ongoing) to address current costs of the ongoing operation subsidy and the annual routine repair costs for all the OMS facilities.

    Background: The Office of Migrant Services operates 25 OMS centers – all of which have childcare centers. These centers provide 2,103 units of seasonal housing to approximately 11,000 farm workers and family members annually. Privately operated labor camps provide some 26,000 units, most often for single workers.

    Staff Comment: HCD indicates that four additional migrant childcare centers will be in need of reconstruction in 2007-08 and 2008-09. The Department intents to submit BCPs in future budgets requesting authority for those projects.

    Staff Recommendation: Approve the request.

    Vote:

2. **Mobilehome Workload Staffing (BCP #6):** The Administration requests ongoing funding of $501,000 (special funds), and 6.0 positions, to be distributed as follows:
   - Two positions for increased license applications – HCD indicates there has been a 116 percent increase in license applicants over the past three years (HCD is required by law to train, test, and license dealers and salespersons of manufactured housing).
   - Two positions to investigate consumer complaints – HCD indicates complaint caseload has risen from 125 cases on July 1, 2004, to 336 cases on July 1, 2005 (HCD is required by law to investigate allegations of consumer fraud and other improprieties by manufactured housing licensees).
   - Two positions for the Office of the Mobilehome Ombudsman – HCD indicates that in 2002, the Office of Ombudsman received 18,727 calls and processed 1,866 complaints; however since then, one position was lost and since the one remaining position has other duties, the phone is only staffed one hour per day.

   Background: Last year, the Legislature approved the Administration's request to permanently augment funding by $1.9 million (special fund) and 14 positions to liquidate the backlog and cover the costs of inspections for the Mobilehome Parks, Special Occupancy Parks, Factory-Built Housing, and the Manufactured Housing Program. The Administration funded these costs with fee increases that were achieved within existing statutory authority. While some fee increases were significant (exceeding 100 percent) the Department indicated the major stakeholders were supportive, as indicated by the support of the following entities:

   1. California Manufactured Housing Institute (representing manufacturers, dealers, and installers)
   2. Western Manufactured Home Association (representing park owners and operators)
   3. Golden State Manufactured-Home Owners League (representing mobile home owners)

   Staff Comment: While last year's budget added staff to address deficiencies in the Mobilehome Program, the problems noted in this BCP were not addressed last year. The existing fee levels (as adjusted last year) are sufficient to fund the cost of this augmentation.

   Staff Recommendation: Approve the request.

   Vote:

3. **Emergency Housing Assistance Program (EHAP) – Funding Cut.** The Administration proposes an EHAP funding reduction of $864,000 – to $3.1 million (General Fund). The Emergency Housing Assistance Program (EHAP) provides funds for homeless shelter programs through minimum county allocations of $30,000. The Program funds basic homeless shelter operating costs such as rent, utilities, and salaries of core administrative staff. A history of program funding is outlined in the below table.

Funding for Emergency Housing Assistance (in millions)									
	1998-99*	1999-00	2000-01	2001-02	2002-03	2003-04	2004-05	2005-06	2006-07**
Funding	$2.0	$2.0	$39.0	$13.3	$5.3	$5.3	$4.0	$4.0	$3.1

* Supported with special funds in 1998-99, General Fund thereafter.
** Proposed in Governor's Budget

Staff Comment: The Governor originally proposed EHAP funding of $3.1 million for 2005-06. With the May Revision of the Budget, the Governor proposed an initiative to reduce homelessness and proposed a one-time General Fund transfer of $750,000 to the Predevelopment Loan Fund to jump-start preconstruction work on up to 10 new permanent housing facilities. The Legislature substituted Proposition 63 (the Mental Health Services Act) bond funds for the General Fund and restored EHAP funding to $4.0 million. The Governor sustained the augmentation, but indicated he considered the augmentation one-time to continue shelter beds during a transition period while new beds are developed under his proposal to create permanent housing with supportive services for the chronically homeless.

Homeless programs are primarily funded at the local level. HCD estimates that $3.1 million would serve 4,700 persons per day, while $4.0 million would serve 6,100 persons per day. The Department indicates federal homeless funding is expected to remain relative constant at about $6.7 million in 2006-07.

Staff Comment: The Governor's sustain message for last year's augmentation implies that the demand for shelter beds in 2006-07 will be reduced due to an increase in permanent housing opportunities. However, the Department indicated it does not have any data to suggest the demand for shelter beds will fall from 2005-06 to 2006-07.

Staff Recommendation: Reject the funding cut. (Governor's Budget plus $864,000)

Vote:

4. **Economic Development Areas – Administrative Funding (BCP #5).** The Department proposes trailer bill language to eliminate the January 1, 2007, sunset date for Enterprise Zone application fees, which support HCD's costs of administering the economic development area programs. Absent the fee authority, HCD would need General Fund support of $698,000 to replace the fee revenue (half of this amount would be needed in 2006-07 due to the January 1, 2007, sunset).

   Background: The State currently designates four types of economic development areas intended to attract and retain businesses in economically-challenged communities. Currently, there are 42 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). The HCD is charged with administering the economic development area programs; however, the Franchise Tax Board collects the Corporations Tax and the Personal Income Tax and may audit any company or individuals claiming the credits. The HCD is budgeted six positions and $698,000 to administer the program, with revenue derived from fees, not to exceed $10, for each Enterprise Zone application. Statute does not currently allow for the imposition of fees to cover the State's cost of the LAMBRA, MEA, and TTA programs. Last year, a budget trailer bill (AB 139) extended the fee authority sunset date until January 1, 2007. Businesses are only required to pay the fee if they choose to take advantage of the tax credit.

   HCD indicates 44,721 businesses used EZ tax credits and 2,789 businesses used tax credits in all the other economic development areas in 2003. The Administration estimates that State tax revenue in 2006-07 will be reduced by $350 million due to the tax credits. Additionally, the Franchise Tax Board estimates a total accumulated corporate tax carryover credit of $650 million.

   Staff Comment: The Subcommittee may want to hear testimony from HCD on the following:
   - Fees for LAMBRAs, MEAs, and TTAs – Why does the Administration propose to place fees on EZs, but not the other types of economic zones?
   - Abuse of tax credits – What abuses of tax credits programs has HCD observed by the local governmental entities that administer the programs and by businesses that use the credits?
   - Status of regulatory changes – What changes is HCD contemplating to the economic development zone regulations and how will those regulatory changes address any abuses of the credits?

   Staff Recommendation: Keep issue open. Staff understands that the issue of Enterprise Zone tax credits will also be discussed when the Franchise Tax Board budget is heard on March 9.

2310 Office of Real Estate Appraisers

The Office of Real Estate Appraisers (OREA) administers a program for licensing of real estate appraisers in federally-related loan transactions. All appraisals for federally regulated real estate financing transactions must be conducted by persons licensed in accordance with applicable State standards. OREA also investigates complaints against appraisers made by lenders and consumers. In addition, certain appraisals, because of the size of the real property or complexity involved, must be performed only by a state-licensed appraiser.

The Governor proposes $4.3 million (no General Fund) in total expenditures and 26.3 positions for OREA – an increase of $138,000 and 1.0 position.

Issues for Discussion / Vote

1. **Fund Balance / Past-Year Savings (Staff Issue).** The Real Estate Appraisers Regulation Fund has a projected balance of $15.8 million at the end of 2006-07 – up from $12.5 million at the end of 2005-06. Additionally, a $3.0 million loan is outstanding to the General Fund. Total expenditures proposed for 2006-07 are $4.3 million. Savings (an unexpended appropriation) of $307,000 occurred in 2003-04 and savings of $980,000 occurred in 2004-05.

   Staff Comment: As an information issue, OREA should discuss the following:
   - Is any portion of the Department's revenue fungible to the General Fund or other special funds.
   - Have there been recent fee reductions and are any new reductions contemplated?
   - What is the nature of the recent budgetary savings, and are they anticipated to continue?

   Staff Recommendation: This is an informational item, no action is required.

2. **Restoration of one Property Appraiser/Investigator Position (BCP #1).** The Department requests the restoration of $101,000 (special fund) and one Property Appraiser/Investigator position that was lost due to the hiring freeze and vacant position reductions in 2002-03. Until 2003-04, OREA had six Senior Property Appraiser/Investigators and two Property Appraiser/Investigator positions. Since losing the one Property Appraiser/Investigator position, OREA's investigation caseload has increased approximately 53 percent – from 160 cases at the end of 2002-03 to 245 cases at present.

   Staff Comment: The growth in workload suggests the restoration of this position may be warranted. The budgetary savings realized in the past two years suggests the cost of this position should be absorbable within existing budgetary resources.

   Staff Recommendation: Approve the restoration of one Property Appraiser/Investigator position, but deny the budget augmentation of $101,000 because past savings suggests the cost of this position should be absorbable within existing budgetary resources.

   Vote:

2320 Department of Real Estate

A primary objective of the Department of Real Estate is to protect the public in real estate transactions and provide related services to the real estate industry.

The Governor proposes $43.3 million (no General Fund) in total expenditures and 347 positions for the Department – an increase of $8.8 million and 38 positions.

Issues for Discussion / Vote

1. **Fund Balance / Outstanding Loans (Informational Issue).** The Real Estate Fund has a projected balance of $42.2 million at the end of 2006-07 – down from $43.3 million at the end of 2005-06. Additionally, a $10.9 million loan is outstanding to the General Fund. In 2003, DRE reduced all fees to 1982 levels. The large fund balance has been helped by the growth in the licensee population. The licensee population grew from 297,359 in 1997-98 to 449,107 in 2004-05. The Department estimates the population will continue to grow with a peak in 2007-08 of 617,081, before drifting down to 523,745 in 2012-13.

   Staff Comment: As an information issue, DRE should discuss whether any portion of fund revenue is fungible to the General Fund or other special funds. Additionally, DRE should discuss whether any further fee reductions are anticipated.

   Staff Recommendation: Information – no action necessary

2. **Information Technology Replacement Project (BCP #3).** The Administration requests funding of $1.4 million in 2006-07, $497,000 in 2007-08, and $266,000 in 2008-09, to replace and upgrade the Department's personal computers and related hardware and software. The project Feasibility Study Report (FSR) notes that the Department currently has 383 personal computers purchased in 1998 and 69 laser printers purchased in 1999. Additionally 58 laptops and 18 servers were purchased in 2001. The FSR indicates that Microsoft Windows NT for Workstations has reached the end of its product support life cycle, and without the upgrade, the Department will be more vulnerable to viruses and hackers.

   Staff Comment: Staff understands that many departments replace personal computers on a four to six year cycle, so this BCP request seems consistent with standard practice.

   Staff Recommendation: Approve the request.

   Vote:

3. **Interactive Voice Response Replacement IT Project (BCP #2).** The Administration requests funding of $133,000 in 2006-07 and $1.8 million in 2007-08 to procure a new and improved Interactive Voice Response (IVR) phone system.

   Detail: The project Feasibility Study Report (FSR) notes that the current IVR system is insufficient to handle the current call volume – with only 42 percent of calls able to get through. Additionally 46 percent of current calls are incorrectly routed. The proposed system would have the objectives of increasing the number of calls that successfully get through to 89 percent and decreasing the number of incorrectly routed calls to 5 percent. The new system would also provide new functionality such as the ability to inform callers of their wait time to speak with an attendant and multilingual consumer information.

   Staff Comment: The FSR suggests there are major deficiencies to the current automated phone system, which would be remedied with the new system.

   Recommendation: Approve the request.

   Vote:

4. **Electronic Examinations IT Project (BCP #1).** The Administration requests funding of $1.3 million in 2006-07, $1.6 million in 2007-08, and $990,000 in 2008-09 for an information technology project to implement electronic exams via "Thin Client Devices." The current exams utilize scannable paper answer sheets that are then mailed to Sacramento for processing and the raw data is automatically transferred to the Oracle database. Exams would continue to take place at DRE facilities or at contracted facilities under the supervision of proctors.

   Staff Comment: The BCP indicates it is the Department's goal to reduce original licensing process time from 83 to 54 days. Under the current process, the exams are mailed to Sacramento and then licenses are mailed to successful applicants – this process can take one to two weeks. Under the proposed system, people who pass the exam could walk out of the exam center with a temporary license and go to work that afternoon. There are some cost avoidances and cost savings noted in the request – such as reduced paper costs and a reduction in the number of proctors needed. However, according to the Economic Analysis Worksheet the project has a net cumulative cost of about $4.0 million through 2009-10.

   While a one or two week acceleration of the licensing process might not be of critical importance, Staff spoke with the California Association of Realtors (CAR) and understands industry is supportive of this project because for an unemployed person waiting to start a new career, a one or two week delay can be significant.

   Staff Recommendation: Approve this request.

   Vote:

5. **Restoration of Information Technology Position (BCP #4).** The Administration requests funding of $124,000 for a Software Specialist II position. The Department indicates the position would be utilized for eLicensing development, and Web system enhancement and maintenance in DRE's Information Systems Section (ISS). The BCP notes that two ISS positions were lost in 2003-04 due to vacant position eliminations.

   Staff Comment: The restoration of this position would still keep the Information Systems Section below the 2002-03 staffing level. The BCP indicates the workload has not declined while the staff has.

   Staff Recommendation: Approve the request.

   Vote:

6. **New Enforcement Positions (BCP #5).** The Department requests $2.7 million and 33 new positions for the Enforcement Program. The BCP indicates that the licensee population grew from 297,359 in 1997-98 to 449,107 in 2004-05. The Department estimates the population will continue to grow with a peak in 2007-08 of 617,081, before drifting down to 523,745 in 2012-13. Over the 1997-98 to 2004-05 period, the DRE staff fell from 314 positions to 303 positions. DRE indicates its Enforcement Program workload has grown with the number of licensees, staffing has not kept pace, and increased delays have resulted.

   Background / Detail. In 2004-05, the Department received an augmentation of 13 permanent positions in the Licensing Program to address workload growth. In 2005-06, the Department received an augmentation of 16 two-year limited term Licensing Program positions to address what was assumed to be a peak in workload. No positions have been added in recent years to the Enforcement Program. The Enforcement Program reports: the percentage of pending investigations that are over 6 months old grew from 34 percent in 2002-03 to 44 percent in 2004-05; the turnaround times for audits has increased from 99.8 days in July 2002, to 106 days in March 2005; and the time it takes the Legal Section to file an action has increased from 38.7 days in 2001-02 to 114 days in 2004-05.

   Staff Comment: Since the number of real estate licensees and the Department's resulting workload fluctuates with the overall real estate market, the DRE should be prepared to discuss why some or all of the positions requested here are not limited term. Note, the number of licensees fell from 375,986 to 297,000 over a five-year period in the mid-1990s.

   Staff Recommendation: Approve the request, but also add provisional language to budget item 2320-001-0317 to require the Department to report by January 10, 2008, the actual workload data for 2005-06 and 2006-07, and indicate if any staffing and funding changes are warranted.

   2. The Department of Real Estate shall report to the committee of each house of the Legislature that considers the Budget Bill and the Legislative Analyst's Office by January 10, 2008, (a) actual workload data for 2005-06, and 2006-07 compared to the workload projected by the Department in February 2006, (b) projected workload data for 2007-08 and 2008-09, and (c) any staffing and funding changes requested based on (a) and (b). Workload data shall include, at a minimum, the total number of licensees; the number of on-site and off-site exams scheduled; the number of licenses issued; the number of enforcement cases assigned; the number of audits performed; the number of Subdivision Program filings; and the number of legal actions filed.

   Vote:

7. **New Positions for the Subdivisions Program (BCP #6).** The Department requests an augmentation of $406,000 and 4 positions for the Subdivisions Program. The Program enforces the provisions of the Subdivided Lands Law to protect purchasers of real property and those persons conducting business within the development community. This augmentation would increase Subdivisions Program staffing to 63 positions.

   Background / Detail: Most subdivisions of land consisting of five or more lots or units are subject to State regulation, and no person may offer to sell or lease interests in any subdivision without first applying to the Department and obtaining a public report for the subdivision. The BCP indicates the Subdivisions Program lost 23 positions between 1994-95 and 2004-05, while the volume of filings increased from about 2100 to about 4200 over the same period. DRE indicates that efficiencies have reduced processing times by 19 percent; however, this has not been sufficient to keep the average processing times from increasing from 39 days to 60 days (over the 1994-95 through 2004-05 period).

   Staff Comment: The growth in the volume of fillings and delayed processing times suggest additional staffing is needed. The provisional language recommended with Issue #6 would include data on this workload.

   Staff Recommendation: Approve the request.

   Vote:

8. **Operating Expense and Equipment Augmentation (BCP #7).** The Department requests an ongoing augmentation of $2.3 million for unfunded increases in off-site examination facilities ($647,000), credit card costs ($36,000), postage ($193,000) and Office of Administrative Hearing costs ($1,466,000).

   Detail: The Department indicates the number of licensees will decline in the future with a leveling off of the real estate market; however, it believes this permanent augmentation is still warranted.

   - **Off-site examination facilities** – DRE indicates the quantity of applicants scheduled for exams has increased 300 percent since 2000-01 and a temporary baseline augmentation of $143,000 for 2005-06 and 2006-07 has not been sufficient to cover the costs. DRE has dedicated exam facilities, but has leased additional space when capacity is met.
   - **Credit Card Costs** – DRE began accepting credit card payments for all DRE license fees in 2000 and has since expanded to now accept credit card payments for exam fees. DRE received a temporary baseline adjustment of $200,000 for 2005-06 and 2006-07; however, credit card fees are expected to total $501,000 in 2006-07. The estimated 2006-07 shortfall is $36,000 and the 2007-08 shortfall is $267,000 (due to the expiring limited-term authority).
   - **Postage Costs** – DRE reports a postage shortfall of $193,000. Postage expenditures grew 91 percent from 2001-02 to 2004-05. This increase is driven by volume of mailings not the increased cost of postage (which is separately augmented in the budget).
   - **Office of Administrative Hearings –** DRE reports the number of disciplinary cases filed with OAH has increased over 50 percent and the hourly rate for the Administrative Law Judges has increased 11 percent since 2001-02 without a funding augmentation. DRE expects the number of hearings to grow in proportion to licensees and the request is based on the difference between current funding and anticipated future costs.

   Staff Comment: The Department's BCP ties the requested augmentation to actual costs and anticipated growth in licensees. As with the prior two issues, Staff recommends a DRE report in 2008 to see if actual growth in licensees meets current expectations.

   Last year the Administration made some related budget augmentations as baseline adjustments and did not provide a BCP. The Governor's Budget did note "Miscellaneous Increases (Workers Comp, Overtime, Examination Facilities)" at a cost of $455,000. Finance now indicates that those adjustments totaled about $1.1 million and were included in another line titled "Various baseline adjustments."

   Staff Recommendation: Keep issue open and direct staff to work with the Department to reconcile and justify the augmentations made in last year's budget.

2400 Department of Managed Health Care

The Department of Managed Health Care (DMHC) was established in 2000, when the licensure and regulation of the managed health care industry was removed from the Department of Corporations and placed in a new, stand-alone, department. The mission of DMHC is to regulate, and provide quality-of-care and fiscal oversight for Health Maintenance Organizations (HMOs) and two Preferred Provider Organizations (PPOs). These 94 Health Care Plans provide health insurance coverage to approximately 64 percent of all Californians. Recent statutory changes also make DMHC responsible for the oversight of 240 Risk Bearing Organizations (RBOs), who actually deliver or manage a large proportion of the health care services provided to consumers. Within the Department, the Office of the Patient Advocate helps educate consumers about their HMO rights and responsibilities.

The Governor proposes $41.5 million (no General Fund) in total expenditures and 302 positions for the department – an increase of $5.5 million and 21 positions.

Issue Proposed for Consent / Vote-only

1. **Reimbursement Authority: Managed Risk Medical Board workload (BCP #5).** The Department requests an augmentation in reimbursement authority of $220,000 to receive funds from the Managed Risk Medical Board (MRMIB) to conduct health plan medical loss ratio reviews. The medical loss ratio is the amount of revenues from health insurance premiums that is spent to pay for medical services covered by the plan. The reimbursements would fund two new Examiner positions. MRMIB currently contracts with Price/Waterhouse Coopers for these reviews at a cost of about $54,000 per review. DMHC believes it can perform these same reviews for about $18,000 per review. The resulting annual cost savings for MRMIB would be approximately $422,000.

   Staff Comment. The Managed Risk Medical Board is heard in Senate Budget and Fiscal Review Subcommittee #3. The Committee Consultant for MRMIB does not believe Subcommittee #3 will have any concerns over this proposal.

   Staff Recommendation: Approve the request.

   Vote:

Issues for Discussion / Vote

1. **Provider Oversight Program (BCP #1).** The Department proposes to augment funding by $3.8 million and 17 positions to conduct financial solvency oversight of Risk Bearing Organizations (RBOs) and ensure prompt and sufficient payment of health care provider claims. The positions would staff the proposed Office of Provider Oversight, which would include a Provider Solvency Unit, a Provider Complaint Unit and an associated Provider Oversight Management Group. The request includes $100,000 for contracting-out consulting services in the areas of medical coding, and medical necessity of services provided. The new office would supplement and supplant the Department's existing Provider Complaint Unit, which was established on an interim basis with borrowed and temporary resources in 2004.

   Background: SB 260 (Chapter 529, Statutes of 1999, Speier), established the Financial Sovency Standards Board (Board) and placed certain financial standards on RBOs and required DMHC to adopt related regulations. The initial regulations were challenged in court, and final regulations were not approved by the Office of Administrative Law until 2005. DMHC indicates that three positions were added for SB 260-related activity in 2002-03; however two of the positions were eliminated due to vacant position reductions.

   AB 1455 (Chapter 827, Statutes of 2000, Scott) established new requirements for prompt and fair payment of provider claims by health plans, and authorizes DMHC to impose sanctions on a plan when an unfair payment pattern is found. Following the adoption of regulations, the Department established the Provider Complaint Unit (PCU) "pilot" in September 2004 with borrowed and temporary resources; however, no positions have ever been added to the DMHC budget for AB 1455 workload.

   Staff Comment: The Department should be prepared to discuss standards for initiating investigations, standards for assessing fines and the appropriate level of fines, and how these assumptions affect Department revenue and staffing.

   The Governor's Budget indicates expenditures exceeding revenues by approximately $800,000 in 2006-07 and the special fund balance ends 2006-07 with a balance of $2.0 million. The bill analysis for AB 1455 indicated an increase in assessments may be necessary, and the Department indicates a fee increase may be needed in the future. The Department has the ability to increase fees within existing statutory authority.

   Staff Recommendation: Keep this issue open – direct staff to continue working with DMHC and interested parties on issues of oversight and enforcement to better assess the budget request.

   Vote:

2. **Staffing Augmentation for Legislative Analysis & Support (BCP #3).** The Department requests $165,000 (special fund) and authority to add two permanent positions (an Associate Governmental Program Analyst and an Office Technician) for legislative analysis and support workload.

   Background/Detail: The Department indicates that the Office of Legal Services, which includes the Legislative Division, originally consisted of 31 authorized positions, but through vacant position eliminations was reduced to 25 positions. The Legislative Division has always had only one staff position, but the Department indicates other staff time has been redirected in recent years to handle the workload, and that continued redirection carries a "very real risk" of missing statutory and/or court-imposed deadlines. In 2003 and 2004, 1998 staff hours and 4979 staff hours were respectively used for legislative workload. The DMHC expects about 8,000 hours of legislative workload in 2005-06.

   Staff Recommendation: Approve the request.

   Vote:

3. **2005-06 "Workload & Administrative Adjustment" (Staff Issue):** The Governor's Budget display titled "Changes in Authorized Positions" indicates that 13.0 positions were administratively added to the Department's budget in 2005-06. Pursuant to Budget Control Section 31.00, the Administration does have the authority to add positions within the same fiscal year if the budgeted resources are sufficient. A full-year cost for the 13 added positions is approximately $1.0 million.

   Staff Comment: The administrative addition of 13 positions raises several issues:
   - What workload are these positions performing?
   - Why didn't the DMHC submit a BCP last year to establish these positions?
   - Why does the Department have $1.0 million in "extra" budget authority? (How was the Department able to fund 13 new positions without needing a budget augmentation?)

   Staff Recommendation: If the Department does not adequately answer the concerns of the Subcommittee during testimony, the Subcommittee may want take action to reduce the DMHC budget by $1.0 million and consider restoring funding only after the Department submits a Finance Letter that justifies the activity and expenditure.

   Vote: