Senate Budget and Fiscal Review—Wesley Chesbro, Chair

SUBCOMMITTEE NO. 4 Agenda

Joseph Dunn, Chair
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Agenda – Part B

Wednesday, May 11, 2005
1:30 p.m.
Room 2040

(Consultant: Brian Annis)

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Issues Proposed for Consent / Vote Only

1110 Board of Registered Nursing

The Board of Registered Nursing ensures that registered nurses are competent and safe to practice through: (1) sound licensing standards; (2) an effective enforcement program to prosecute violations of the Nursing Practice Act; (3) a diversion program to intervene with chemically dependent or mentally ill nurses; (4) oversight of nursing school programs; and (5) public education efforts.

Issue: Augmentation for the Diversion Program (Finance Letter (FL) #1). The Administration proposes a permanent augmentation of $168,000 (special fund) to support the increased participation in the Diversion Program. The Diversion Program is a voluntary confidential monitoring program for Registered Nurses (RNs) whose competency may be impaired as a result of chemical dependency and/or mental illness. The Diversion Program services are performed by a contractor with staff having expertise and knowledge in chemical dependency and mental illness. The base program funding anticipates contract costs of $1.106 million and 408 participants. Recent actual participation suggests 2005-06 costs of $1.274 million and 470 participants.

1111 Bureau of Automotive Repair

The Bureau of Automotive Repair administers the Automotive Repair Program and the Smog Check Program. Both Programs are designed to protect consumers and discipline unethical service dealers and technicians. The Bureau also administers the Consumer Assistance Program, which provides financial assistance to eligible consumers whose vehicles fail a biennial Smog Check inspection.

Issue: Staff Realignment (FL #2): The Administration requests a budget adjustment to rescind a January Governor's Budget Proposal to shift 3.8 positions and $269,000 (special fund) from the Department of Consumer Affairs Communications and Education Division to the Bureau of Automotive Repair. The Administration is now requesting to maintain the status quo and keep consumer education and outreach functions centralized, rather than decentralize these functions by transferring them to the Bureau of Automotive Repair. Implementation of this proposal would result in no net increase in expenditures.

1700 Department of Fair Employment and Housing

The mission of the Department of Fair Employment and Housing is to protect people from unlawful discrimination in employment, housing, and public accommodations, and from the perpetration of acts of hate violence.

Issue: Technical Corrections related to Workers' Compensation (April FL). The Administration requests the following technical corrections related to adjustments made in the January Governor's Budget for Control Section 6.60 of the 2004 Budget Act. Control Section 6.60 provided a mechanism for budget adjustments due to workers' compensation savings.

- Move the savings from operating expenses and equipment to staff benefits.
- Augment funding by $390,000 (General Fund) to correct for overstated savings due to incorrect base-year costs.

Staff Comment: No issues have been raised with the consent / vote-only items listed above.

Staff Recommendation: Approve the budgets of the entities listed above.

Vote:

1110 / 1111 Department of Consumer Affairs

The Department of Consumer Affairs (DCA) provides exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns. The issue listed below is a cross-cutting issue that involves multiple Boards or Bureaus. Issues that relate to a single Board or Bureau are discussed under the headings of the individual Board or Bureau.

Issue for Discussion:

1. **Workers' Compensation Augmentation and Conversion to a "Self-Insured" Program (Budget Change Proposal (BCP) #1 and FL #1).**

   BCP #1: The Administration requests a permanent augmentation of $3.1 million (no General Fund, various special funds) to provide Boards and Bureaus with sufficient resources to fund significant increases in State Compensation Insurance Fund (SCIF) premiums. The base budget for these costs is currently $3.4 million and SCIF premiums are anticipated at $6.5 million for 2005-06.

   FL #1: The Administration requests conversion of DCA from a premium-based insurance policy with SCIF to a self-insured program. According to information provided by the Department of Finance, most State departments pay workers' compensation costs directly out of their budgets instead of purchasing insurance through SCIF. The Finance Letter indicates that DCA's actual workers' compensation costs have averaged between $1.3 million to $2.0 million, while their SCIF premiums have increased to $6.5 million. The Administration proposes to retain the augmentation in BCP #1 and additionally add 1.5 positions (no additional funding) to DCA, but anticipates overall savings from the conversion to a self-insured program. The Administration proposes to separately schedule the workers' compensation appropriation, so that Control Section 26.00 restrictions would apply and DCA would have limited ability to redirect this funding for other expenditures.

   April 6, 2005 Hearing: BCP #1 was on a past hearing agenda, but the issue was held open without discussion to be considered in concert with FL #1.

   Staff Comment: The Administration indicates the conversion to a self-funded program should reduce DCA costs; however, this may increase the frequency of deficiency requests if small boards are unable to absorb unanticipated workers' compensation costs. If approved, committee staff should be directed to look at this again next year to see if savings were achieved and if the appropriation should be reduced.

   Staff Recommendation: Approve both BCP #1 and FL #1.

   Vote:

1110 Athletic Commission

The State Athletic Commission approves, manages, and directs all professional and amateur boxing and martial arts events. The Commission is charged with ensuring bouts are fair and competitive while protecting the health and safety of participants. The Commission is support by industry fees.

Issue for Discussion

1. **Augmentation to Implement Senate Bill 1549 (FL #1).** The Administration requests a permanent augmentation of $46,000 (special fund) for temporary help to implement the requirement of SB 1549 (Statutes of 2004, Figueroa), which expanded the jurisdiction of the Commission to include all forms of marital arts contests, including mixed martial arts. The Senate Floor Analysis for SB 1549 estimated annual costs of about $300,000, for additional licensing and for regulation of marital arts events, offset by about $550,000 in revenue from license fees and gate taxes.

   Staff Comment: The Commission should explain the difference in fiscal estimates between the SB 1549 analysis and those in the Finance Letter, and whether the requested amount will be sufficient to implement SB 1549.

   Staff Recommendation: Approve the request.

   Vote:

1920 State Teachers' Retirement System

The State Teachers' Retirement System (CalSTRS) administers retirement and health benefits for more than 735,000 active and retired educators in the public schools from kindergarten through the community college system.

Issue for Discussion

1. **State Contribution to the Defined Benefit Program.** The Governor proposes to shift State responsibility for making contributions to CalSTRS basic retirement program to local employers. Specifically, the Governor's proposal eliminates the State's 2.017 percent contribution to the Defined Benefit (DB) program, for an assumed General Fund (Non-98) savings of $469 million in 2005-06. The proposal increases contributions for CalSTRS employers – school districts, county offices of education and community colleges – but does not provide additional funding to cover higher local contributions to the DB program. The Governor's proposal allows local employers to share costs with CalSTRS employees through collective bargaining. The state also contributes 2.5 percent of payroll for purchasing power benefits – estimated to total $581 million General Fund (non-98) in 2005-06. This purchasing power protection program is <u>not</u> affected by the Governor's proposal.

   Detail: Under the DB program, benefits are funded from three sources. Contributions, as a percent of payroll, for each of these sources are fixed in statute as follows:

   - Employee Contributions: 8.0 %
   - Employer Contributions: 8.25 %
   - State Contributions: 2.017 %

   Under the Governor's proposal, the state's DB program contribution of 2.017 percent would be eliminated and the funding obligation would shift to either the Employer Contribution or the Employee Contribution (depending on collective bargaining). As noted in the LAO analysis, the State's contribution of 2.017 percent is pegged to payroll two years ago. If the 2.0-percent calculation were applied to current payroll, the costs would be approximately $500 million.

   In addition, the Governor proposes to give teachers the option of eliminating their 2 percent contribution currently credited to a Defined Benefit Supplement (DBS) program. This option would allow employees to increase their take home pay by reducing contributions from 8 to 6 percent, but also reduce DBS benefits. Under current law, the DBS program ends in 2010.

   The Administration also proposes to eliminate a statutory surcharge that is activated when there is unfunded liability to cover 1990-level benefits. This surcharge was triggered for three-quarters of the year in 2004-05 at a rate of 0.524 percent and resulted in a General Fund (Non-98) cost of $92 million. The LAO estimates that the full-year costs of funding the surcharge is between $120 and $170 million in

General Funds. The CalSTRS estimate of the 2005-06 cost of this surcharge is $122 million.

CalSTRS Comments: The CalSTRS Board is opposed to the Governor's DB contribution shift proposal because it: (1) potentially worsens the funding condition of the DB program; (2) potentially impairs contractual rights of existing members; and (3) poses a severe administrative burden on local employers and CalSTRS to administer the benefit program.

Proposition 98 Rebenching: The Governor's proposal would not result in any savings to the State if the cost shift would result in a rebenching of Proposition 98. In the *Analysis of the 2005-06 Budget Bill*, the LAO indicated that because the proposal shifts costs to locals it would likely require rebenching of Proposition 98. If this were the case, the state would have to appropriate $469 million to locals. The Administration has argued that no rebenching would be necessary with the proposal.

Legislative Counsel Opinion: The Legislative Counsel provided an opinion on the Governor's proposal and Proposition 98 rebenching in a letter dated April 11, 2005, and titled, *State Teachers' Retirement: Proposition 98 - #9293*. The opinion concludes as follows:

> *Thus, it is our opinion that the proposal to eliminate the state's annual contribution to the California State Teachers' Retirement System Defined Benefit Program contained in the Governor's Budget for the 2005-06 fiscal year would require a recalculation of the minimum educational funding obligation imposed by Section 8 of Article XVI of the California Constitution if that proposal is enacted by the Legislature and signed by the Governor.*

Staff Comment: Rebenching of Proposition 98, as the Legislative Counsel indicates would be required, means that the Governor's proposal would not save the State any money, as the State would be required to backfill the cost to locals of this retirement cost.

Staff Recommendation: Reject the Governor's proposal, because it will not generate any savings for the State.

Vote:

Note on CalSTRS budget: Pursuant to the direction of the Chair at the April 27 hearing, the remainder of CalSTRS budget (other than issue #1 above as applicable) is kept open while an issue of concern to another Senator is being addressed.

2180 Department of Corporations

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

The Governor' Budget proposes total expenditures of $31.1 million (State Corporations Fund), an increase of $1.8 million.

Issues:

1. **Continuation of Seniors Against Investment Fraud (SAIF) Program (BCP #4):** The Department requests $400,000 (special fund) and 1 position to continue this three-year-old program that previously has been funded by a grant from the Criminal Justice Programs Division of the Governor's Office of Emergency Services. With help from volunteers from organizations such as the Association of Retired Persons and the Retired Senior Volunteers Program, the program conducts outreach training and distributes information packets to seniors. The program aims to reduce investment fraud in areas such as insurance, annuities, and ponzi schemes.

   Legislative Analyst Recommendation: In the *Analysis of the 2005-06 Budget Bill*, the Analyst recommends that the Legislature deny this funding request. The Analyst indicates it is difficult to draw definitive conclusions about the program's direct benefits on reducing investment fraud. Additionally, the Department of Justice contains a Bureau of Medical Fraud and Elder Abuse that also works to reduce investment fraud on seniors.

   March 2, 2005 Hearing: The Subcommittee left this issue open and requested that the Administration provide additional information concerning any overlap between the functions of this program and the Department of Justice Program.

   Administration Response: Both the department and the Attorney General's Office provided information about their respective programs. The Attorney General's program has a broader scope and does not provide the detail and depth of help provided by the Department of Corporations with SAIF.

	Dept. of Corporations	**Attorney General's Office**
Scope of Program	Investment fraud against seniors.	Elder abuse, including physical, neglect, and financial.
Response to phone inquires on investments	Receives calls and advises seniors.	Does not have staff to advise senior. Refers callers to SAIF.
Public Outreach	With volunteers, over 2,000 presentations.	Senior Crime Alert Forums, normally include a SAIF representative.

Staff Comment. Information provided by the Administration indicates that SAIF provides services and information that is not available from the Attorney General's program. The Subcommittee may want to adopt one of the following four options:

1) Reject SAIF funding. This is the LAO recommendation and would reduce costs, but decrease state services to seniors.
2) Reduce SAIF funding to $225,000 (BCP minus $175,000). This would provide for one staff person, but reduce funding available for media advertising, conference fees, and video production. The remaining funding would cover printing, travel costs, general expenses and service contracts.
3) Approve SAIF funding at $400,000, but make it 2-year limited-term. This would address the concern about a fee increase – if in two years, fee revenue is insufficient to continue at this level, funding could be eliminated or reduced.
4) Approve permanent SAIF funding of $400,000, as requested by the Administration.

Staff Recommendation: Adopt option #2: Reduce SAIF Funding to $225,000 (BCP minus $175,000). This maintains the core program but eliminates or reduces costly conference attendance, media purchases, and video production.

Vote:

2. **Additional Examiners – Abusive Lending Enforcement (BCP #5):** The Department requests three positions and $287,000 (special fund) for the additional workload associated with AB 2693 (Chapter 940, Statutes of 2004, Wiggins). AB 2693 added a provision to the California Financial Code that prohibits finance lenders from failing to disburse funds in accordance with a commitment to make a loan, or intentionally delaying the closing of a loan for the purpose of increasing costs to the borrower. The Assembly analysis of the bill indicated that these practices were already illegal under Residential Mortgage Law, but not described as prohibited acts under the California Financial Code. The analysis indicated no fiscal cost to implement the bill.

   March 2, 2005 Hearing: The Subcommittee left this issue open and requested that the Administration provide additional information concerning the need for this augmentation and why AB 2693 indicated no fiscal effect.

   Administration Response: The Department indicates that it identified fiscal costs associated with AB 2693, but did not have time to submit their analysis after amendments were adopted and prior to the bill being passed out of committee. The Department notes the cost is due to adding this activity to their audit investigations, such that every lender is examined for compliance every four years.

   Staff Comment. This issue is similar to last year's discussion of SB 1, the Financial Information Privacy Act. The Department wanted funding to audit all firms for compliance; however, the Legislature reduced the funding to cover complaint investigation and "red flag" audits. Report language was added to report the observed level of non-compliance with SB 1.

   Staff Recommendation: Approve funding for only one of the requested three positions (BCP minus $191,000 and 2 positions) to fund complaint investigation and "red flag" audits. This is analogous to last year's action on SB 1. Adopt the following language to require the Department to report on compliance:

   Provision 3: The Department of Corporations shall report to the budget committees of each house of the Legislature and the LAO by January 10, 2007, on the level of non-compliance found with Chapter 940, Statutes of 2004 and any staffing changes requested based on the level of compliance.

   Vote:

3. **Troops Against Predatory Scams Investor Education Program (FL #1).** The Administration requests an augmentation in reimbursement authority of $150,000, three-year limited-term, to receive grant funding to institute a Troops Against Predatory Scams (TAPS) Investor Education Program. The grant has been awarded to the department by the Investor Protection Trust, a nonprofit organization whose primary mission is to provide independent, objective, investor education. The TAPS program is designed to educate members of the Armed Forces and their families stationed within California about how to protect their finances against investment fraud and predatory financial schemes. The proposed TAPS expenditures are as follows:

   - $104,000 – General expenses and advertising.
   - $11,000 – Printing, postage, communications, and facilities.
   - $35,000 – Travel for the TAPS Program Director and an analyst.

   Staff Comment: The Department indicates TAPS would be managed by existing Public Affairs Office staff, existing call center staff, and possibly student assistants.

   Staff Recommendation: Approve this request. Funding is provided by a nonprofit organization.

   Vote:

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's Budget proposes $563.2 million ($13.3 million General Fund) in total expenditures for the department – a decrease of $34.9 million.

Housing and Community Development Issues for Discussion / Vote

1. **Regional Housing Needs Assessment Mandate (Staff Issue).** Given a recent *Statement of Decision* by the Commission on State Mandates, the Legislature may want to consider deleting the "housing element" mandate item in the budget bill.

   Background: Statute requires Councils of Governments (COGs) to assess a locality its share of the regional housing need. As part of its general plan, every city and county is required to prepare a "housing element" which assesses the conditions of its housing stock and outlines a five-year plan for housing development. In 1981, the Board of Control determined that the housing-element requirement imposes a reimbursable mandate. Last year, the LAO estimated the annual cost to the State at approximately $4 million (General Fund). Last year, the Legislature approved a budget trailer bill (SB 1102), which asked the Commission on State Mandates to reconsider the 1981 finding based on federal and state statutes enacted and federal and state court decisions rendered since the 1981 finding. On March 30, 2005, the Commission on State Mandates adopted a Statement of Decision that the housing element mandate does not require state reimbursement under the provisions of Article XIIIB, section 6, of the California Constitution.

   Staff Comment: The Governor's Budget proposed a suspension of the housing element mandate in 2005-06. Last year, the Legislature approved the deferral of the mandate, which continued the requirement, but deferred the State reimbursement to locals. Given the recent decision by the Commission on State Mandates, the Legislature may want to delete the mandate item. This action would continue the current-law requirement for locals, but not result in any costs to the State (either current or deferred). Staff understands that the Department of Finance is supportive of this change.

   Staff Recommendation: Delete the housing element mandate item (2240-295-0001) from the budget bill.

   Vote:

2. **Economic Development Areas – Administrative Funding (Staff Issue).** The State currently designates four types of economic development areas intended to attract and retain businesses in economically-challenged communities. Currently, there are 39 Enterprise Zones (EZs), eight Local Agency Military Base Recovery Areas (LAMBRAs), two Manufacturing Enhancement Areas (MEAs), and one Targeted Tax Area (TTA). Last year, a budget trailer bill (SB 1097) provided HCD authority until July 1, 2006, to impose a fee, not to exceed $10, for each application for a Enterprise Zone hiring tax credit voucher. Businesses are only required to pay the fee if they choose to take advantage of the tax credit. This fee funds the State's cost of the Economic Development Areas Programs ($668,000 and 6 positions), which would otherwise be a General Fund expense. Statute does not currently allow for the imposition of fees to cover the State's cost of the LAMBRA, MEA, and TTA programs.

   Proposed statutory amendments would include LAMBRAs, MEAs, and TTAs in the fee structure; include a fee sunset date to 2009 (and move the EZ sunset date from 2006 to 2009); and delete the refund requirement for a rejected EZ application. Proposed amendments are on Attachment I (page 47) of this agenda.

   March 2, 2005 Hearing: The Subcommittee kept this issue open to receive further input on the language from interested parties.

   Language Changes: The language has been modified since the last hearing to add a 2009 sunset date. These changes were made to address industry concerns and staff understands industry does not oppose this language.

   Staff Comment: There are approximately 55,000 businesses using the EZ tax credit and only about 2,300 businesses using tax credits in all the other economic development areas. According to HCD, there is not an administrative problem with also requiring the businesses that use the other tax-credit programs to help support the State's administrative cost of the programs. Moving the EZ sunset date would save the State approximately $668,000 (General Fund) in 2006-07. Identical language is included in SB 254 (Torlakson).

   Staff Recommendation: Approve this trailer bill language.

   Vote:

3. **Mobilehome Inspection Staffing (FL #2):** The Administration requests permanent funding $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. Half-year funding is requested for 2005-06 totaling $1.0 million and 7 positions. The Administration proposes to fund these costs with fee increases that can be achieved without statutory change. The amounts of the fee increases vary by inspection type, but many of the fee increases are significant – exceeding 100 percent. Many of the fees have not changed since the 1980's.

   Staff Comment: The Department indicates the major stakeholders are supportive of these fee increases, as indicated by the support of the following entities:

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

   Staff Recommendation: Approve the request.

   Vote:

2400 Department of Managed Health Care

The mission of the Department of Managed Health Care (DMHC) is to regulate, and provide quality-of-care and fiscal oversight for Health Maintenance Organizations (HMOs). Within the Department, the Office of the Patient Advocate helps educate consumers about their HMO rights and responsibilities. Previously, DMHC was heard in Budget Subcommittee 3, with Health and Human Services departments. DMHC is now in Budget Subcommittee 4, to be heard with other departments in the Business, Transportation, and Housing Agency.

The Governor proposes $35.9 million (no General Fund) in total expenditures for the department – a decrease of $331,000.

Issue for Discussion

1. **Staffing Augmentation (BCP #1).** The Administration requests authority to add four permanent positions for the HMO Help Center to be funded within existing resources. This request would convert temporary-help positions to permanent positions, so the $166,000 cost for these positions is not additive to the DMHC budget. In 2002-03, BCP #1, projected a need for additional permanent positions, but deferred the request to assess the impact of legislation, outreach efforts, and business-process re-engineering on workload.

   Staff Comment: Since DMHC is new to Subcommittee #4 and has not previously been heard this year, the subcommittee may wish to ask DMHC to briefly describe their HMO Help Center. Additionally, the subcommittee may want DMHC to comment on the quality of customer service performed both by department staff and an external call center operated by a private vender.

   Staff Recommendation: Approve the budget request.

   Vote:

2740 Department of Motor Vehicles

The Department of Motor Vehicles (DMV) regulates the issuance and retention of drivers' licenses and provides various revenue collection services. The DMV also issues licenses and regulates occupations and businesses related to the instruction of drivers, as well as the manufacture, transport, sale, and disposal of vehicles.

The Governor proposes total expenditures of $762 million, an increase of $7 million (1 percent) from the current-year budget.

Budget Changes proposed for Discussion / Vote

1. **Moving Costs (BCP).** The Administration requests 2005-06 funding of $781,000, special funds, for moving costs related to three existing offices (in Rocklin, Poway, and Riverside East) where the lessors do not intend to renew the DMV lease. The table below, from DMV, outlines the one-time and ongoing costs by location.

Ongoing	**2005-06**	**2006-07**
Rocklin	$333,095	$361,740
Poway	na	$415,000
Riverside East	na	$427,000
Total On-going Funds	$333,095	$1,203,740
One-Time		
Rocklin	$0	$0
Poway	$196,000	$64,800
Riverside East	$252,000	84,600
Total One-time Funds	$448,600	$149,400
Total Request	**$781,695**	**$1,353,140**

March 16, 2005 Hearing: The Subcommittee kept this issue open and asked DMV to provide further information to justify the cost of this request.

DMV Response: The DMV has provided additional detail on these costs.

Staff Recommendation: Approved the request.

Vote:

2. **Evaluations of High-Risk Drivers (LAO issue).** The LAO recommends adoption of budget bill language directing the department to transfer the workload for evaluating certain high-risk drivers from driver safety offices to its field offices, and to report on the impact of the transfer. The LAO suggests the "negligent operator " evaluations (concerning motorists that accrue an excessive number of moving violations or cause multiple traffic accidents) be moved to the field offices because these are the simpler type of evaluations that mid-level field office staff could perform with little training. This action would decrease the workload at the safety offices by about 10 percent and allow quicker evaluation of Driving-Under-the-Influence (DUI) cases and physical and mental ability cases. The LAO indicates that currently, DMV is not meeting statutory time frames for DUI cases.

   March 16, 2005 Hearing: The Subcommittee kept this issue open at the request of the DMV. The DMV indicated it needed additional time to evaluate and research this recommendation.

   Compromise Language: The DMV indicates that the LAO proposal merits study and the DMV plans to hire a consultant (within existing budgetary resources) to look at the feasibility of the change. The LAO revised its supplemental report language to incorporate the DMV proposal:

   On or before April 1, 2006, the Department of Motor Vehicles shall provide a report to the Chair of the Joint Legislative Budget Committee and the chairs of the budget committees of both houses of the Legislature on its short-, mid-, and long-term plans for addressing anticipated workload growth in the driver safety program. The report shall include the department's plans for meeting statutory requirements for administrative license suspension and negligent operator hearings, as well as scheduling timely evaluations of other high-risk drivers. The report shall also include an estimate of the department's additional resource requirements, if any, in carrying out these plans.

   Staff Comment: Staff understands the above supplemental report language is acceptable to both the LAO and the Administration.

   Staff Recommendation: Adopt the LAO's compromise supplemental report language.

   Vote:

3. **Funding for Credit Card Fees (FL #2).** The Administration requests an augmentation of $6.6 million (special funds) to fund credit card convenience fees charged by credit card companies. DMV requests an additional $2.3 million augmentation in 2006-07, such that total funding that year will be $8.9 million. This funding will cover the fees assessed by Visa, MasterCard, American Express, and Discover for the credit card transactions conducted by the DMV's customers such as registration renewal, personalized license plate reservation, and driver's license renewal.

   Background: On July 1, 2004, the DMV began absorbing the $4 credit card convenience fee previously charged to customers to encouraged growth in online transactions. The DMV anticipates an approximate doubling of online transactions from 2003-04 to 2004-05 with additional significant growth in 2005-06 and 2006-07. For example, the number of online registration renewals was 644,025 in 2001-02; grew to 1,190,519 in 2003-04; and is expected to be 3,000,000 in 2006-07. In 2004-05, the DMV added drivers license renewals to its online options. The DMV has absorbed these costs in the current year by lengthening the useful life of equipment, deferring routine maintenance, reducing both in-state and out-of-state travel, and reducing training costs; however, the department indicates this redirection cannot be carried out on an ongoing basis.

   Staff Comment: While the Finance Letter indicates increased online credit card payment may reduce visits to DMV offices, the department has indicated in discussions that most of the growth in online transactions is coming from people who would otherwise mail their payment to the DMV. The Department indicates that credit card transactions do not result in cost savings relative to processing checks that arrive in the mail. Despite no current cost saving, the DMV wants to expand online offerings and feels future benefits will accrue from customers visiting the DMV website.

   Staff Recommendation: Approve this request, but change funding to two-year limited-term. The DMV indicates convenience fees have been removed three times and later reinstated over an eleven year period as the budget and fund condition allowed. The current Motor Vehicle Account fund condition is sufficient to support this cost if the Subcommittee wishes to approve this request; however, this may change in the future.

   Vote:

4. **International Registration Plan – IT System Replacement (FL 4):** The Administration requests an augmentation of $1.345 million (special funds) in 2005-06 to begin the replacement of DMV's existing computer system for processing International Registration Plan (IRP) registrations with a commercial-off-the-shelf software package widely utilized by other states and countries. The DMV indicates that the new system would provide the department better tools to detect firms that underreport California mileage and in doing so increase annual revenue by approximately $7.4 million. The Feasibility Study Report (FSR) indicates the DMV intends to redirect funds to this project through 2008-09, such that the total project cost is identified at $8.4 million. Approval of this request would authorize out-year funding as follows ($ in millions):

	2005-06	2006-07	2007-08	Ongoing	Total
Requested Funding	$1.345	$1.325	$1.123	$1.036	$4.829
Redirected Funding	$1.267	$1.308	$0.708	$0.269	$3.553
TOTAL	**$2.612**	**$2.633**	**$1.832**	**$1.306**	**$8.382**
Revenue Increase	$0	$0	$3.700	$7.400	$11.100

Detail: California is a member of the federally-mandated IRP, which apportions registration fees for interstate carriers across IRP jurisdictions based on mileage. DMV indicates that the current IT system, implemented in 1985, doesn't have the capability to interface with the IRP Clearinghouse electronic exchange system used by 45 of 59 IRP jurisdictions. The requested IT system would enhance automated support for IRP program activities, resulting in more effective and efficient operations and enhanced customer service and convenience. Customer service improvements would include reduced turnaround time for processing IRP applications (from 30-35 days to 10 days) and alternative service delivery options via the Internet to conduct IRP transactions electronically instead of using the current hard copy submission method. This system would support the provisions of SB 1233 (Statutes of 2004), that authorizes the DMV to form a public-private partnership with a motor carrier association to provide electronic services capable of accepting, completing, and transmitting registration transaction data and fees to the department.

Staff Comment: The FSR associated with this project was approved the week of May 2, 2005 by the Department of Finance, Office of Technology Review, Oversight, and Security. The standard practice is for Finance to approve a FSR prior to submission of a budget change proposal to the Legislature. If the Legislature approves a project prior to Finance approval of the FSR, some aspects of the projects may still change – as Finance may require changes to the FSR plan. While this FSR was recently submitted, staff understand the LAO has had reviewed it and does not oppose this project.

Staff Recommendation: Approve this request. Concerns with the FSR have been resolved.

Vote:

5. **Queuing System Expansion - IT Project (FL #5).** The Administration requests $2.087 million (special funds) to install queuing management systems for 42 additional DMV field offices. Ongoing funding is also requested at the level of $267,000. The DMV indicates the benefit of these queuing systems is improved customer service and improved performance measures – as the systems allow DMV to determine if offices are meeting the statutory mandate to provide service to customers within an average wait time of 30 minutes.

   Detail: The DMV currently has electronic queuing systems in 92 of the largest field offices and this request would add 42 additional offices. The Department indicates this would leave 34 offices without such systems; however, most of these offices are located in remote areas and do not have a large customer base or long wait times. These systems will allow field office managers to direct the assignment of customers to different windows to reduce average wait times; improve waiting conditions for customers; and more efficiently allocate staff within individual field offices. Each system will also act as a data collection device to allow regional office managers to monitor and manage the field offices on a real-time basis.

   Staff Comment: The FSR associated with this project was approved the week of May 2, 2005 by the Department of Finance, Office of Technology Review, Oversight, and Security. The standard practice is for Finance to approve a FSR prior to submission of a budget change proposal to the Legislature. If the Legislature approves a project prior to Finance approval of the FSR, some aspects of the projects may still change – as Finance may require changes to the FSR plan. The late approval of this FSR is somewhat mitigated in this case, because this is a proven technology that has been evaluated by a past FSR and a Post Implementation Evaluation Report.

   Staff Recommendation: Approve this request. The FSR was just recently approved; however, this is a known IT system that has been successfully implemented at other DMV offices.

   Vote:

8530 Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun

The Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun licenses and regulates maritime pilots who guide vessels entering or leaving those bays. The Governor's Budget proposed expenditures of $1.2 million (Board of Pilot Commissioners' Special Fund) and 2.0 positions – an increase of $15,000.

Issues for Discussion:

1. **Augmentation for Pilot Trainees (FL 1).** The Administration requests a permanent augmentation of $254,000 (special fund) to increase the average number of trainees from three to nine. The Commission indicates that additional pilot trainees are necessary to meet the need for licensed pilots starting in 2005-06.

   Detail: By regulation, pilot trainees are required to be in the training program for a minimum of one year and a maximum of three years. Pilot trainees receive a stipend of $4,200 per month. The Commission surveyed current Pilots and found ten intend to retire prior to 2008, and another five intend to retire within a year of that.

   Fund Condition: The Governor's Budget shows a Board of Pilot Commissioners' Special Fund reserve of $12,000 at the end of 2005-06, with 2005-06 expenditures exceeding revenues by approximately $900,000. The Department of Finance indicates the Commission will have to increase fees to fund this Finance Letter in 2005-06 and ongoing base expenditure in 2006-07. The Commission is currently considering fee increases, which Finance indicates will produce a reserve of $836,000 in 2005-06 and $913,000 in 2006-07. The proposed fee increase is within current statutory maximums.

   Staff Recommendation: Approve the request.

   Vote:

2. **Facilities Operations Augmentation (FL #2**). The Administration requests a permanent augmentation of $37,000 (special fund) to support a rent increase for the Commission's office facility. Harbors and Navigation Code Section 1153 requires the office to be located in San Francisco, and the facility identified by the Department of General Services has an annual rent of $59,000, versus the budgeted amount of $22,000.

   Staff Recommendation: Approve the Request.

   Vote:

8820 Commission on the Status of Women

The Commission on the Status of Women serves to advance the causes of women; by advising the Governor and the Legislature; and educating and informing its constituencies.

The Governor's Budget proposes expenditures of $422,000 ($420,000 General Fund and $2,000 reimbursements) and 3.9 positions – a decrease of $3,000. These figures include a $7,000 unallocated General Fund reduction.

Issue

1. **Commission Funding.** In January 2005, the Legislature received a deficiency request from the Administration of $8,768. The Commission had originally requested $36,823, and the Department of Finance had reduced the level to $8,768. While these costs appear to be ongoing in nature, the Governor's Budget does not include a related augmentation. Additionally, the Budget includes an unallocated General Fund reduction of $7,000 for the Commission.

   April 6, 2005 Hearing: This issue was heard and left open so the Commission could respond in more detail to concerns raised by the Subcommittee.

   Staff Comment: The Commission indicates it will not be able to absorb these reductions without a staff reduction or a move to an office away from the capitol – either of which, the Commission indicates, will decrease their effectiveness.

   Staff Recommendation: To keep the Commission at the adjusted 2004-05 budget base, the Subcommittee may want to consider rejecting the $7,000 unallocated General Fund reduction and additionally augmenting the budget by $9,000 General Fund.

   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 departments including:

- Alcoholic Beverage Control
- Corporations
- Housing and Community Development
- California Highway Patrol
- Motor Vehicles
- Financial Institutions
- Real Estate
- Managed Health Care
- Transportation
- Stephen P. Teale Data Center

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
- Film Commission
- Division of Tourism
- Small Business Loan Guarantee Program
- Off. of Military & Aerospace Support
- Manufacturing Technology Program

The Governor's Budget proposes total expenditures of $18.3 million ($5.3 million General Fund) for the Office of the Secretary – a reduction of $2.7 million.

(See next page)

BT&H Agency Issues for Discussion / Vote

1. **Infrastructure and Economic Development Bank – Staffing (BCP #3).** The Infrastructure Bank (I-Bank) requests $100,000 (California Infrastructure and Economic Development Bank Fund) and 1 position. Assembly Bill 1554 (Chapter 263, Statutes of 2004), authorized the West Contra Costa Unified School District and the Oakland Unified School District to use lease financing to repay their existing emergency apportionments, and provided an emergency loan to the Vallejo City Unified School District – also to be repaid with lease financing. The legislation directs the California Infrastructure and Economic Development Bank to issue lease revenue bonds that will provide approximately $160 million for the General Fund and will provide a non-General Fund source of funding in the future years for emergency apportionments to school districts. AB 1554 appropriated $100,000 and one position to "fulfill" the provisions of the bill. This budget proposal indicates the workload associated with AB 1554 is ongoing and requests permanent continuation of the funding (special fund) and authority for this position.

   March 2, 2005 Hearing: The Subcommittee kept this issue open and asked the Administration to provide additional information to justify the ongoing nature of this workload.

   Administration Response: The Administration indicates the ongoing workload associated with AB 1554 is 360 hours to 480 hours annually; which is, by itself, insufficient justification for this request. The Administration; however, feels the request is justified when combined with the following factors:
   a. Additional school districts are facing financial hardship and the Legislature may approve new loans in the future.
   b. The I-Bank lost four of its 23 permanent positions as a result of the Budget Control Section 4.10 reductions.
   c. The I-Bank has absorbed additional workload associated with recent financing such as the Energy Commission Bonds and the Tribal Compact Securitization Bonds.

   Staff Comment: Adding a new permanent position for the I-Bank does not appear justified based solely on the workload for AB 1554. However, the overall workload of the I-Bank (measured in annual financing approved) appears to have grown while three positions were eliminated by Control Section 4.10.

   Staff Recommendation: Approve the request.

   Vote:

2. **Small Business Loan Guarantee Program – Performance-Based Grants.** The Small Business Loan Guarantee Program is administered by 11 non-profit Financial Development Corporations (FDCs). The state pays the FDCs for their administration of the program, under contractual agreements with each FDC. Last year, the Legislature added requirements to the program through provisional-language. The Administration deleted the two provisions in the proposed budget bill for 2005-06. The 2004-05 language reads as follows:

0520-011-0001—For transfer, upon order of the Director of Finance, to the Small Business Expansion Fund. Provisions:	3,988,000
1. Beginning with the 2004–05 fiscal year, the total income received by a financial development corporation for each loan guarantee completed may not exceed $6,000 per guarantee. Total income includes funds received from the state and fees charged to loan guarantee recipients. The Secretary of Business, Transportation and Housing may exempt up to 25 percent of the loan guarantees contracted for by the agency from this requirement. It is the intent of the Legislature that state funding of the Small Business Loan Guarantee Program be 100 percent performance-based by the 2005–06 fiscal year.	
2. The Department of Finance is hereby authorized to transfer any savings in this item to the General Fund at the end of the 2004–05 fiscal year. It is anticipated that the amount to be transferred to the General Fund will be $248,000.	

March 2, 2005, Hearing: The Subcommittee held this issue open, and directed staff to gather additional information from the Small Business Loan Guarantee Program.

Administration Response: The Administration indicates it added provisions to its 2004-05 contracts with FDCs that cap grants at $6,000 per loan guarantee – as required by Provision 1, and decreased base payment while increasing volume payments. The three new FDCs (Inland Empire, Orange County, and San Fernando) were excluded from this cap requirement as was also permissible under Provision 1. The Agency would like to continue these same contract provisions for 2005-06. The Agency argues that a 100-percent pay for performance system doesn't recognize the needs of new FDCs and the economies of scale at the better-established FDCs.

Staff Comment: The Administration modified their FDC contracts to address legislative concerns and indicates it will maintain these provisions in 2005-06. Staff understands the FDCs are supportive of the current contract terms, and do not wish to go to a 100-percent pay-for-performance system.

Staff Recommendation: Approve this issue as budgeted. (Do not add provisional language).

Vote:

3. **Manufacturing Technology Program (Staff Issue).** The Governor's Budget includes reimbursements of $2.126 million to support the Manufacturing Technology Program (MTP). This program supports the efforts of the Corporation for Manufacturing Excellence (MANEX) in Northern California and the California Manufacturing Technology Center (CMTC) in Southern California. These entities provide consulting services to small manufacturers to improve their efficiency and to retain these firms in the state. Staff has learned that it is unlikely the Agency will receive the budgeted reimbursements in 2005-06 to support the program.

   Background / Details: In 2002-03, the MTP program resided in the Technology, Trade, and Commerce Agency (TTCA) and was General Fund supported. In 2003-04, TTCA was eliminated and the program was moved to the BT&H Agency. The General Fund support was replaced by a transfer of $2.126 million in special funds from the Employment Training Panel (ETP) Program within the Employment Development Department's (EDD) budget. Provisional language in the 2003-04 budget bill required this transfer to ETP; however, this language was deleted for 2004-05 at the request of the Administration. Without the provisional language, the MTP centers may apply for ETP grants, but approval may be unlikely as ETP grants are focused on employee training, not industry consulting. Staff understands that neither of the centers has applied for an ETP grant to support the MTP program.

   Staff Comment: The Subcommittee should be aware that the Manufacturing Technology Program will most likely *not* receive funding in 2005-06, contrary to what is indicated in the Governor's Budget. The only two budgetary avenues to restore funding that staff is aware of is to restore the provisional language requiring ETP funding in the EDD budget, or fund the MTP with General Fund. During last year's ETP discussion, the use of ETP funds for the MTP program was opposed by the California Manufacturers & Technology Association, and the California Labor Federation.

   Staff Recommendation: Since the budget reimbursements are unlikely to be realized to support the Manufacturing Technology Program, the Subcommittee may want to consider adding General Fund support for the program.

   Vote:

4. **Film Commission Fee Report (Staff Issue).** The Film Commission has statutory authority to charge fees for film permits on State property, but has not exercised this authority to institute fees. The Film Commission is currently funded with a General Fund appropriation of $886,000. Last year, the LAO recommended the General Fund support for the Commission be eliminated and that the Commission become fee supported. The BT&H Agency requested and received additional time to study fees, and provisional language was added to the 2004 Budget Act that required the Agency to report to the Legislature by April 1, 2005, with a cost-recovery fee plan. The report due date was set at April 1, 2005, so budget subcommittees could consider the appropriateness of fees to support the work of the Film Commission in 2005-06 To date, the report has not been submitted to the Legislature.

   Staff Comment: The Subcommittee may want to ask the Agency if the fee report will be provided in time for consideration at the May 18, 2005, Subcommittee hearing. If the report will not be provided in time for next week's hearing, the Subcommittee may want to consider deleting the General Fund support for the Film Commission of $886,000, so the issue will go to the Budget Conference Committee for further consideration.

   Staff Recommendation: Depending on Agency response, staff suggests one of the following:
   (1) Hold open (if the report will be provided in the next few days).
   (2) Reduce General Fund support by $886,000 (if the report will not be provided in time for consideration at the May 18, 2005, hearing – this would allow the Legislature to consider this issue in the Budget Conference Committee).

Vote:

2720 California Highway Patrol

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

Budget Changes proposed for Discussion / Vote

1. **Capital Outlay (Capitol Outlay (CO) BCPs 1, 2, 4, 5, & 6, CO FL).** The Administration requests an augmentation of $10.2 million (with anticipated future requests to complete construction of approximately $11.9 million) in Motor Vehicle Account funds for the following facilities projects:

   - Santa Fe Springs area office - new facility: Land acquisition and preliminary-plans development at a cost of $3.3 million (the total cost of the project is estimated at $12.6 million; and, to fund construction, the CHP will have to submit another request in the future for approximately $9.4 million). The CHP indicates the existing facility was designed to house 60 officers, but now houses 114 officers.
   - Los Angeles area office – purchase existing facility: Purchase, for $2.3 million, the existing facility that the CHP currently leases. The facility was built-to-suit for the CHP with a purchase option. The CHP began occupancy in January 2003 and the lease agreement allows for purchase after January 1, 2005.
   - Williams area office – reconstruct facility: Construct a new office at a cost of $4.3 million. The Williams area office was damaged by fire in 1999.
   - San Diego area office – renovate existing facility: Preliminary plans at a cost of $215,000 (the total cost of the project is estimated at $2.7 million; and, to fund through completion, the CHP will have to submit another request in the future for approximately $2.5 million).
   - Oakhurst area study: Develop a future capital outlay proposal at a cost of $50,000.

   An April 29, 2005, Finance Letter requests reappropriation of funding related to the Los Angeles Regional Transportation Management Center. Funding of $4.8 million was approved in the 1999 Budget Act, and reappropriated in the 2002 Budget Act. Litigation has delayed this project, but the Administration indicates it should be completed in 2005-06.

   March 16, 2005 Hearing: The BCP issues were left open at the last hearing to clarify the total costs of projects requested in the BCP.

   Staff Recommendation: Approve these funding requests.

   Vote:

2. **Fuel, Vehicles, Insurance, Interagency Services – Inflation Adjustment**. **(Baseline BCP and FL #2)** The Governor's Budget included in CHP's baseline budget adjustments a total increase of $10.6 million (special fund) to cover price increases in the following areas:

   - $4.0 million for gasoline
   - $1.4 million for vehicles
   - $4.6 million for insurance
   - $0.6 million for interagency services

   This $10.6 million "baseline BCP" price adjustment was in addition to the standard "Price Letter" inflation adjustment of $6.6 million.

   March 16, 2005 Hearing: The CHP indicated that the "Price Letter" inflation adjustment was duplicative of the individual price adjustments such that the budget double-counts $1.2 million. However, the CHP also noted that gasoline prices have increased since the BCP was approved and they now may be under-funded for the gasoline costs in 2005-06. This issue was kept open to examine the CHP's claim that their gasoline inflation adjustment was insufficient given recent increases in gasoline prices.

   Finance Letter #2 – Insurance Adjustment: The CHP submitted an April 1, 2005, Finance Letter that requests to reduce their insurance augmentation by $3.040 million. This reflects a decreased 2005-06 premium assessment for the State Motor Vehicle Insurance Account from the Department of General Services.

   Revised Gasoline Forecast: The Department of Finance reexamined the gasoline price assumptions in the Governor's Budget and would not object to a $2.419 million augmentation for CHP to support 2005-06 costs (after backing out the duplicative increase in the Governor's Budget).

   Staff Comment: The revised gasoline funding assumes mid-grade gasoline will cost the CHP approximately $2.33 per gallon in 2005-06. The Administration requests a permanent augmentation; however, if during next year's budget deliberations, gasoline prices are significantly less than $2.33, the Subcommittee may want to consider a funding adjustment.

   Staff Recommendation: Staff recommends the following actions, which staff understands are supported by the Administration:

   1. Augment the Governor's Budget by $1.219 million for higher gasoline prices (this is the net of backing out the duplicative $1.2 million adjustment plus the addition of $2.419 million for the revised gasoline forecast).
   2. Approved Finance Letter 2 (which reduces the insurance augmentation by $3.040 million to tie to the actual premium charged by the Department of General Services).

   Vote:

2660 Department of Transportation

The Department of Transportation (Caltrans) constructs, operates and maintains a comprehensive state system of 15,200 miles of highways and freeways and provides intercity passenger rail services under contract with Amtrak. The department also has responsibilities for airport safety, land use, and noise standards. Caltrans' budget is divided into six primary programs: Aeronautics, Highway Transportation, Mass Transportation, Transportation Planning, Administration, and the Equipment Service Center.

The Governor's Budget proposes total expenditures of $8.0 billion ($0 General Fund), a decrease of $119 million (1.5 percent) from the current-year budget.

Caltrans Budget Changes proposed for Consent / Vote Only

1. **Technical Corrections (Finance Letter).** The Administration requests authority to make various technical budget adjustments that, in total, reduce the 2004-05 budget by $16.5 million and increase the 2005-06 budget by $24.5 million. These adjustments do not reflect policy changes, but are requested to clarify and correct the budget presented by the Governor in January.

   Detail: The Administration requests the following adjustments.

   - $13.069 million from the Equipment Service Fund in Item 2660-002-0608 was included in the 2005-06 Governor's Budget to pay for increased fuel and insurance costs. However, overhead costs such as fuel and insurance are funded from Streets and Highways Code Section 140.3, which is also used for the purchase of replacement vehicles. Therefore, it is requested that Item 2660-002-0608 be decreased by $13.069 million and that the Equipment Services Program, pursuant to Streets and Highways Code Section 140.3, be increased by $13.069 million.
   - The 2004 Budget Act provided for the repayment of $1.2 billion in loans made previously from the Traffic Congestion Relief Fund to the General Fund, and provided for $14.0 million in interest to be paid to the State Highway Account for these loans. The total amount of $1.214 billion was to be repaid from the securitization of tribal gaming revenues. Due to several pending lawsuits, it is unlikely that the tribal gaming revenue would be realized in 2004-05, so the 2005-06 Governor's Budget reflected the bond sale occurring in 2005-06. However, while the $1.214 billion was moved to the budget year, the $14.0 million in interest due to the State Highway Account was mistakenly left in the current year. This technical correction would move this $14.0 million in interest from current year to budget year, and would increase the amount of interest from $14.0 million to $22.0 million to reflect the additional year of interest earned on the loan.

- Caltrans administers the Federal Section 163 Safety Grants out of budget Item 2660-399-0890 by moving the money into other budget items as necessary using a Budget Revision letter. This item allows for certain federal trust funds relating to specific TEA-21 grant funds to be transferred into the appropriate items for capital outlay, state operations, or local assistance. The following provisional language is proposed to be added to this item to clarify the budget authority to continue making these transfers:

  2. Notwithstanding any other provision of law, funds appropriated in this item may be transferred to Item 2660-001-0890, 2660-101-0890, 2660-102-0890, 2660-301-0890, or 2660-302-0890. These transfers shall require the prior approval of the Department of Finance.

- The Governor's Budget combined current-year and budget-year interest, pursuant to Government Code Section 16312, into current year. This correction would move $2.5 million in current-year interest into 2005-06.

Staff Comment: No issues have been raised with these technical corrections.

Staff Recommendation: Approve this Finance Letter request.

Vote:

Caltrans issues for Discussion / Vote

1. **Oakland District Office Building Seismic Retrofit (Capital Outlay (CO) BCP #1 & CO FL #1).** The Governor's Budget (CO BCP #1) requests $34.5 million (State Highway Account) to fund the working drawings *and construction* of the Oakland District Office building seismic retrofit. An April Finance Letter (CO FL #1) increases the estimated cost of this project to $39.6 million, but only requests initial funding of $2.2 million to cover working drawings. To complete the project, the Administration would have to request construction funding of approximately $37.4 million in a future budget.

   Background: The building was constructed in 1991 and was designed utilizing the seismic provisions of the 1988 Uniform Building Code. While it is surprising that a building constructed in 1991 would rate a seismic level V, Caltrans reports that designers and construction firms associated with the 1991 project bear no liability, since the building was constructed to the codes at the time. Funding of $1.3 million was approved in the 2004 Budget Act to fund preliminary plans for this project.

   March 16, 2005, Hearing: CO BCP #1 was previously heard and the issue was kept open. The Subcommittee requested that Caltrans provide additional information on why building designers and contractors bear no liability for a 1991 building that now requires seismic retrofit.

   Administration Response: Caltrans provided additional information explaining their position that the building designers and contractors bear no liability.

   Staff Comment: The Administration is requesting that the Legislature approve the Finance Letter, which would, in effect, back out the funding of $34.5 million requested in the BCP, and add funding of $2.2 million to cover just the working drawings.

   Staff Recommendation: Approve the Finance Letter.

2. **San Diego District Office Building (FL 1 & 2**). The Administration requests 2005-06 funding of $920,000 ($72,000 in 2006-07, and $52,000 in 2007-08 and ongoing) for network infrastructure (FL #1); and 2005-06 funding of $607,000 ($2.6 million in 2006-07, and $1.3 million in 2007-08 and ongoing) for building commissioning, operations and maintenance (FL #2).

   Background & Detail: The 2002 Budget Act appropriated $72.6 million for the Construction phase of the San Diego District 11 office building replacement project. Additionally, the 2002 Budget Act approved swing space funding totaling $11.2 million over a four-year period. The construction phase was augmented by $7.7 million by Executive Order C 03/04 – 56. The construction of the building is being financed with lease-revenue bonds. Construction of the facility is currently scheduled for completion in June 2006.

   Network Infrastructure – Network infrastructure is not included in the construction budget. The department indicates that the existing information technology equipment in the District office is currently six years old and antiquated by current standards. A Feasibility Study Report for this request has been approved by the Department of Finance.

   Commissioning, operations, and maintenance – Commissioning activities include inspections, testing, adjustments, verification and documentation of new equipment and systems and training of facilities staff. The ongoing maintenance cost is the net of existing funding and the total cost for operations at the new facility. The Department of General Services (DGS) will maintain this facility and Caltrans will lose a total of three positions for work transferred to DGS.

   The Subcommittee should anticipate another San Diego Office Building project BCP next year to fund move-in costs.

   March 16, 2005 Hearing: The subcommittee heard and approved BCP #1 (on a 2-1 vote with Senator McClintock voting no) which provided two-year limited-term funding for San Diego "swing space" office space. At the time of that hearing, the Administration had not submitted Finance Letters 1 and 2.

   Staff Recommendation: Approve this request.

   Vote:

3. **Sacramento Building Maintenance Services (FL 11).** The Administration requests $277,000 and 4 positions to provide additional staffing for maintenance at Caltrans' headquarters and four other department-occupied buildings in Sacramento. Caltrans has experienced staff reductions during the previous two fiscal years: two positions in 2002-03 and two positions in 2003-04. As a result, Caltrans building maintenance staffing levels are below the Department of General Services (DGS) recommended staffing levels necessary to maintain state buildings.

   Detail: Caltrans indicates that, currently, 31 DGS staff and 6 Caltrans staff are employed maintaining these Sacramento facilities (the headquarters building on N Street, the Transportation Lab on 34th Street, the Materials Warehouse on Royal Oaks, and the "DOT-TOT" Childcare Center on 12th Street). Approval of this Finance Letter would increase, by 4, the number of Caltrans staff, and increase the total Caltrans/DGS maintenance staff to 41. The Administration is requesting the addition of two Electricians, one Maintenance Mechanic, and one Supervisor of Building Trades.

   Staff Comment: Since DGS is the entity charged with providing centralized building maintenance services, it is unclear why Caltrans staff are performing this work. The Administration indicates that it choose to retain the joint Caltrans/DGS staffing, because shifting all the work to DGS would cost Caltrans an additional $300,000 annually. It is explained that the DGS is charging more for overhead and supplies than Caltrans is scoring.

   It seems unlikely that DGS is $300,000 less efficient in providing maintenance than Caltrans, and seems more likely that the difference is due to Caltrans undercounting overhead and related costs, or DGS undercounting existing supplies and equipment that Caltrans could transfer. If DGS is $300,000 less efficient at providing these services, that should be addressed by improving DGS, not shifting the building maintenance responsibility to Caltrans.

   Staff Recommendation: Augment Caltrans by $277,000, as requested, but deny the four new positions and, additionally, abolish the six Caltrans positions that are doing work that DGS would otherwise perform. Caltrans would use base funding, and the $277,000 augmentation, to contract with DGS to perform this work. A corresponding adjustment in the DGS budget would also be necessary.

4. **Specialty Building Facilities (Committee-staff issue).** Caltrans plans to spend $212 million through 2007-08 on non-office-building facilities. Caltrans operates 28 equipment facilities, 304 maintenance facilities, and 15 material labs across the state. Additionally, all of Caltrans' districts operate some type of a traffic management center – either as a stand alone facility or as part of another facility. While funding for office-building projects is specifically approved by the Legislature, that is not the case for non-office-building facilities.

   Funding and Approval Process: Non-office-building facilities are funded using the State Highway Operation Protection Program (SHOPP) Budget-Act appropriations, which primarily fund highway projects. Under the current process, when the Legislature approves the SHOPP budget, it does not know what portion of this money will be used for facility projects off the highway system.

   Cost of Non-office-building Projects: The 2004 SHOPP (covering the period of 2004-05 through 2007-08) programs $187 million for maintenance, equipment and lab facilities, and $25 million for a new traffic management center in San Bernardino.

   March 16, 2005 Hearing: The Subcommittee left this issue open and asked staff to look at creating a separate appropriation for these facilities.

   Administration Response: Caltrans indicates that specialty building facility expenditures for 2005-06 are now planned at $14.0 million. Both the California Transportation Commission and Caltrans have sent letters in opposition to a new appropriation item for specialty facilities.

   Staff Comment: To track specialty building facility expenditures and increase legislative oversight, the Subcommittee may want to consider separately appropriating funds for these expenditures. The new item could include flexibility to transfer these building facility funds to highway expenditures – should the California Transportation Commission decide highway projects are a higher priority. A separate appropriation will also maintain an ongoing record of specialty facility expenditures in the "Reconciliation with Appropriations" section of the Governor's Budget.

   Staff Recommendation: Adopt provisional language and adjust appropriations, to separately appropriate specialty facility expenditures. These actions do not alter the total funding requested by the Administration.

   <u>Funding Adjustments:</u>
   - Reduce item 2660-302-0042 by $14.0 million.
   - Add item 2660-303-0042 and appropriate $14.0 million.

New Language:

- Add the following language as Provision 4 to both items 2660-302-0042 and 2660-302-0890:

  No funds appropriated in this item are available for expenditure on specialty building facilities. For the purpose of this item, specialty building facilities are equipment facilities, maintenance facilities, material labs, and traffic management centers.

- Add the following language as Provision 1 of the new item 2660-303-0042:

  2660-303-0042—For capital outlay, Department of Transportation, specialty building facilities, payable from the State Highway Account, State Transportation Fund……$14,000,000
  Provisions:
  1. *For the purpose of this item, specialty building facilities are equipment facilities, maintenance facilities, material labs, and traffic management centers.*
  2. *Notwithstanding any other provision of law, funds appropriated in this item may be transferred to Item 2660-101-0042, 2660-102-0042, 2660-301-0042 or 2660-302-0042. These transfers shall require the prior approval of the Department of Finance and the California Transportation Commission.*

Vote:

3. **Transportation Funds – Budgetary Accounting (LAO issue)**. The LAO recommends that the Legislature approve amendments to statute, through a budget trailer bill, to remove the special authority for the Director of Finance to select the accounting and reporting systems for four transportation funds. The Director of Finance has chosen to display these accounts on a "modified-cash" basis instead of the "modified-accrual" basis, which is standard for most state funds.

   Cash versus accrual accounting: Most funds in the Governor's Budget are displayed on a "modified-accrual" basis, which shows funds as expended when the State commits to making the payments, instead of when the cash is actually transferred out of the fund. Cash accounting shows funds as expended when the cash actually leaves the funds. Because many transportation projects expend funds over several years, the modified-accrual accounting would show all expenditures in the first year, instead of over several years as the contractors are actually paid. For transportation funds, using modified-accrual accounting would sometimes result in a negative fund balance, when the funds may have several hundred million dollars in cash balances.

   LAO recommendation: In the *Analysis of the 2005-06 Budget Bill*, the LAO recommends that transportation funds be budgeted using a modified-accrual accounting treatment, and that statute be accordingly amended. The LAO argues that showing all of Caltrans' funds on the same accounting basis as the rest of the budget would allow the Legislature and the public to accurately determine the size of Caltrans' budget, track changes over time, and compare Caltrans' expenditures to those of other programs. This would greatly enhance legislative oversight and provide the Legislature with a firmer basis on which to make Caltrans budget decisions.

   March 16, 2005 Hearing: The Subcommittee kept this issue open and asked staff to work further with the Department of Finance and the LAO on a solution.

   Compromise Language: The Department of Finance and the LAO have agreed to compromise accounting treatment. All budget detail will utilize the standard modified-accrual treatment; however, Finance will be authorized to add a line to the Fund Condition Statements to show unliquidated encumbrances. The official "fund balance" will include the unliquidated encumbrances adjustment and therefore be adjusted to tie to cash. Trailer bill language (See Attachment II, at the back of this agenda) would specify this treatment for the affected four transportation accounts and reduce the discretion of the Administration in displaying this fiscal detail.

   Staff Recommendation: Approve the compromise trailer bill language.

   Vote:

4. **Highway Maintenance Funding (BCP #6).** The Administration requests a permanent increase of 38.0 positions and $45.8 million for highway infrastructure preservation ($42.3 million) and to implement the statewide culvert inspection and repair program ($3.5 million).

Background: The 2004 Budget Act included a one-time augmentation of the same amount ($45.8 million) and associated budget trailer legislation (SB 1098) required Caltrans to provide the Legislature with a five-year maintenance plan by January 31, 2005.

March 16, 2005 Hearing: The Subcommittee held this issue open pending receipt of the Caltrans' maintenance report.

Administration Response: The Maintenance Report was delivered to staff on May 5th. The report recommends approval of maintenance funds at the level requested in the Governor's Budget. The report presents three options for funding and indicates the future State Highway Operations and Protection Program (SHOPP) cost avoidance associated with each option. The table below summarizes these options with dollars in millions.

Option	Description	Cost	SHOPP Cost Avoidance	Net Benefit
1	Status Quo (growing backlog)	Governor's Budget ($147M)	$1,113M	$966M
2	No Backlog Growth	Gov Budget + $105M	$2,020M	$1,768M
3	Liquidate Backlog over 5 years	Gov Budget + $250M	$3,247M	$2,850M

The Department indicates it will reevaluate the SHOPP project strategies to emphasize preservation and consider diverting about $105 million to this effort in 2006-07. The report also indicates that the Administration would consider expanding the Maintenance Program in 2007-08 when the governor is proposing Proposition 42 funding.

Staff Comment: The figures in the report suggest that a $1 increase in preventative maintenance today would reduce future road rehabilitation costs by $6 to $12 dollars. Thus, it would seem prudent to increase maintenance expenditures, even at the cost of delay to some capacity-enhancement projects.

Suggested Question: If the Administration stands by the cost figures in this report, why isn't the Administration proposing an increase in maintenance funding (even at the delay of other SHOPP or State Transportation Improvement Program projects)?

(Maintenance BCP continued)

Culvert Inspections and Fish Passage Assessments: Senate Budget Subcommittee #2 has discussed Caltrans' Culvert Inspection Program in the context of the State Coastal Conservancy and fish passage assessments. Caltrans previously performed fish passage assessments in part of the North Coast region with federal grant funds. This BCP request to implement the Culvert Inspection Program does not include funding for additional fish passage assessments. However, Caltrans' Director Kempton has indicated he will use new grant funds or redirected funds to continue the fish passage work. Caltrans estimates completing the highest-priority fish passage work would cost in the range of $6 million to $9 million. Senate Bill 857 (Kuehl) would specify additional requirements for fish passage assessments. The following budget bill provisional language is supported by Subcommittee #2 for inclusion in the Caltrans' budget.

Provision X:
Of the funds appropriated by this item, $3,450,000 shall be used to implement the statewide culvert inspection and repair program. As part of this program, and using these funds or other redirected funds or grant funds, the Department of Transportation shall assess these sites, as applicable, for barriers to migratory fish passage. Coastal watershed assessments shall receive a higher priority than inland watersheds in scheduling fish passage assessments.

Staff Recommendation: Hold this issue open to the May Revision hearing. New information on transportation revenue should be available at that time to better assess the ability of transportation funds to support a maintenance augmentation.

Vote:

5. **Bridge Safety Inspections (FL #4).** The administration requests a permanent increase of $3.4 million and 17.2 personnel years for workload associated with federally-required bridge inspections. Caltrans indicates the frequency of inspections has been increased by federal regulation from once every four years to once every two years.

   Background / Detail: Caltrans conducts safety inspections on 24,000 publicly-owned bridges statewide to look for any potential structural problems – about half of these bridges are state-owned, and half are owned by local governments. While Caltrans will do the work on these local bridges, the Department indicates they will receive federal bridge funds for 80 percent of the cost and those federal funds would otherwise go to locals. Since Caltrans is receiving some of the "local share" of federal bridge funds, no reimbursement from locals is included in this request.

   Staff Comment: This new workload is driven by federal requirements and is non-discretionary.

   Staff Recommendation: Approve this request.

   Vote:

6. **Historic Property Maintenance (BCP #12).** Caltrans requests a permanent increase in expenditure authority of $1.5 million (Historical Property Maintenance Fund) to fund repairs and maintenance on historic properties that Caltrans owns for highway right-of-way purposes. The amount requested matches annual expenditures in 2003-04 and 2004-05, which were authorized on a limited-term basis.

   Background: Caltrans owns residential and other properties that were purchased as right-of-way for highway construction. In some cases, the properties include houses that have been declared historically-significant and as such state and federal law requires their preservation. Many of these properties are located on the Route 710 corridor in Pasadena, and have been owned by Caltrans for over 40 years.

   March 16, 2005 Hearing: The Subcommittee held this issue open pending receipt of a Caltrans' report required by the 2001 Budget Act.

   Administration Response: To date, the report has not been provided.

   Staff Recommendation: Keep this issue open pending the Route 710 report.

   Vote:

7. **Fuel and Insurance Cost Escalations (BCP #5).** The Administration requests $13.1 million in additional expenditure authority to fund various Caltrans programs for price increases for fuel and insurance. The increase for fuel is $9.8 million (to $26.5 million – a 59 percent increase) and the increase for insurance is $3.2 million (to $8.8 million – a 58 percent increase). Caltrans indicates that it has not received a fuel price increase since 2001-02. In 2001-02, fuel prices averaged $1.38 per gallon, and Caltrans projects fuel prices will average $2.01 per gallon in 2005-06. Caltrans indicates the cost of insurance has increased 61 percent since 2003-04.

   March 16, 2005 Hearing: The Subcommittee held this issue open and directed staff to further examine the appropriateness of these inflation adjustments.

   Administration Response: The Department of Finance reexamined the gasoline price assumptions in the BCP and found the request should be increased by $396,000 to tie to the Finance in-house forecast. Additionally, the Department of General Services revised Caltrans' insurance premium, such that the augmentation requested in the BCP now exceeds the need by $727,000.

   Staff Recommendation: Approve BCP request minus $331,000 – this is the net of the $395,000 gasoline price increase and the $727,000 insurance price reduction.

   Vote:

8. **Transportation Permits Management System (FL #3 & #8).** The Administration requests a permanent augmentation of $551,000 (special fund, with out-year escalations as noted below) for maintenance and operation of the Transportation Permits Management System (TPMS) as it begins production use (FL #3), and a reappropriation to extend the liquidation period of funds approved to implement the system (FL #8).

Background / Detail: The TPMS is the automated system which approves routes and issues permits for oversized loads. TPMS is designed to increase highway safety by reducing human error in the permit generating process. TPMS is scheduled to be in full production use in the fall of 2005. Caltrans is requesting escalating funding for TPMS maintenance and operations as follows (dollars are in thousands):

Fiscal Year	2005-06	2006-07	2007-08	2008-09	2009-10	2010-11
Funding	$551	$735	$779	$790	$816	$825

February 9, 2005 Hearing: The Subcommittee held a special oversight hearing in February to assess the progress Caltrans has made toward implementing the TPMS system. Caltrans indicated that production use of TPMS was being delayed until the fall of 2005 in order to ensure adequate staff training.

Suggested Questions:

1. ***Is Caltrans moving forward with the same implementation plan it discussed with the Subcommittee on Feb 9?***
2. ***The Finance Letter requests do not extend the 7.0 limited-term double checkers. Will Caltrans be redirecting staff to continue any of the double-checking work?***

Staff Comment: The LAO indicates this IT project does not have an approved Special Project Report (SPR). The Department of Finance is currently reviewing this SPR and may be able to approve it soon. The Subcommittee may wish to hold this issue open until next week's hearing pending approval of the SPR.

Staff Recommendation: Hold both of these Finance Letter requests open until next week's hearing pending receipt of the SPR.

Vote:

9. **Alternative Fuel Vehicles (FL #5):** The Administration requests a one-time increase of $3.7 million for Caltrans' Equipment Services Program to fund the incremental increase in cost of replacing a portion of its fleet of street sweepers and heavy-duty trucks with alternative-fuel powered vehicles or installing exhaust filter trap devices. The department also requests a permanent increase in 2006-07 of $302,717 for the Maintenance and Equipment Programs for the rental and maintenance of the alternative fuel vehicles and exhaust filter traps.

   Background / Detail: The South Coast Air Quality Management District passed new clean air regulations that require any owner of a diesel fleet when replacing diesel powered street sweepers or heavy-duty trucks to do so with vehicles powered by alternative fuels. According to the department, the department operated 41 diesel highway sweepers and 519 heavy-duty diesel trucks, of which 23 diesel highway sweepers and 74 heavy-duty diesel trucks are scheduled for replacement or modification in fiscal year 2005-06. While this request is for one-time funding, this is an ongoing requirement and Caltrans will likely return next year with another funding request.

   Staff Comment: The LAO has looked at the Caltrans' cost estimates for these vehicles and is checking the costs relative to information from the Energy Commission. The Subcommittee may want to ask LAO if they have completed this review.

   Staff Recommendation: Approve this request, pending LAO information on the reasonableness of the cost estimates.

   Vote:

10. **Performance Measurement System (FL # 7):** The Administration requests a two-year limited term increase of $557,000 and 4.0 positions to deploy and maintain the production version of the Performance Measurement System (PeMS). PeMS will assist Caltrans with the monitoring and evaluation of real-time traffic data and allow Caltrans to more effectively report comprehensive highway system performance measures.

    Background / Detail: PeMS was initially developed as a research project, to develop standard reports for volume, speeds, travel time, delay and developing a fluent user group. The Performance Measurement System is currently operational in six urban districts: District 3 (Sacramento); District 4 (San Francisco Bay Area); District 7 (Los Angeles); District 8 (Inland Empire); District 11 (San Diego); and District 12 (Orange County). Plans are underway to connect District 6 (Fresno) soon and District 10 (Stockton) eventually. The Finance Letter would not be instrumental in adding these two districts, but would rather improve the existing base system.

    Staff Comment: The Feasibility Study Report (FSR) associated with this project is still under review by the Department of Finance, Office of Technology Review, Oversight, and Security. The standard practice is for Finance to approve a FSR prior to submission of a budget change proposal to the Legislature. If the Legislature approves a project prior to Finance approval of the FSR, some aspects of the projects may still change – as Finance may require changes to the FSR plan. The Subcommittee may want to ask the Administration why they are requesting Legislative approval for this project prior to the approval of the FSR.

    Staff Recommendation: Hold this issue open, pending Finance approval of the FSR.

    Vote:

11. **Project Resourcing and Schedule Management Reappropriaton (FL #9).** The Administration requests the reappropriation of $7.1 million for the Project Resource and Scheduling Management (PRSM) information technology system. Funding for the PRSM project was originally approved by the Legislature with the 2001 Budget Act. This project would allow improved reporting and scheduling of transportation projects and is also intended to allow Caltrans to meet statutory project reporting requirements. The 2001 appropriation only provided partial funding, and it is anticipated Caltrans will request an additional appropriation of approximately $6.5 million in the future to complete the project.

    Background / Detail: The 2000 Feasibility Study Report (FSR) associated with this project estimated project costs at $13.4 million. Caltrans received bids for this project in 2002, and the lowest bid was $26.1 million. Instead of requesting additional funding to award the contract, the Administration decided to reject the bid and rescope and rebid the project.

    The project has been down-scoped by Caltrans and the Department of Finance to reduce the PRSM timekeeping requirements. This change results from the fact that the Department now has a modern timekeeping system that it did not have when the FSR was prepared. According to Caltrans, the rescoping of the project has reduced costs, bringing the estimate closer to the original 2002 estimate of $13.4 million.

    In conjunction with this proposal, Caltrans is scheduled to submit a Special Project Report (SPR) to the Department of Finance in December 2005.

    Staff Comment: While this project is intended to address statutory requirements, it has been rescoped since it was originally approved by the Legislature and no Special Project Report exists to inform the Legislature of new project details. The Subcommittee may want to weigh the tradeoff between approving this Finance Letter, which may allow the project to be awarded to a vender in 2005-06, and denying this request with the understanding that the Administration would return next year with complete and approved project documents and a new funding request.

    Staff understands the LAO has requested additional detail and is still examining project documents.

    Staff Recommendation: Hold this issue open, at the request of the LAO.

    Vote:

Attachment I

Amendments to Government Code that relate to proposed changes the financing of economic development areas. (See Issue #3 on page 17 of this agenda).

1) Amend Section 7076(c) and (d) of the Government Code to read:

(c) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each enterprise zone *and manufacturing enhancement area* a fee of not more than ten dollars ($10) for each application ~~it accepts~~ for issuance of a certificate pursuant to *subdivision (j) of Section 17053.47,* subdivision (c) of Section 17053.74, ~~of the Revenue and Taxation Code and~~ subdivision (c) of Section 23622.7, *or subdivision (i) of Section 23622.8* of the Revenue and Taxation Code. The enterprise zone *or manufacturing enhancement area* administrator ~~may~~ *shall* collect this fee at the time ~~it accepts~~ an application *is submitted* for issuance of a certificate. ~~This subdivision shall become inoperative on July 1, 2006, and shall have no force or effect on or after that date.~~ ~~(d) Any fee assessed and collected pursuant to subdivision (c) shall be refundable if the certificate issued by the local government pursuant to subdivision (c) of Section 17053.74 of the Revenue and Taxation Code and subdivision (c) of Section 23622.7 of the Revenue and Taxation Code is not accepted by the Franchise Tax Board.~~ *This subdivision shall become inoperative on July 1, 2009, and shall have no force or effect on or after that date.*

2) Amend Government Code Section 7086(d) as follows:

(d) The department shall adopt regulations governing the imposition and collection of fees pursuant to ~~subdivisions (c) and (d)~~ *subdivision (c)* of Section 7076, and the issuance of certificates ~~by local governments~~ pursuant to *subdivision (j) of Section 17053.47,* subdivision (c) of Section 17053.74, ~~of the Revenue and Taxation Code and~~ subdivision (c) of Section 23622.7*, or subdivision (i) of Section 23622.8* of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more ~~that~~ than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

3) Amend Government Code Section 7097 by adding subdivision (g) as follows:

(g)(1) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each targeted tax area a fee of not more than ten dollars ($10) for each application for issuance of a certificate pursuant to

subdivision (d) of Section 17053.34 of the Revenue and Taxation Code and subdivision (d) of Section 23634 of the Revenue and Taxation Code. The targeted tax area administrator shall collect this fee at the time an application is submitted for issuance of a certificate. This paragraph shall become inoperative on July 1, 2009, and shall have no force or effect on or after that date.

(2) The department shall adopt regulations governing the imposition and collection of fees pursuant to this subdivision and the issuance of certificates ~~by local governments~~ pursuant to subdivision (d) of Section 17053.34 of the Revenue and Taxation Code and subdivision (d) of Section 23634 of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more ~~that~~ than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

4) Add Section 7114.2 to the Government Code as follows:

7114.2(a) The department may establish, charge, and collect a fee as reimbursement for the costs of its administration of this chapter. The department shall assess each LAMBRA a fee of not more than ten dollars ($10) for each application for issuance of a certificate pursuant to subdivision (c) of Section 17053.46 of the Revenue and Taxation Code and subdivision (c) of Section 23646 of the Revenue and Taxation Code. The LAMBRA administrator shall collect this fee at the time an application is submitted for issuance of a certificate. This subdivision shall become inoperative on July 1, 2009, and shall have no force or effect on or after that date.

(b) The department shall adopt regulations governing the imposition and collection of fees pursuant to this section and the issuance of certificates ~~by local governments~~ pursuant to subdivision (c) of Section 17053.46 of the Revenue and Taxation Code and subdivision (c) of Section 23646 of the Revenue and Taxation Code. The regulations shall provide for a notice or invoice to fee payers as to the amount and purpose of the fee. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall remain in effect for no more ~~that~~ than 360 days unless the agency complies with all the provisions of Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 as required by subdivision (e) of Section 11346.1.

5) Amend Rev and Tax Code 17053.34(d) to read:

(d) The qualified taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office

or social services agency, *or the local government administering the targeted tax area* ~~as appropriate~~, a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose.~~ *The Department of Housing and Community Development shall develop regulations governing the issuance of certificates* ~~*by local governments*~~ *pursuant to paragraph (3) of subdivision (g) of Section 7097 of the Government Code and shall develop forms for this purpose.*

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

6) Amend Rev and Tax Code 17053.46(c) to read:

(c) For qualified disadvantaged individuals or qualified displaced employees hired on or after January 1, 2001, the taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office, or social services agency, *or the local government administering the LAMBRA* ~~as appropriate~~, a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose.~~ *The Department of Housing and Community Development shall develop regulations governing the issuance of certificates* ~~*by local governments*~~ *pursuant to subdivision (c) of Section 7114.2 of the Government Code and shall develop forms for this purpose.*

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

7) Amend Rev and Tax Code 17053.47 by adding subdivision (j) to read:

(j) The qualified taxpayer shall do both of the following:

(1) Obtain from the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office or social services agency, or the local government administering the manufacturing enhancement area, a certification that provides that a qualified disadvantaged individual meets the eligibility requirements specified in of paragraph (5) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~*by local governments*~~ *pursuant to subdivision (d) of Section 7086 of the Government Code and shall develop forms for this purpose.*

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

8) Amend Section 23622.8 of the Rev & Tax Code by adding subdivision (i) as follows:

(i) The qualified taxpayer shall do both of the following:
(1) Obtain from the Employment Development Department, as permitted by federal law, the local county or city Job Training Partnership Act administrative entity, the local county GAIN office or social services agency, or the local government administering the manufacturing enhancement area, a certification that provides that a qualified disadvantaged individual meets the eligibility requirements specified in of paragraph (5) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~by local governments~~ pursuant to subdivision (d) of Section 7086 of the Government Code and shall develop forms for this purpose.
(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

9) Amend Rev and Tax Code Section 23634(d) to read:

(d) The qualified taxpayer shall do both of the following:
(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office or social services agency, ~~as appropriate~~ *or the local government administering the targeted tax area*, a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this purpose.~~ *The Department of Housing and Community Development shall develop regulations governing the issuance of certificates ~~by local governments~~ pursuant to paragraph (3) of subdivision (g) of Section 7097 of the Government Code and shall develop forms for this purpose.*
(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

10) Amend Rev and Tax Code Section 23646(c) to read:

c) For qualified disadvantaged individuals or qualified displaced employees hired on or after January 1, 2001, the taxpayer shall do both of the following:
(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, the administrative entity of the local county or city for the federal Job Training Partnership Act, or its successor, the local county GAIN office~~,~~ or social services agency, *or the local government administering the LAMBRA* ~~as appropriate~~, a certification that provides that a qualified disadvantaged individual or qualified displaced employee meets the eligibility requirements specified in subparagraph (C) of paragraph (4) of subdivision (b) or subparagraph (A) of paragraph (6) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. ~~The Employment Development Department shall develop a form for this~~

~~purpose.~~ *The Department of Housing and Community Development shall develop regulations governing the issuance of certificates* ~~*by local governments*~~ *pursuant to subdivision (c) of Section 7114.2 of the Government Code and shall develop forms for this purpose.*

(2) Retain a copy of the certification and provide it upon request to the Franchise Tax Board.

Attachment II – Trailer Bill Language Related to Caltrans Budgeting (provided by the LAO)

April 20, 2005

LAO
60 YEARS OF SERVICE

Recommended Accounting Code Changes

Streets and Highways Code Section 183 (c)

Notwithstanding any other provision of law, the Department of Finance may ~~establish~~ adjust the budgeting, accounting and reporting system ~~used to determine the expenditures, cash needs, and balance of~~ for the State Highway Account such that unliquidated encumbrances are not reflected in the fund balance or financial statements.

Streets and Highways Code Section 188.10 (e)

Notwithstanding any other provision of law, the Department of Finance may ~~establish~~ adjust the budgeting, accounting and reporting system ~~used to determine the expenditures, cash needs, and balance of~~ for the account such that unliquidated encumbrances are not reflected in the fund balance or financial statements.

Government Code Section 14556.5 (b)

Notwithstanding any other provision of law, the Department of Finance may ~~establish~~ adjust the budgeting, accounting and reporting system ~~used to determine the expenditures, cash needs, and balance of~~ for the fund such that unliquidated encumbrances are not reflected in the fund balance or financial statements.

Public Utilities Code Section 99310.6

Notwithstanding any other provision of law, the Department of Finance may ~~establish~~ adjust the budgeting, accounting and reporting system ~~used to determine the expenditures, cash needs, and balance of~~ for the Public Transportation Account such that unliquidated encumbrances are not reflected in the fund balance or financial statements.

LEGISLATIVE ANALYST'S OFFICE