

Case No. S281977

IN THE SUPREME COURT OF THE STATE OF CALIFORNIA

LEGISLATURE OF THE STATE OF CALIFORNIA; GAVIN NEWSOM, in his
official capacity as Governor of the State of California; AND JOHN BURTON,

Petitioners,

v.

SHIRLEY N. WEBER, PH.D., in her official capacity as Secretary of State of
the State of California,

Respondent,

THOMAS W. HILTACHK,

Real Party in Interest.

**MOTION FOR JUDICIAL NOTICE; MEMORANDUM OF POINTS
AND AUTHORITIES; DECLARATION OF DALE K. LARSON;
[PROPOSED] ORDER**

MICHAEL J. STRUMWASSER, SBN 58413
BEVERLY GROSSMAN PALMER, SBN 234004
*DALE K. LARSON, SBN 266165
SALVADOR E. PÉREZ, SBN 309514
STRUMWASSER & WOOCHEER LLP
1250 6th Street, Suite 205
Los Angeles, California 90024
Tel: 310-576-1233 • Fax: 310-319-0156
dlarson@strumwooch.com

*Attorneys for Amicus Curiae Former Directors of the State of California
Department of Finance Michael Cohen, B. Timothy Gage, and Ana Matosantos
Counsel of Record on Appeal

TABLE OF CONTENTS

TABLE OF CONTENTS 2
TABLE OF AUTHORITIES..... 3
MOTION FOR JUDICIAL NOTICE..... 4
MEMORANDUM OF POINTS AND AUTHORITIES 6
INTRODUCTION 6
ARGUMENT 6
CONCLUSION 7
DECLARATION OF DALE K. LARSON..... 8
[PROPOSED] ORDER 11

TABLE OF AUTHORITIES

State Cases

<i>Carmel Valley Fire Protection Dist. v. State</i> (2001) 25 Cal.4th 287	7
<i>Field v. Bowen</i> (2011) 199 Cal.App.4th 346.....	7
<i>Lang v. Roche</i> (2011) 201 Cal.App.4th 254.....	7
<i>Martin v. General Finance Co.</i> (1966) 239 Cal.App.2d 438	6
<i>People v. Nash</i> (2020) 52 Cal.App.5th 1041.....	7
<i>People v. Nguyen</i> (2013) 212 Cal.App.4th 1311.....	7
<i>Stone v. Alameda Health System</i> (2023) 88 Cal.App.5th 84.....	7
<i>Stop Youth Addiction, Inc. v. Lucky Stores, Inc.</i> (1998) 17 Cal.4th 553.....	7
<i>Suarez v. City of Corona</i> (2014) 229 Cal.App.4th 325	7

Statutes

Evid. Code,	
§ 452	4, 6
§ 459	4, 6

Cal. Rules of Court

Rule 8.252.....	4
Rule 8.520.....	4

MOTION FOR JUDICIAL NOTICE

Pursuant to Evidence Code sections 452 and 459, and rules 8.520(g) and 8.252(a) of the California Rules of Court, amici Michael Cohen, B. Timothy Gage, and Ana Matosantos, Former Directors of the State of California Department of Finance, request that this Court take judicial notice of the following materials:

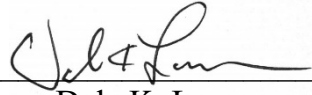
- A. Secretary of State report to legislative leaders detailing costs of September 2021 gubernatorial recall election (dated February 1, 2022);
- B. Department of Conservation web page detailing facts regarding the 1989 Loma Prieta earthquake (undated);
- C. Legislative Analyst’s Office report titled “Major Financial Legislation Enacted in 1989” (dated December 1989);
- D. U.S. House of Representatives, Subcommittee on Government Management, Information, and Technology of the Committee on Government Reform and Oversight report on hearing titled “The Government’s Response to the Northridge Earthquake” (dated January 19, 1996);
- E. California Senate, Budget and Fiscal Review Committee report on 2009 Budget Act (dated November 10, 2009);
- F. California Voter Information Guide for June 27, 1933 Special Election;
- G. Assembly Bill No. 85 (2019-20 Reg. Sess.), as approved by the Governor on June 29, 2020;
- H. Governor’s “Proposed Budget Summary” for 2024-25 Budget (dated January 10, 2024); and
- I. Legislative Analyst’s Office report titled “The 2022-23 Budget: Temporary Limits on Business Tax Provisions” (dated January 2022).

This motion is being filed concurrently with amici's brief in support of Petitioners, and is supported by the attached memorandum of points and authorities, and the attached declaration of Dale K. Larson.

Dated: January 31, 2024

Respectfully submitted,

STRUMWASSER & WOOCHELL LLP

BY:  _____
Dale K. Larson

*Attorneys for Amicus Curiae Former
Directors of the State of California
Department of Finance Michael Cohen, B.
Timothy Gage, and Ana Matosantos*

MEMORANDUM OF POINTS AND AUTHORITIES

INTRODUCTION

This action concerns the lawfulness of the so-called the “Taxpayer Protection and Government Accountability Act” (the “Measure”). The judicially noticeable materials described in amici’s motion detail facts concerning emergencies and challenges the State has faced in recent history, as well as actions taken by the legislative and executive branches in response to those events. The materials are relevant to this Court because the lawfulness of the measure depends on whether it seriously impairs essential government functions, and whether it would fundamentally alter either the structure of the State’s government or a foundational power of its branches (i.e., constitutes an unlawful revision of the Constitution). As detailed in amici’s merits brief, the Measure would eviscerate the Legislature’s authority over the State’s budget, outlaw the past government actions described in these materials, and seriously impair the State’s ability to navigate financial emergencies and adopt balanced budgets.

ARGUMENT

A reviewing court may take judicial notice of any matter noticeable by a trial court. (Evid. Code, § 459, subd. (a); *Martin v. General Finance Co.* (1966) 239 Cal.App.2d 438, 442 [“The power of this court to take judicial notice is the same as that of the trial court”].) Judicial notice may be taken of “[o]fficial acts of the legislative, executive, and judicial departments of the United States and of any state of the United States.” (Evid. Code, § 452, subd. (c).) Accordingly, this Court may take judicial notice of the materials, all of which constitute official acts of various governmental entities of the State of California. (See Declaration of Dale K. Larson (“Larson Decl.”), Exhs. A-I.)

Indeed, although their form and authoring entity varies, the materials presented by amici—a Secretary of State report, the contents of a California

agency’s website, Legislative Analyst’s Office reports, legislative committee reports, ballot materials, a legislative bill, and a Governor’s budget proposal—have all been judicial noticed by courts before. (*Field v. Bowen* (2011) 199 Cal.App.4th 346, 370, fn. 5 [taking judicial notice of Secretary of State memorandum]; *People v. Nguyen* (2013) 212 Cal.App.4th 1311, 1328 [taking judicial notice of content on Attorney General’s website]; *Stone v. Alameda Health System* (2023) 88 Cal.App.5th 84, 90, fn. 4 [taking judicial notice of Legislative Analyst’s Office report]; *Lang v. Roche* (2011) 201 Cal.App.4th 254, 263 [taking judicial notice of legislative committee report]; *People v. Nash* (2020) 52 Cal.App.5th 1041, 1052, fn. 4 [taking judicial notice of ballot materials]; *Suarez v. City of Corona* (2014) 229 Cal.App.4th 325, 331 [taking judicial notice of Assembly bill];¹ *Carmel Valley Fire Protection Dist. v. State* (2001) 25 Cal.4th 287, 293, fn. 2 [taking judicial notice of Governor’s budget proposal].)

CONCLUSION

Amici respectfully request that the Court grant their Motion for Judicial Notice in support of their amicus brief.

Dated: January 31, 2024

Respectfully submitted,

STRUMWASSER & WOOCHELL LLP

BY: 
Dale K. Larson

*Attorneys for Amicus Curiae Former
Directors of the State of California
Department of Finance Michael Cohen, B.
Timothy Gage, and Ana Matosantos*

¹ The Court has taken judicial notice of legislative bills even while acknowledging that judicial notice was unnecessary. (*Stop Youth Addiction, Inc. v. Lucky Stores, Inc.* (1998) 17 Cal.4th 553, 571, fn. 9.) Amici make this specific request out of an abundance of caution and for the Court’s convenience.

DECLARATION OF DALE K. LARSON

I, Dale K. Larson, declare as follows:

1. I am a partner with the law firm Strumwasser & Woocher LLP, counsel in this action for amici Michael Cohen, B. Timothy Gage, and Ana Matosantos, Former Directors of the State of California Department of Finance. I am authorized to practice law in the State of California and submit this declaration in support of amici's Motion for Judicial Notice. I have personal knowledge of the facts set forth herein. If called as a witness, I could and would competently testify to the matters stated herein.

2. Attached to this declaration as Exhibit A is a true and correct copy of a Secretary of State report to legislative leaders detailing costs of September 2021 gubernatorial recall election dated February 1, 2022. The document was downloaded from the Secretary of State's website and is available at <https://elections.cdn.sos.ca.gov/statewide-elections/2021-recall/report-to-legislature.pdf>.

3. Attached to this declaration as Exhibit B is a true and correct copy of a Department of Conservation web page detailing facts regarding the 1989 Loma Prieta earthquake. The document was printed directly from the web page, which is accessible at <https://www.conservation.ca.gov/cgs/earthquakes/loma-prieta>.

4. Attached to this declaration as Exhibit C is a true and correct copy of a Legislative Analyst's Office report titled "Major Financial Legislation Enacted in 1989" dated December 1989. The document was downloaded from the Legislative Analyst's Office's website and is available at https://lao.ca.gov/reports/1989/1289_major_financial_legislation_enacted_in_1989.pdf.

5. Attached to this declaration as Exhibit D is a true and correct copy of a report on a hearing titled “The Government’s Response to the Northridge Earthquake” held by Subcommittee on Government Management, Information, and Technology of the Committee on Government Reform and Oversight of the U.S. House of Representatives on January 19, 1996. The document was downloaded from the Homeland Security Digital Library (an online repository of documents related to homeland security sponsored by the U.S. Department of Homeland Security) and is available at <https://www.hsdl.org/?view&did=10170>.

6. Attached to this declaration as Exhibit E is a true and correct copy of a report by the California Senate’s Budget and Fiscal Review Committee on the 2009 Budget Act dated November 10, 2009. The document was downloaded from the Committee’s website and is available at <https://sbud.senate.ca.gov/sites/sbud.senate.ca.gov/files/FAR/FAR2009.pdf>.

7. Attached to this declaration as Exhibit F is a true and correct copy of the California Voter Information Guide for June 27, 1933 Special Election. The document was downloaded from the UC Law San Francisco Scholarship Repository (which includes an online collection of documents related to California ballot propositions and initiatives) and is available at https://repository.uclawsf.edu/cgi/viewcontent.cgi?article=1313&context=c_a_ballot_props.

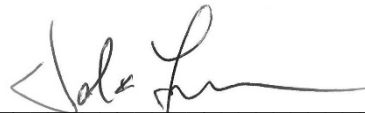
8. Attached to this declaration as Exhibit G is a true and correct copy of Assembly Bill No. 85 (2019-20 Reg. Sess.), as approved by the Governor on June 29, 2020. The document was downloaded from the California Legislative Information website and is available at https://leginfo.legislature.ca.gov/faces/billNavClient.xhtml?bill_id=201920200AB85.

9. Attached to this declaration as Exhibit H is a true and correct copies of excerpts of the Governor’s “Proposed Budget Summary” for 2024-25 Budget dated January 10, 2024. The document was downloaded from Department of Finance’s website and is available at <https://ebudget.ca.gov/budget/2024-25/#/BudgetSummary>.

10. Attached to this declaration as Exhibit I is a true and correct copy of a Legislative Analyst’s Office report titled “The 2022-23 Budget: Temporary Limits on Business Tax Provisions” dated January 2022. The document was downloaded from the Legislative Analyst’s Office’s website and is available at <https://lao.ca.gov/Publications/Report/4500>.

I declare under penalty of perjury under the laws of the State of California that the foregoing is true and correct.

Executed January 31, 2024, at Culver City, California.



DALE K. LARSON

Case No. S281977

IN THE SUPREME COURT OF THE STATE OF CALIFORNIA

LEGISLATURE OF THE STATE OF CALIFORNIA; GAVIN NEWSOM, in his
official capacity as Governor of the State of California; AND JOHN BURTON,

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SHIRLEY N. WEBER, PH.D., in her official capacity as Secretary of State of
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Respondent,

THOMAS W. HILTACHK,

Real Party in Interest.

[PROPOSED] ORDER

Pursuant to Evidence Code sections 452 and 459, and rules 8.520(g) and 8.252(a) of the California Rules of Court, the Court grants the motion of amici Michael Cohen, B. Timothy Gage, and Ana Matosantos and takes judicial notice of the following materials attached as exhibits to the declaration of Dale K. Larson:

- Exhibit A: Secretary of State report to legislative leaders detailing costs of September 2021 gubernatorial recall election (dated February 1, 2022);
- Exhibit B: Department of Conservation web page detailing facts regarding the 1989 Loma Prieta earthquake (undated);
- Exhibit C: Legislative Analyst’s Office report titled “Major Financial Legislation Enacted in 1989” (dated December 1989);
- Exhibit D: U.S. House of Representatives, Subcommittee on Government Management, Information, and Technology of

the Committee on Government Reform and Oversight report on hearing titled “The Government’s Response to the Northridge Earthquake” (dated January 19, 1996);

Exhibit E: California Senate, Budget and Fiscal Review Committee report on 2009 Budget Act (dated November 10, 2009);

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Exhibit G: Assembly Bill No. 85 (2019-20 Reg. Sess.), as approved by the Governor on June 29, 2020;

Exhibit H: Governor’s “Proposed Budget Summary” for 2024-25 Budget (dated January 10, 2024); and

Exhibit I: Legislative Analyst’s Office report titled “The 2022-23 Budget: Temporary Limits on Business Tax Provisions” (dated January 2022).

IT IS SO ORDERED.

Dated: _____, 2024

The Honorable Patricia Guerrero
Chief Justice
Supreme Court of California

EXHIBIT A



SHIRLEY N. WEBER, Ph.D.

CALIFORNIA SECRETARY OF STATE

Executive Office | 1500 11th Street | Sacramento, CA 95814 | Tel 916.653.7244 | www.sos.ca.gov

February 1, 2022

Honorable Nancy Skinner, Chair
Senate Budget and Fiscal Review
Committee

Honorable Phil Ting, Chair
Assembly Budget Committee

Honorable Anthony Portantino, Chair
Senate Appropriations Committee

Honorable Chris Holden, Chair
Assembly Appropriations Committee

Keely Bosler, Director
Department of Finance

Re: Gubernatorial Recall Election Costs

Dear Chairpersons Skinner, Ting, Portantino, Holden, and Ms. Bosler:

Pursuant to Assembly Bill 128 (Chapter 21, Statutes of 2021), this report and supporting documents outline the total costs of the September 14, 2021, Gubernatorial Recall Election.

Background

On June 23, 2021, the Secretary of State notified the Department of Finance that a sufficient number of verified signatures had been submitted to initiate a recall election against the Governor.

On July 1, 2021, the Department of Finance notified the Governor, the Secretary of State and the Chairpersons of the Joint Legislative Budget Committee of the estimated costs of the gubernatorial recall election (See [Department of Finance letter \(ca.gov\)](#))

Assembly Bill 128 (Chapter 21, Statutes of 2021) was passed by the Legislature and signed by the Governor, which provides that:

- (a) For the conduct of the election concerning the recall of the Governor during the 2021-22 fiscal year, \$215,234,000 is appropriated from the General Fund. The Legislature determines this amount is reasonably necessary to conduct the recall election and designates these funds for that purpose.

(b) Notwithstanding any other law, the Controller shall allocate these funds to counties according to a schedule provided by the Department of Finance. Any excess funds received by the county shall be used to offset state costs for the next election conducted by the county. Each county shall report its final total cost to administer the gubernatorial recall election to the Secretary of State in a manner and by a date determined by the Secretary of State.

(c) No later than February 1, 2022, the Secretary of State shall report on the final costs of the gubernatorial recall election to the Department of Finance and the Joint Legislative Budget Committee. It is the intent of the Legislature to consider making adjustments to this appropriation based on that report.

The report shall include the following:

- (1) The total cost of the gubernatorial recall election by county.
- (2) The costs broken out by category for each county.
- (3) Any funds remaining, by county, that can be used to offset state costs for the next election conducted by the county.

Subsequently, Senate Bill 152 (Chapter 34, Statutes of 2021) made changes to how the 2021 gubernatorial recall election was to be held, including requiring it to be held as a regular election. As a result, the Department of Finance requested updated cost estimates from counties to administer the recall election under the provisions of Senate Bill 152. The updated estimated costs provided by counties was \$243,583,308.50.

Additionally, Senate Bill 152 provides:

The sum of thirty-five million dollars (\$35,000,000) is hereby appropriated from the General Fund to the Secretary of State for the purpose of supporting statewide and county costs related to administering the 2021 gubernatorial recall election. It is the intent of the Legislature to consider adjustments to this amount based on the final costs of the gubernatorial recall election.

On July 20, 2021, the Department of Finance requested that the State Controller's Office remit payment to county elections officials for the 2021 California gubernatorial recall election in a sum totaling \$243,583,308. (See [Allocation and Recall Election Costs Letter](#))

Subsequently, California's 58 counties received payment from the State Controller's Office as requested by the Department of Finance and successfully conducted the September 14, 2021, Gubernatorial Recall Election.

Total Cost of the September 14, 2021, Gubernatorial Recall Election

As a result of Assembly Bill 128 and Senate Bill 152, \$243,583,308.50 was allocated to California's 58 counties and \$35,000,000 was allocated to the Secretary of State to conduct the September 14, 2021, Gubernatorial Recall Election. The total statewide

cost of the gubernatorial recall election was \$200,241,680, which includes \$174,059,031.11 in county costs and \$26,182,649.08 in Secretary of State costs.

County Costs

The total cost by county are:

County	Allocated Gubernatorial Recall Election Costs	Actual Gubernatorial Recall Election Costs	Remaining Balance of Funds from Gubernatorial Recall Election Allocation	Additional Funding Needed for Gubernatorial Recall Election Costs Incurred
Alameda	\$21,013,151.00	\$9,605,891.79	\$11,407,259.21	
Alpine	\$41,950.00	\$43,416.92	(\$1,466.92)	\$1,466.92
Amador	\$119,440.00	\$120,043.62	(\$603.62)	\$603.62
Butte	\$958,450.00	\$580,905.39	\$377,544.61	
Calaveras	\$194,197.00	\$222,843.52	(\$28,646.52)	\$28,646.52
Colusa	\$101,395.00	\$122,161.64	(\$20,766.64)	\$20,766.64
Contra Costa	\$5,506,800.00	\$4,976,675.37	\$530,124.63	
Del Norte	\$120,447.00	\$112,217.56	\$8,229.44	
El Dorado	\$879,750.00	\$724,917.63	\$154,832.37	
Fresno	\$4,072,000.00	\$3,096,230.24	\$975,769.76	
Glenn	\$198,645.00	\$138,959.63	\$59,685.37	
Humboldt	\$585,300.00	\$494,411.95	\$90,888.05	
Imperial	\$490,165.00	\$431,732.99	\$58,432.01	
Inyo	\$97,777.47	\$160,049.63	(\$62,272.16)	\$62,272.16
Kern	\$2,916,032.00	\$1,972,111.59	\$943,920.41	
Kings	\$546,497.00	\$259,097.20	\$287,399.80	
Lake	\$306,275.00	\$272,013.13	\$34,261.87	
Lassen	\$74,700.00	\$95,036.00	(\$20,336.00)	\$20,336.00
Los Angeles	\$59,793,000.00	\$52,920,735.00	\$6,872,265.00	
Madera	\$743,800.00	\$643,007.34	\$100,792.66	
Marin	\$1,617,392.00	\$1,221,644.12	\$395,747.88	
Mariposa	\$64,275.00	\$70,549.81	(\$6,274.81)	\$6,274.81
Mendocino	\$293,004.00	\$457,631.16	(\$164,627.16)	\$164,627.16
Merced	\$1,108,813.35	\$1,111,175.60	(\$2,362.25)	\$2,362.25
Modoc	\$39,230.00	\$43,674.84	(\$4,444.84)	\$4,444.84
Mono	\$189,307.00	\$111,812.51	\$77,494.49	
Monterey	\$2,944,401.00	\$1,936,590.34	\$1,007,810.66	
Napa	\$557,155.92	\$561,978.46	(\$4,822.54)	\$4,822.54
Nevada	\$717,006.00	\$433,379.60	\$283,626.40	

Orange	\$7,778,712.00	\$8,559,262.93	(\$780,550.93)	\$780,550.93
Placer	\$2,251,950.00	\$1,678,076.79	\$573,873.21	
Plumas	\$74,231.00	\$68,485.46	\$5,745.54	
Riverside	\$5,000,000.00	\$7,905,838.93	(\$2,905,838.93)	\$2,905,838.93
Sacramento	\$8,039,887.50	\$3,288,675.22	\$4,751,212.28	
San Benito	\$449,250.00	\$442,706.14	\$6,543.86	
San Bernardino	\$33,898,412.00	\$11,014,207.17	\$22,884,204.83	
San Diego	\$21,800,000.00	\$14,039,587.38	\$7,760,412.62	
San Francisco	\$8,985,238.00	\$8,085,256.22	\$899,981.78	
San Joaquin	\$6,579,551.00	\$3,169,175.76	\$3,410,375.24	
San Luis Obispo	\$1,173,430.26	\$952,671.63	\$220,758.63	
San Mateo	\$4,330,000.00	\$3,722,113.29	\$607,886.71	
Santa Barbara	\$2,836,509.00	\$1,712,600.14	\$1,123,908.86	
Santa Clara	\$16,127,225.00	\$13,493,052.72	\$2,634,172.28	
Santa Cruz	\$1,360,996.00	\$1,123,771.06	\$237,224.94	
Shasta	\$1,207,876.00	\$766,195.44	\$441,680.56	
Sierra	\$24,700.00	\$25,710.04	(\$1,010.04)	\$1,010.04
Siskiyou	\$330,598.00	\$342,010.68	(\$11,412.68)	\$11,412.68
Solano	\$2,991,426.00	\$2,377,480.59	\$613,945.41	
Sonoma	\$1,454,863.00	\$561,582.86	\$893,280.14	
Stanislaus	\$1,708,212.00	\$1,277,206.18	\$431,005.82	
Sutter	\$345,961.00	\$225,716.61	\$120,244.39	
Tehama	\$180,314.00	\$187,762.46	(\$7,448.46)	\$7,448.46
Trinity	\$137,139.00	\$108,842.10	\$28,296.90	
Tulare	\$1,685,537.00	\$1,035,498.01	\$650,038.99	
Tuolumne	\$206,750.00	\$147,501.89	\$59,248.11	
Ventura	\$4,288,976.00	\$3,490,885.38	\$798,090.62	
Yolo	\$1,729,200.00	\$1,055,075.89	\$674,124.11	
Yuba	\$316,009.00	\$261,187.56	\$54,821.44	
Totals:	\$243,583,308.50	\$174,059,031.11	\$69,516,628.44	\$4,022,884.50

As indicated in the table above, forty-two counties have remaining funds available for a total of \$69,516,628.44. Sixteen counties will need additional funding in the amount of \$4,022,884.50. The counties and the additional funding needed by county are:

Alpine	\$1,466.92
Amador	\$603.62
Calaveras	\$28,646.52
Colusa	\$20,766.64
Inyo	\$62,272.16
Lassen	\$20,336.00
Mariposa	\$6,274.81

Mendocino	\$164,627.16
Merced	\$2,362.25
Modoc	\$4,444.84
Napa	\$4,822.54
Orange	\$780,550.93
Riverside	\$2,905,838.93
Sierra	\$1,010.04
Siskiyou	\$11,412.68
Tehama	\$7,448.46
Total	\$4,022,884.50

The total costs for counties by category statewide are:

Category	Allocated	Actual
Ballot Costs	\$78,255,636.14	\$53,855,686.30
Equipment & Logistics	\$34,008,162.75	\$34,208,571.72
Staffing	\$115,352,963.35	\$81,239,716.62
Outreach and Communication	\$10,565,413.05	\$4,361,078.35
COVID-19 Related Expenses	\$5,393,484.26	\$393,978.12
Totals:	\$243,583,308.50	\$174,059,031.11

For the county-by-county cost by category, please see [Attachment A](#).

Secretary of State Costs

The total costs for Secretary of State by category were \$26,182,649.08. The Secretary of State had estimated \$32,408,658.16 in costs and was allocated \$35,000,000 through Senate Bill 152. The Secretary of State did have \$1,682,215.11 in costs that were not previously identified. Additionally, the Secretary of State notes that the invoicing process is still ongoing and that costs are subject to change based upon the final invoicing and processing through our office and the Department of General Services. The table below details the Secretary of State estimated and actual costs for the September 14, 2021, Gubernatorial Recall Election.

Secretary of State Recall Costs		
	Estimated	Actual
Voter Information Guide	\$ 9,206,312.00	\$ 5,651,171.13
Printing	\$ 6,740,587.00	\$ 2,862,882.60
Mailing	\$ 2,465,725.00	\$ 2,788,288.53
Voter Hotline Support	\$ 651,629.16	\$ 183,037.46
Temporary Contracted Workers	\$ 455,268.00	\$ 89,070.90
Student Assistants	\$ 124,569.00	\$ 31,483.86
Retired Annuitant Supervisors	\$ 71,792.16	\$ 62,482.70
Elections Overtime	\$ 105,000.00	\$ 85,496.47
Overtime (Elections)	\$ 105,000.00	\$ 85,496.47
ITD Costs	\$ 270,658.00	\$ 393,218.13
Election Night Reporting Infrastructure	\$ 134,024.00	\$ 189,159.63
Enhanced cyber security	\$ 87,082.00	\$ 144,799.00
Emergency phones	\$ 2,879.00	\$ 2,495.50
Pollworker Recruitment Portal	\$ 46,672.00	\$ 56,764.00
Ballot tracking	\$ 210,000.00	\$ 200,000.00
Los Angeles Support	\$ 989,630.00	\$ -
Synch VoteCal/EMS Support	\$ 589,630.00	-
Consultant Support	\$ 400,000.00	-
Election Observation	\$ 180,000.00	\$ 30,629.36
Voter's Choice Act (VCA) Program	\$ 2,998,173.00	\$ 2,520,309.35
Local Assistance Grants to Counties	\$ 1,898,173.00	\$ 1,470,357.85
Sub-Grants to CBOs/ hard-to-reach populations	\$ 550,000.00	\$ 550,000.00
State Operations and Administration	\$ 550,000.00	\$ 499,951.50
Communications/Office of Cybersecurity	\$ 17,500,000.00	\$ 15,117,300.00
Production/Shoots	\$ 1,000,000.00	\$ 100,000.00
Outreach - Text Messaging	\$ 1,000,000.00	-
Paid Communication - Digital Ads	\$ 5,750,000.00	see TV/Cable/Radio
Paid Communication - Direct Mail	\$ 500,000.00	-
Paid Communication - Print Ads/Billboards	\$ 250,000.00	see TV/Cable/Radio
Paid Communication Real-time Crisis Response	\$ 250,000.00	-
Paid Communication - TV/Cable/Radio	\$ 8,000,000.00	\$ 13,999,800.00
Translation - Real-time Translation Services	\$ 500,000.00	\$ 40,000.00
Vendor support - Campaign Management/Data Analysis	\$ 250,000.00	\$ 977,500.00
Headquarters	\$ 297,256.00	\$ 294,272.07
Security - CHP	\$ 10,000.00	\$ 10,000.00
Security - Platinum	\$ 11,000.00	\$ 11,000.00
Security - City of Sacramento	\$ 600.00	\$ 331.00
Postage - USPS	\$ 200,000.00	\$ 200,000.00
Postage - Fed-Ex	\$ 50,000.00	\$ 50,000.00
Overtime - DGS Building Staff	\$ 7,272.00	\$ 7,272.00
Overtime - SOS Building Staff	\$ 3,384.00	\$ 669.07
Health Screening	\$ 15,000.00	\$ 15,000.00
Not Previously Identified	\$ -	\$ 1,707,215.11
Legal - Litigation Costs	\$ -	\$ 294,265.00
Labor Costs Charged to Recall	\$ -	\$ 345,400.76
Labor Costs Projected in Jan & Feb	\$ -	\$ 4,413.66
Communications - CBO Microgrants	\$ -	\$ 847,000.00
Communications - Earned Media/Outreach	\$ -	\$ 190,000.00
Elections - Rental E-Night Vans	\$ -	\$ 1,135.69
ITD - Website Support	\$ -	\$ 25,000.00
Total	\$ 32,408,658.16	\$ 26,182,649.08

If you have any questions about this report, please feel free to contact me at (916) 653-7244.

Sincerely,

A handwritten signature in blue ink, appearing to read 'S. N. Weber', with a large circular flourish at the end.

SHIRLEY N. WEBER, Ph.D.
California Secretary of State

Attachment(s)

CC: Hanz Hemann, Chief Consultant, Joint Legislative Budget Committee
Erika Contreras, Secretary of the Senate
Sue Parker, Chief Clerk of the Assembly
Cara L. Jenkins, Legislative Counsel

EXHIBIT B



The 1989 Loma Prieta Earthquake

Revisiting the 1989 Loma Prieta earthquake serves as an important reminder to all residents of California that the geologic processes responsible for creating the beautiful natural landscape we enjoy can sometimes occur suddenly and violently so it's important to be prepared. The anniversary of the Loma Prieta earthquake also marks the anniversary of the creation of the Seismic Hazards Zoning Program (SHZP), one of the key programs operated by California Geological Survey (CGS) to aid in preparedness. One year following Loma Prieta, in direct response to the ground failure caused by the earthquake, the State enacted legislation directing CGS to identify and map areas prone to liquefaction, earthquake-induced landslides and amplified ground shaking. The purpose of the SHZP is to minimize loss of life and property through the identification, evaluation and mitigation of seismic hazards. This effort represents just one of the many ways CGS strives to fulfill its mission to provide scientific products and services about the state's geology, seismology and mineral resources—including their related hazards—that affect the health, safety, and business interests of Californians.

Facts About the Loma Prieta Earthquake

When

5:04 p.m., Tuesday, October 17, 1989. The shaking lasted 20 seconds.

Where

The epicenter was on the San Andreas fault roughly 56 miles south of San Francisco and 10 miles northeast of Santa Cruz, near Mt. Loma Prieta in the Santa Cruz Mountains. The focal depth was 11

miles (typical California earthquake focal depths are 4 to 6 miles). Loma Prieta ruptured the southernmost 30 miles of the break that caused the 1906 San Francisco Earthquake.

How Big

Magnitude established at 6.9 after consultation with monitoring stations around the world. The Loma Prieta quake was felt as far away as San Diego and western Nevada.

Aftershocks

A magnitude 5.2 aftershock occurred approximately 2.5 minutes after the main shock. In the week following Loma Prieta, 20 aftershocks magnitude 4.0 or greater and more than 300 of magnitude 2.5 or greater were recorded. Thousands of aftershocks were recorded. The aftershock zone stretched 25 miles, from north of Los Gatos near Highway 17 to south of Watsonville near Highway 101.

Casualties

63 people were killed, 3,757 were reported injured and 12,053 displaced.

Damage

Damage and business interruption estimates reached as high as \$10 billion, with direct damage estimated at \$6.8 billion. 18,306 houses were damaged and 963 were destroyed. 2,575 businesses were damaged and 147 were destroyed. The most notable damage included the collapse of the elevated Cypress Structure section of Interstate 880 in Oakland, the collapse of a section of roadbed on the Bay Bridge, and extensive damage to downtown Santa Cruz and San Francisco's Marina District. The Bay Bridge was unusable for a month. Also, the World Series between the San Francisco Giants and Oakland A's was postponed.

Warning Signs

Geologists had forecast a major earthquake in this area based on historical data, especially the lack of a major seismic event along the San Andreas fault since 1906 – the 8.3 San Francisco earthquake. In the 83 years prior to the 1906 quake, seven damaging earthquakes of magnitude 6.5 or greater occurred. Only two have occurred since the San Francisco earthquake. Several 5.0-plus

seismic events in the two years preceding Loma Prieta also served as warnings. There is still a 50 percent chance for one or more magnitude 7.0 earthquakes in the San Francisco Bay Area in the next 30 years, and the probability of a repeat of the 1906 quake is significant.

The Fault

The San Andreas Fault is the boundary between the North American plate and the Pacific plate. Land west of the fault has been moving to the northwest relative to land on the east at an average rate of 2 inches per year for millions of years. This motion typically occurs in sudden jumps during large earthquakes. The Pacific plate moved 6.2 feet to the northwest and 4.3 feet upward over the North American plate during Loma Prieta.

Magnitude Defined

Magnitude is a measure of an earthquake's size, but rather than being a direct measure of the level of ground shaking, it is a measurement of the strength of the seismic sound waves given off by the earthquake. A magnitude 8 earthquake radiates 30 times more energy than a magnitude 7 and 900 times the energy of a magnitude 6. Strong ground shaking for a magnitude 7 quake typically lasts about 15 seconds. It lasts a minute in a magnitude 8.

What If

As devastating as Loma Prieta was, a magnitude 7.5 earthquake on the Hayward Fault in the East Bay could do \$65 billion in damage.

CGS's Related Maps and Publications

- Download a poster of "[Liquefaction Damage in the Marina District during the 1989 Loma Prieta Earthquake](#)" - (1 MB - PDF Document)
- CGS Note 53 - [Regulatory Earthquake Hazard Zones - San Francisco Bay Area](#) (1.5 MB - PDF Document)
- CGS Note 54 - [Regulatory Earthquake Hazard Zones - Southern California Region](#) (1.9 MB - PDF Document)



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EXHIBIT C

Major Financial Legislation Enacted in 1989

Legislative Analyst's Office
December 1989

Table of Contents

Introduction	1
Part 1	
Summary of Major Financial Legislation	
1989 Regular Session	3
Revenue and Taxation Measures	
5	
Spending Limitations	11
Resources	13
Criminal Justice	23
Education	27
Health	33
Business and Transportation	41
Welfare & Employment	47
Local Government Financing	57
General Government	59
Capital Outlay	63
Part 2	
Summary of Legislation	
First Extraordinary Session	67

Introduction

This report summarizes the fiscal effects of legislation enacted during the 1989 Regular Session of the California Legislature, and the First Extraordinary Session called by the Governor in response to the October 17 Loma Prieta earthquake.

This report is divided into two parts. Part 1 of the report describes the provisions and fiscal effects of some 70 major bills enacted during the 1989 Regular Session. Each of these bills is significant from both a fiscal and policy standpoint. Many of the other bills approved by the Legislature and the Governor during the 1989 Regular Session also will have important consequences for the people of California. The discussion of individual bills in Part 1 of this report is intended to be illustrative of the actions taken by the Legislature on major financial legislation in 1989.

Part 2 discusses the provisions and fiscal effects of the 24 measures chaptered during the First Extraordinary Session of the Legislature in November.

Part 1

Summary Of Major Financial Legislation

1989 Regular Session

Table 1 shows the disposition of Senate and Assembly Bills during the 1989 Regular Session. As indicated, 4,260 bills were introduced and eventually 1,467 of these were chaptered. The table also shows that the Governor vetoed 270 bills. This section summarizes the enacted measures having a major fiscal effect at the state level.

Table 1

Disposition of Senate and Assembly Bills 1989 Regular Session

	<i>Senate</i>	<i>Assembly</i>	<i>Totals</i>
Introduced	1,724	2,536	4,260
Enrolled	765	972	1,737
Vetoed by Governor	118	152	270
Chaptered	647	820	1,467

Fiscal Effects

Legislation passed during the 1989 Regular Session affected both revenues and expenditures.

On the revenue side, we estimate that General Fund revenues for 1989-90 will be reduced by a net amount of approximately \$14 million as a result of legislation passed during the 1989 Regular Session. This amount includes increased revenue of approximately \$10 million to the General Fund as a result of transfers from the Satellite Wagering Account and the Fair and Exposition Fund (Ch 74/89—Floyd), offset by decreased revenue to the General Fund as a result of several new state tax credits. These include a recycled materials tax credit (Ch 1090/89—Alquist), a solar energy tax credit (Ch 1291/89—Garamendi), a ridesharing tax credit (Ch 1227/89—Klehs), and a tax credit for recycling machinery (Ch 1091/89—Killea).

On the expenditure side, the estimated General Fund cost of financial legislation passed during the 1989 Regular Session is approximately \$133 million. This amount includes \$27 million for the Medically Indigent Services Program (Ch 1331/89—Isenberg), \$13.4 million for drug-related activities in the Department of Justice (Ch 1453/89—Roberti), \$10 million for increased toxics activity (Ch 269/89—Torres), and \$11 million for foster care rate restructuring (Ch 1294/89—Presley).

Revenue and Taxation Measures

Low-Income Housing Tax Credit

Chapter 46 — Senate Bill 70 (Leroy Greene)

Chapter 1347 — Senate Bill 726 (Leroy Greene)

Chapter 1156 — Senate Bill 1290 (Seymour)

These acts extend and modify the state's tax credit program for investors in low-income housing, in effect permanently continuing the existing program as long as the comparable federal program exists. In addition to extending the program, these measures require that a minimum of 20 percent of the credits be allocated to rural housing projects and increase the amount of tax credits which may be granted in 1989 by the amount of the credits which were authorized, but not allocated during 1987 and 1988.

Under the state's low-income housing tax credit program (which was first implemented in 1987) the Mortgage Bond and Tax Credit Allocation Committee authorizes tax credits equal to 30 percent of qualified low-income housing investments. This amount is claimed by the taxpayer over a four-year period. Under the original legislation, the total amount of tax credits available for allocation was equal to the lesser of \$1.25 per state resident or \$35 million annually. This amounted to approximately \$32 million in 1987, \$35 million in 1988, and \$35 million in 1989. Approximately \$22.5 million of the available 1987 credits were not used, however, and these acts will allow them to be allocated.

Assuming the entire amount of the unused 1987 credits is allocated to projects placed in service in 1989, these acts will result in General Fund revenue losses of approximately \$6.75 million in 1990-91, \$6.75 million in 1991-92, \$6.75 million in 1992-93, and \$2.25 million in 1993-94.

In addition, this act will allow an additional \$35 million in state tax credits to be allocated annually. The tax credits allocated each year will be claimed over a four-year period resulting in revenue losses of \$10.5 million in 1990-91, \$21 million in 1991-92, \$31.5 million in 1992-93, and \$35 million in 1993-94 and annually thereafter.

Recycled Materials Tax Credit

Chapter 1090 — Senate Bill 432 (Alquist)

This act establishes a tax credit equal to 10 percent of a taxpayer's purchase costs for recyclable materials that are used in the production of new products. The credit applies to recycled waste paper, glass, and plastics (except recycled beverage containers), purchased between January 1, 1989 and January 1, 1994. Taxpayers are allowed to carry over to subsequent years any unused portion of the tax credits.

This act will result in annual General Fund revenue losses in the range of \$11 million annually from 1989-90 through 1993-94, and diminishing amounts thereafter (due to credits carried over from previous years).

Tax Credit for Recycling Machinery

Chapter 1091 — Assembly Bill 1308 (Killeca)

This act establishes a tax credit for machinery used to manufacture products from waste materials. The act provides a credit of up to \$250,000 based on the acquisition cost of equipment used to manufacture products made of waste materials. A credit of 40 percent is to be spread over three years for qualified equipment purchased between January 1, 1989 and December 31, 1993.

This act will result in a General Fund revenue loss of approximately \$1 million annually from 1989-90 through 1993-94.

Solar Energy Tax Credit

Chapter 1291 — Senate Bill 227 (Garamendi)

This act establishes a tax credit equal to 10 percent of the cost of solar-powered electrical generating equipment purchased by individuals or businesses between January 1, 1990 and January 1, 1994. The credits may be taken only for solar technologies that produce electricity at or above minimum standards set by the California Energy Commission and generate more than 30 megawatts of electricity.

This act will result in annual General Fund revenue losses in the range of \$2 million to \$5 million annually in 1989-90 through 1993-94.

Ridesharing Tax Credit

Chapter 1227 — Assembly Bill 1463 (Klehs)

This act establishes ridesharing tax credits for both employers and employees for the 1989 through 1995 tax years. Under the act, employers may claim a tax credit against the cost of employer-sponsored ridesharing programs including the cost of purchasing or leasing vehicles for use in employee carpools. In addition, the act authorizes a personal income tax credit for employees. This employee credit is equal to 40 percent of the cost of participating in a vanpool not sponsored by the employer, up to a maximum amount of \$480 per year.

This act will result in a General Fund revenue loss in the range of \$4 million annually from 1989-90 through 1995-96.

Health Benefits Tax Credit

Chapter 797 — Senate Bill 1207 (Keene)

This act expands the number of employers eligible to claim a tax credit for the cost of providing employee health care benefits. Prior to this act, the following restrictions applied to the credit:

- Only employers of 25 or fewer employees who had not provided health insurance during the two years preceding the effective date of the credit were eligible;
- The tax credit was dependent on the existence of certain state budget and economic conditions; and
- The tax credits were only to remain in effect for a five-year period after they became operative.

This act removes the above restrictions, making the credits available to all employers of 25 or fewer employees. These employers may claim a tax credit equal to the greater of \$25 per month, or 25 percent of employer costs for providing specified health care benefits to an employee or the employee's dependents. This credit is in lieu of the normal business expense deduction allowed for employer health care costs. Additional credits are available for employers providing supplemental benefits for mental health treatment and prenatal care. The credits will only become available if a specified report is submitted to the Legislature and the Governor by March 1, 1990.

This act will result in annual General Fund revenue losses of hundreds of millions of dollars, beginning with the 1992 tax year. These revenue losses will be partially offset by revenue gains from the reduction in the number of tax deductions for employer health care costs. The Franchise Tax Board estimates that the net revenue loss will be in the range of \$300 million annually.

Under the provisions of Proposition 98, a \$300 million General Fund revenue loss may reduce the minimum required level of K-14 school funding in 1992-93 by approximately \$120 million. The act's impact on the minimum required funding level will depend on which of the Proposition 98 formulas is used to determine this level.

Local Sales Taxes for Jails

Chapter 1335 — Assembly Bill 1067 (Hauser)

This act establishes the Orange County Regional Justice Facility Commission and authorizes the counties of Humboldt, Los Angeles, Riverside, San Bernardino and Ventura to establish similar agencies. The commission and the new agencies could impose an additional half-cent sales tax on a countywide basis upon approval by a majority of the voters in an election. San Diego County currently has a regional justice agency that imposes a half-cent sales tax, and a similar agency is authorized in San Joaquin County but has not been activated.

The commission and the new agencies could use their funds to acquire, build, and operate jails, courts and other law-enforcement facilities. The new county agencies also could support programs that reduce or prevent juvenile crime. The measure also authorizes the commission and the new agencies to issue bonds backed by their sales tax revenues, subject to voter approval.

If all of the regional justice agencies authorized by this act are created and impose an additional sales tax, the total annual revenue available to the Orange County justice facility commission and the five county regional justice facility agencies would be approximately \$700 million annually, including about \$11 million to reimburse the state for its cost to collect and allocate the new taxes.

Redevelopment of Norton and George Air Force Bases**Chapter 545 — Assembly Bill 419 (Eaves)**

This act authorizes San Bernardino County and the cities within the county to form special agencies to redevelop Norton Air Force Base in San Bernardino and George Air Force Base in Victorville. Both bases are scheduled for closure by October 1995. The act allows the redevelopment areas to include large areas of land adjacent to the bases without meeting the general requirement in existing law that these lands must be blighted and primarily urbanized. It also exempts these special agencies from many of the requirements placed on redevelopment projects, including limits on the debt that they will issue and the amount of property tax revenue that they will divert.

Currently, school districts receive a significant portion of local property tax revenues. In areas with redevelopment projects, some of these revenues are diverted to the redevelopment agency, and the state replaces the lost property tax revenue to the schools. Consequently, this measure could increase future state costs to replace property tax revenue diverted from school districts in San Bernardino County to the special redevelopment agencies. Whether this measure results in an increase in total state education costs will depend on the specific funding formula in effect under Proposition 98 at that time.

If Proposition 98 does not require an increase in total state education funding, then the larger apportionments to San Bernardino County schools would result in less funding for other education programs. The potential magnitude of the state cost or funding shift is millions of dollars because of the large scope of the potential air base redevelopment projects.

Open-Space Subventions**Chapter 1087 — Assembly Bill 28 (Hannigan)**

This act amends the 1989 Budget Act to appropriate an additional \$5 million from the General Fund for open-space subventions. The 1989 Budget Act appropriates \$14.6 million, which is the estimated cost of these subventions for 1989-90. These subventions are provided to counties and cities to compensate them for property tax revenues lost as a result of participation in the California Land Conservation Act (the Williamson Act).

The Williamson Act allows cities and counties to contract with landowners to restrict the use of their property to open-space and agricultural purposes. In return for the restriction, the land is assessed at a reduced value. The state provides subventions to cities and counties to partially offset the revenue loss due to the contracts.

This act appropriates \$5 million from the General Fund in 1989-90 for open-space subventions. This appropriation augments the 1989 Budget Act appropriation of \$14.6 million for a total of \$19.6 million in 1989-90.

Horseracing License Fees

Chapter 74 — Assembly Bill 347 (Floyd)

This act, an urgency measure, alters the distribution of license fee revenues payable to the Satellite Wagering Account and the General Fund from satellite wagering activities. Under the act, one-half of all Satellite Wagering Account license fee revenues in excess of \$11 million are required to be transferred to the General Fund. The act also requires that one-half of Fair and Exposition Fund revenues in excess of \$13 million be transferred to the General Fund. In exchange for the increased transfers, the act deletes a provision of existing law which imposes a one-half percent state license fee increase for satellite wagering activities whenever total revenues to the General Fund for all horse racing activities do not equal or exceed \$115 million. Finally, the act extends the sunset date from January 1, 1990 to January 1, 1993, to authorize fairs in Kern and Santa Barbara Counties to operate satellite wagering facilities and receive multiple simulcast signals.

Based on information provided by the Department of Finance, we estimate that this act will result in revenue increases to the General Fund totaling \$10 million in 1988-89, approximately \$9.6 million in 1989-90 and increasing amounts annually thereafter. Offsetting these increases are revenue losses to the Fair and Exposition Fund and the Satellite Wagering Account totaling \$10 million in 1988-89, \$13.3 million in 1989-90 and increasing amounts annually thereafter. About 60 percent of these losses will accrue to the Fair and Exposition Fund, while the remainder will accrue to the Satellite Wagering Account.

Spending Limitations

Spending Limit Changes

Resolution Chapter 66 — Senate Constitutional Amendment 1 (Garamendi)

This act proposes that the state's voters be asked to approve a number of significant changes in the state's 10-year old spending limit. Specifically, Resolution Chapter 66 would:

- Modify the cost-of-living and population factors used to adjust state and local appropriations limits;
- Modify the formulas used to determine the required minimum funding level for K-14 education. This is done by changing the cost-of-living factor used in determining the minimum funding amount under one of the two minimum funding formulas for K-14 education;
- Change the allocation of revenues in excess of the state's appropriations limit. This is done by: (1) providing that one-half of any revenues in excess of the state's appropriations limit shall be allocated to K-14 school districts, and the other half returned to state taxpayers, (2) removing the 4-percent cap on allocations of excess revenues to K-14 education, and (3) providing that allocations of excess revenues to K-14 are no longer to be considered in calculating the minimum funding guarantee.
- Provide a mechanism to reduce the minimum funding level required for K-14 education in "low-revenue growth" years and pay back that reduction in years in which General Fund revenues grow more quickly than state personal income

Resolution Chapter 66 would also:

- Provide for a two-year averaging of any excess revenues; and
- Provide that appropriations for the following purposes are not subject to limitation: (1) costs of natural disasters, (2) the costs of conducting appropriations limit override elections, (3) new capital outlay expenditures, and (4) additional transportation revenues.

The changes to the State Constitution contained in Resolution Chapter 66 will be presented to the voters on the June 1990 ballot and, if passed, would take effect on July 1, 1990.

The primary effect of Resolution Chapter 66 will be to increase the state's appropriations limit, by approximately \$1.2 billion in 1990-91, \$1.3 billion in 1991-92 and by increasing amounts annually thereafter. Resolution Chapter 66 will also affect the minimum funding level for K-14 education. The net impact of this measure on the total amount of funds that must be provided to K-14 education depends on the amount of excess revenue that would have been allocated to K-14 education under existing law, and the increased amount of revenue that must be allocated to K-14 education as a result of the change in the minimum funding guarantee. In addition, this measure will increase local government appropriation limits by an unknown, but probably significant amount.

Resources

Environmental Water Act of 1989

Chapter 715 — Assembly Bill 444 (Isenberg)

Chapter 716 — Assembly Bill 1442 (Baker)

These acts, known together as the Environmental Water Act of 1989, will (1) retire the State Water Project's (SWP) \$391 million debt to the state and (2) fund three environmentally related water programs: the Environmental Water Program (to protect the Mono Lake Basin), the Water Quality Program (to address problems of agricultural drainage water), and the Delta Flood Protection Program (created by Ch 23/88 — SB 34, Boatwright).

Over the past 30 years the SWP has borrowed tideland oil revenues from the state through the California Water Fund (CWF), accumulating a \$391 million debt. At the same time the General Fund has accumulated a \$182 million debt to the SWP for (1) past recreation and fish and wildlife enhancements on the project (\$172 million) and (2) the state's share of costs for mitigation facilities under the Suisun Marsh Preservation Agreement with the federal government (\$9.5 million).

Chapter 716 offsets these debts, thereby canceling the \$182 million General Fund debt owed to the SWP and a like amount owed by the project to the CWF. This act also authorizes the offset of future General Fund obligations for recreation and fish and wildlife enhancements along the SWP. These future offsets would be subject to annual approval by the Legislature. In addition, Chapter 716 states legislative intent that SWP debt repayments be used to (1) establish the Environmental Water Fund and (2) provide additional funding for the existing Delta Flood Protection Program. Together these provisions will retire the SWP's total debt to the CWF within the next 10 years.

Chapter 715 establishes the Environmental Water Program, to be funded from the Environmental Water Fund created by Chapter 716. The primary purpose of this program is to protect and preserve Mono Lake and its watershed. The program also will restore and enhance specified state waterways. In addition, Chapter 715 establishes the Water Quality Program, to fund projects that improve the quality and reduce the amounts of agricultural drainage water. The Water Quality Program also will receive funds from the Environmental Water Fund.

These acts retire the \$391 million SWP debt to the CWF by: (1) canceling \$182 million of the General Fund debt owed to the SWP; (2) authorizing future offsets of General Fund obligations to the SWP (approximately \$7.5 million annually); and (3) stating legislative intent that \$60 million in SWP debt repayments be used to fund the Environmental Water Program, \$102 million be used to fund the Delta Flood Protection Program, and up to \$5 million be used to fund the Water Quality Program. By specifying the uses of SWP's debt repayments, Chapter 715 restricts those repayments from funding new SWP construction or any other legislative priorities.

Cache Creek Settling Basin

Chapter 935 — Assembly Bill 614 (Hansen)

This act, an urgency measure, authorizes the Cache Creek Settling Basin flood control project to trap sediment carried by Cache Creek. The project will protect the Yolo Bypass (part of the Sacramento River Flood Control Project) from sediment flows.

The Reclamation Board estimates the total costs of this project to be \$25 million. As the sole nonfederal sponsor of the project, the Reclamation Board will be responsible for all nonfederal project costs, estimated to total \$8.3 million. The 1989 Budget Act appropriated \$8.3 million from tidelands oil revenues for this project. Current law requires the specific project authorization contained in Chapter 935 prior to expenditure of the budget appropriation.

Waste Tire Facility Regulation

Chapter 974 — Assembly Bill 1843 (Willie Brown)

This act imposes a 25-cent (\$0.25) per tire fee on the disposal of used tires and authorizes the Waste Management Board (WMB) to use revenues generated by this fee to encourage tire recycling and shredding. The act also requires waste tire facilities to register with the WMB and prohibits such facilities from operating without a permit after specified dates. The act also requires the Department of General Services (DGS) to grant purchase preferences to products made of recycled tires if specified conditions are met.

We estimate that this act will generate revenue of about \$3.4 million in 1990-91 and \$4.5 million annually through 1998-99, when the tire disposal fee sunsets.

The act restricts the WMB's administrative and fee collection costs to a maximum of 8 percent of fee revenues; this will total about \$270,000 in 1990-91 and \$360,000 annually in 1991-92 through 1998-99. Consequently, approximately \$4.2 million annually will be available for programs to encourage tire recycling and shredding.

Based on information provided by the WMB, however, we estimate that the act will result in actual administrative and collection costs that exceed the 8-percent cap. These costs are estimated to be about \$924,000 (including one-time costs of \$380,000) in 1990-91, \$544,000 in 1991-92, and \$718,000 annually thereafter until 1998-99.

The act also appropriates \$1 million from the Environmental License Plate Fund as a start-up loan to the California Tire Recycling and Management Fund to cover program costs until tire disposal fee revenues are available starting in October 1990. The loan must be repaid, with interest, by June 30, 1991.

Integrated Solid Waste Management Act

Chapter 1095 — Assembly Bill 939 (Sher)

This act establishes a new comprehensive solid waste management program at the state and local levels. Among other things, the act:

- Replaces the existing part-time Waste Management Board (WMB) with a new Integrated Waste Management and Recycling Board comprised of six full-time members;
- Requires the new board to certify local enforcement agencies;
- Requires cities and counties to develop and implement, and the board to approve and enforce, integrated waste management plans (IWMPs) with specified elements;
- Authorizes the board to impose civil penalties of up to \$10,000 per day on local governments failing to implement IWMPs;
- Strengthens environmental protection measures imposed on all new landfills to prevent groundwater contamination and to control gas migration; and

- Imposes a fee on all solid waste disposed in landfills on or after January 1, 1990 to provide funding for the programs initiated by the act. The act specifies that the fee will be set initially at 50 cents (\$0.50) per ton until June 30, 1990, and after that date the fee will be set administratively up to a specified maximum amount so that fee revenue equals the board's approved annual budget.

According to the WMB, the new solid waste disposal fee will generate \$5 million in 1989-90, \$28 million in 1990-91, \$38 million in 1991-92, and \$40 million in 1992-93 and annually thereafter. The WMB indicates that the fee revenue should be sufficient to cover all program costs. The act authorizes loans from the Disposal Site Cleanup and Maintenance Account of up to \$600,000 in 1989-90, and up to \$1.2 million in 1990-91 to cover initial start-up and program administration costs. These loans must be paid back from the landfill disposal fee revenues.

Pesticide Regulation Program

Chapter 1200 — Assembly Bill 2161 (Bronzan)

This act, an urgency measure, expands the state's program for regulating pesticides. Among other things, the act requires the Department of Food and Agriculture (DFA) to (1) expand its program for monitoring produce for pesticide residues, (2) conduct, in cooperation with the Department of Health Services (DHS), an assessment of dietary risks associated with the consumption of produce and processed foods treated with pesticides, and (3) fund pest management research projects that emphasize reduced pesticide usage, safer pesticides, or minimizing pesticide residues. The act requires the DHS to initiate a program for monitoring processed foods for pesticide residues.

In addition, the act requires certain private laboratories that test foods for pesticide residues to (1) be accredited by the DHS, in cooperation with the DFA, and (2) report findings of residues above tolerance levels to the DFA (for raw agricultural commodities) or to the DHS (for processed foods). The act also increases the current tax on pesticides by 1 mill (from \$0.008 to \$0.009 per dollar of sales) and imposes new assessments on agricultural produce dealers and processors of farm products.

The act appropriates a total of \$3.3 million (\$2 million from the General Fund and \$1.3 million from the Food Safety Account) to fund the program in 1989-90. We estimate that this appropriation will fully fund the costs of implementing the program in 1989-90. The DFA and the DHS estimate that the act will result in total annual costs of about \$8 million annually, beginning in 1990-91. These costs will be paid from the General Fund (\$5.5 million) and from the increased tax and new assessments (\$2.5 million).

State and Local Parks

Chapter 1241 — Assembly Bill 1580 (Willie Brown)

This act, an urgency measure, provides funds for the acquisition and development of specified state park projects. The act also provides funds for grants to local agencies for various parks and recreation projects and for other state and local natural resources projects related to wildlife habitat, water quality or environmental education. In addition, the act creates the Timberland Task Force to complete by January 1, 1992 specified studies concerning wildlife and wildlife habitat.

This act appropriates a total of \$49.8 million from various funds as follows:

- *Department of Parks and Recreation. The act appropriates a total of \$18 million from various funds, including \$12.9 million from the Public Resources Account (Proposition 99) to provide grants to local agencies for 62 parks and recreation projects. The act appropriates a total of \$13.9 million from various funds, including \$10.8 million in park bond funds, for 14 state park projects. The act also transfers \$4 million from the Highway Users Tax Account to the State Parks and Recreation Fund for road repair in the state park system. The act makes this transfer effective only if the voters approve SCA 1 at the June 1990 election.*
- *Other State Agencies. The act appropriates a total of \$13.9 million from various funds, including \$7.6 million in bond funds to 12 other state agencies for 32 state and local natural resources projects. Of the total appropriation, \$400,000 is for the Timberland Task Force, to be repaid in full by user fees.*

Beverage Container Recycling

Chapter 1339 — Senate Bill 1221 (Hart)

Chapter 1342 — Assembly Bill 1001 (Sher)

These two acts constitute a major reform of California's beverage container recycling program. Among other changes, the acts include the following major provisions:

- Chapter 1339 increases redemption payments (paid by processors to the Department of Conservation) to 2 cents per container as of November 1, 1989 and raises the refund value (paid by recyclers to consumers) to 5 cents for every two containers as of January 1, 1990. The act also provides for future increases in both rates, if necessary, either to protect the solvency of the program or to raise the return level to 65 percent for plastic, glass, or aluminum containers;
- The acts fund the following programs from the Redemption Surplus Account (RSA) in the California Beverage Container Recycling Fund (CBCRF): (1) litter reduction and education, (2) convenience incentive payments (CIPs) with specified expenditure priorities, and (3) grants to local recyclers for advertising. In addition, the acts set fixed dollar spending limits for each of the programs, instead of basing expenditures on a percentage of the monies deposited in the account as under prior law;
- The acts increase the civil and criminal penalties for various violations of the Beverage Container Recycling Act and create new classes of violations subject to penalty;
- The acts make numerous changes to administrative procedures in the Division of Recycling (DOR) relating to recycling center certification, convenience zone exemptions, processor fee setting, and the level of payments to processors, distributors, and recyclers for administrative costs. These changes also include provisions to further ensure the solvency of the RSA; and
- Chapter 1339 creates a fiscal analysis and policy unit in the DOR.

The increases in redemption payments mandated by Chapter 1339 will produce revenues to the CBCRF of approximately \$70 million in 1989-90, \$122 million in 1990-91 and \$141 million annually thereafter. These monies are continuously appropriated for refund value payments to consumers and to fund the following programs up to specified spending levels: (1) litter reduction and education (\$8 million); (2) CIPs (\$13 million); and (3) local advertising (\$2 million).

The CBCRF will also receive unknown revenues from the increased civil and criminal penalties specified in the acts.

The Department of Conservation estimates a total annual cost of \$2.7 million (General Fund) to meet the new administrative requirements of the acts, including increased enforcement and audit activities, and to fund the division's fiscal analysis and policy unit.

Aboveground Petroleum Storage Act

Chapter 1383 — Senate Bill 1050 (Torres)

This act establishes a program to increase California's protection against environmentally harmful releases of petroleum and other hazardous materials from aboveground storage tanks. Among its major provisions, the act:

- Requires the State Water Resources Control Board (SWRCB), with the assistance of the regional boards, to develop and implement a schedule of inspections of aboveground petroleum storage tanks;
- Requires a tank facility owner or operator to: (1) file a biennial "storage statement" with the SWRCB on the contents and capacities of each facility, along with a fee based on the capacity of the facility, and (2) adhere to other requirements regarding spill prevention and control. A facility owner or operator who violates any of these requirements is subject to civil penalties under the act;
- Requires that storage statement fees, civil penalties and state agency expenses recovered from owners or operators be deposited in the Environmental Protection Trust Fund (EPTF), which the act creates. Total fee revenue to the fund is limited to \$7.5 million annually, with any excess to be rebated to the owners and operators. The act also transfers to the fund one-third of any penalty revenue owed to the state from a specified oil spill;

- Authorizes the Legislature to appropriate funds in the EPTF to the SWRCB for (1) inspection and administrative costs, (2) training of tank facility inspectors, (3) reimbursement of cleanup costs incurred by state or local agencies, (4) grants for research on leaking tanks, and (5) long-term rehabilitation and maintenance of wetlands or other natural areas affected by storage tank spills; and
- Requires the SWRCB to report to the Legislature and the Governor on the storage of hazardous materials and ways to improve oversight of aboveground storage facilities for such materials.

Based on the assumption that there are approximately 60,000 aboveground petroleum tanks in the state, the SWRCB estimates costs to the EPTF totaling \$3 million in 1989-90 and \$4.5 million to \$7.5 million annually thereafter to implement this act. Actual costs will depend both on the actual number of tanks and on the amount of rehabilitation undertaken in any given year. In addition, the act appropriates \$100,000 from the EPTF to the SWRCB, effective July 31, 1990, to conduct the study specified in the act.

These costs likely will be fully offset by fee revenue and other income to the EPTF from the sources specified in the act. The total amount of revenue will depend on (1) the number of tank facilities in the state, (2) the amount of civil penalties and agency reimbursements received, and (3) the penalty revenue ultimately received from the specified oil spill.

Underground Petroleum Storage Tank Regulation

Chapter 1442 — Senate Bill 299 (Keene)

This act, an urgency measure, sets up a program regulating the operation and cleanup of underground petroleum storage tanks. Specifically, the act: (1) creates a low-interest loan program to assist certain owners and operators of underground tanks to remove, replace, or repair tanks that do not meet current state and federal standards, (2) requires tank owners and operators to demonstrate financial responsibility and to pay an annual fee of \$200 per tank into the Underground Storage Tank Cleanup Fund (USTCF), created by the act, and (3) provides that monies in the USTCF be used primarily to fund cleanups of leaking underground tanks by public agencies and by private owners or operators.

The measure limits state payments for a private cleanup to the actual costs of cleanup in excess of \$50,000 and less than \$1 million. Such payments may only be made to those owners or operators who have complied with the financial responsibility requirements of the act and with any cleanup orders issued by local or state agencies.

This act appropriates \$10.3 million from the Motor Vehicle Account as a loan to fund the program's start-up costs, including (1) \$7 million to the State Water Resources Control Board (SWRCB) to begin funding cleanups and for administrative costs, (2) \$3 million to the Department of Commerce to fund the loan program, and (3) \$250,000 to the Board of Equalization for the costs of collecting storage tank fees.

The SWRCB estimates the act will result in revenues to the USTCF of approximately \$20 million annually through December 31, 1997. The SWRCB estimates that these revenues will be fully expended to pay for the cleanup of leaking underground tanks.

Criminal Justice

Semiautomatic Assault Firearms

Chapter 18 — Senate Bill 292 (Roberti)

Chapter 19 — Assembly Bill 357 (Roos)

These acts are collectively known as the Roberti-Roos Assault Weapons Control Act of 1989. The act prohibits the manufacture, sale, importation, and distribution of specified assault weapons. The act allows individuals to possess weapons purchased prior to June 1, 1989 under the condition that the weapons are registered with the Department of Justice.

The act establishes registration procedures and sets the maximum fee for registration at \$20, but provides that the fee shall not exceed actual administrative costs. Owners of registered assault weapons are prohibited from transferring or selling these weapons except to a licensed dealer after January 1, 1990.

The act establishes new criminal penalties for the manufacture, distribution, transportation, import, sale, or possession of assault weapons.

Chapter 18 gives the superior court in counties with populations greater than one million the authority to temporarily suspend the manufacture, sale, distribution, importation, gift or loan of a firearm alleged to be an assault weapon or imitations or modified versions of specified assault weapons.

We estimate that these measures will result in unknown annual General Fund costs, offset by fees, starting January 1, 1990, to register specified assault weapons. In addition, the act will result in unknown annual General Fund costs for new and longer commitments to state prison and could result in unknown annual local law enforcement and incarceration costs.

Crack Down Task Force

Chapter 1453 — Senate Bill 1661 (Roberti)

This act, an urgency measure, establishes the Crack Down Task Force Program in the Department of Justice (DOJ). The program will coordinate and support local and state law enforcement task force efforts to investigate and apprehend Colombian cartel-street gang cocaine networks. The DOJ's Bureaus of Narcotic Enforcement, Forensic Services, and Organized Crime and Criminal Intelligence will provide special agents, criminal intelligence analysts, forensic experts, financial auditors, equipment, and funding to the task forces. The measure provides for the DOJ to reimburse local law enforcement agencies for costs related to personnel overtime, equipment, or supplies required for task force activities.

The bill appropriates \$13.4 million from the General Fund to the DOJ for the operations of the Crack Down Task Force Program in 1989-90. Based on information provided by the DOJ, we estimate that ongoing annual General Fund costs of this program will be \$22 million.

Mentally Disordered Offender Program

Chapter 228 — Senate Bill 1625 (McCorquodale)

This act, an urgency measure, reinstates the mentally disordered offender (MDO) program, parts of which were found unconstitutional by the state Court of Appeals in January 1989. The MDO program places mentally disordered prison inmates, who meet specific criteria, in the mental health system as a condition of their parole. These parolees can be treated in either a state hospital or a community program. The act makes specific changes to those portions of the original program which were found unconstitutional. In addition to other commitment criteria, parolees who are found to be a substantial danger to themselves or others can be placed in the program.

This measure will result in General Fund costs of \$900,000 in 1989-90, increasing up to \$9 million annually when the program is fully implemented. We estimate that the program will reach this level by 1994-95.

Use of a Firearm During a Felony**Chapter 1167 — Assembly Bill 1504 (Quackenbush)**

This act increases prison sentences for being armed with a firearm, using a firearm, or knowingly being in the company of a person who uses a firearm, during the commission of a felony. The types of felonies include specified assault, theft, and sex offenses. The penalty increases vary by type of felony, but generally range from one to five additional years in prison.

We estimate that the measure would result in a major increase in the state's prison population due to longer commitments when the full impact of the measure is realized in 1993-94. This would include increased operating costs of at least \$29 million annually. In addition, the bill could result in major (probably at least \$82 million) one-time capital outlay costs for construction of new prison facilities. To the extent that the Department of Corrections can accommodate the additional inmate population by increasing overcrowding in the prison system, both the operating and the capital outlay costs would be reduced.

Possession and Use of Firearms**Chapter 1044 — Assembly Bill 566 (McClintock)**

This act provides a uniform prison sentence enhancement for convictions for possession and use of a firearm. Under current law, persons convicted of using a firearm in the commission or attempted commission of a felony receive an additional prison sentence varying from two to five years, depending on the type of felony. This bill requires that courts impose an additional prison term of three, four, or five years.

The measure also increases the penalty for possession of any firearm to a felony for persons previously convicted of a felony or violent offense or persons addicted to controlled substances. Current law provides that conviction for possession of a concealable firearm by specified persons is punishable by a felony or a misdemeanor. Finally, the measure prohibits plea bargaining in cases in which the defendant is alleged to have used a firearm in the commission of a felony.

This act will result in major annual General Fund costs beginning in 1990-91 resulting from new and longer prison commitments. According to the Department of Corrections (CDC), the measure would increase annual prison operating costs by at least \$8 million in 1993-94, increasing to at least \$51 million annually by 2002-2003.

The CDC also advises that the measure would impose one-time costs of at least \$190 million to construct additional prison facilities to house the increased number of inmates.

To the extent that the CDC can accommodate the additional inmate population by increasing overcrowding in the prison system, both the operating and the capital outlay costs would be reduced.

Automobile Theft

Chapter 930 — Assembly Bill 332 (Nolan)

This act establishes new criminal penalties, and increases existing penalties, for various offenses involving automobile and vehicle theft. The measure generally increases prison sentences for these offenses by one year and establishes or increases felony penalties for a variety of subsequent automobile theft-related offenses. The measure also prohibits probation for vehicle theft offenses in specified circumstances.

This act will result in major annual General Fund costs for new and longer commitments to state prison. Based on information provided by the Department of Corrections (CDC), we estimate that the measure will increase annual prison operating costs by at least \$19 million by 1993-94. In addition, the measure could result in one-time costs of at least \$60 million to construct new facilities to house the increased number of inmates.

To the extent that the CDC can accommodate the additional inmate population by increasing overcrowding in the prison system, both the operating and the capital outlay costs would be reduced.

Education K-12

Proposition 98 Implementation

Chapter 82 — Senate Bill 98 (Hart)

Chapter 83 — Assembly Bill 198 (Hughes)

Chapter 92 — Assembly Bill 1087 (O'Connell)

These acts, all urgency measures: (1) include language clarifying the implementation of Proposition 98 (the "Classroom Instructional Improvement and Accountability Act of 1988" — passed by the voters on the November 1988 ballot) and (2) specify how the majority of the additional monies guaranteed for K-14 education by Proposition 98 shall be appropriated for 1988-89 and 1989-90.

Specifically, Chapter 82 appropriates a total of \$431 million to schools in 1988-89, largely as one-time, general purpose revenue to local education agencies (LEAs — school districts and county offices of education) and community college districts. Chapter 83 appropriates a total of \$480 million for 1989-90, including \$180 million for "supplemental grants" to help equalize categorical funding across school districts, \$175 million as one-time, general purpose revenue for LEAs and community college districts, and \$74 million for equalization of school districts' general purpose revenue limits. Chapter 92 appropriates an additional \$3 million in 1989-90, and makes technical corrections to Chapter 83.

These three measures appropriate a total of \$431 million from the General Fund in 1988-89 and \$483 million in 1989-90. All of these appropriations count towards meeting Proposition 98 minimum funding requirements.

This package of education bills also contains provisions that allow more state aid for education to count against local spending limits, rather than against the state's appropriations limit. As a consequence, these provisions have the effect of increasing the amount of available state spending authority. With the passage of these bills, the Department of Finance estimates that the state is \$199 million below its appropriations limit in 1988-89 and \$89 million below in 1989-90.

Class Size Reduction

Chapter 1147 — Senate Bill 666 (Morgan)

This act, an urgency measure, establishes the Morgan-Hart Class Size Reduction Act of 1989. The act consists of two programs: (1) a program to reduce class size in grades 9 to 12 and (2) a language arts enrichment program in grades 1 to 3.

Under the program to reduce class size in grades 9 to 12, school districts may apply for an apportionment of \$250 per student in each participating grade level, if the district maintains an average class size of 20 pupils in any two of the following areas: English, mathematics, social studies, or science. A district may receive \$125 per student if it reduces class size to a level which is a 50 percent reduction toward the goal of an average 20 students per class, and may receive the full apportionment in future years if it reaches the goal of 20 students per class.

Under the language arts enrichment program, districts may receive up to \$30 per student in grades 1 to 3 to increase "direct individual instruction in language arts" to students. Language arts, for the purposes of this program, include reading, writing, spelling, speaking, and listening.

This act declares legislative intent to appropriate up to \$110 million, if available after funding deficiency allocations for grades K-12, from the amount reserved under Section 12.31 of the Budget Act of 1989 (the Proposition 98 Reserve). Funds would be allocated to the two programs as follows: (1) the first \$40 million to the program to reduce class size in grades 9 to 12 and (2) the remaining \$70 million to be allocated in \$5 million increments alternating between the language arts enrichment program and the program to reduce class size.

Oakland School District

Chapter 1438 — Assembly Bill 2525 (Harris)

This act, an urgency measure, appropriates \$10 million for an emergency loan to the Oakland Unified School District. The act also requires (regardless of whether the district accepts the loan) the Superintendent of Public Instruction (SPI) to appoint a trustee to advise the district in preparing its 1989-90 budget. The SPI may also appoint a trustee with expanded powers under specified conditions.

This act also requires the district to develop plans to (1) resolve its financial and management problems and (2) improve the educational achievement of its students, and submit the plans to the SPI for approval.

This act appropriates \$10 million from the General Fund to the Oakland Unified School District for an emergency loan. This appropriation counts towards meeting Proposition 98 minimum funding requirements. The act also appropriates \$50,000 from the General Fund to the Department of Education to pay the costs of the advisory trustee.

We estimate that this trustee could cost as much as \$100,000. We also estimate that a trustee with expanded authority, if appointed, could result in costs of \$200,000 to \$400,000 annually for the district. The act provides that, if the district accepts the loan, these costs shall not be state-reimbursable. If the district refuses the loan, these costs would be state-reimbursable and would count towards meeting Proposition 98 minimum funding requirements.

Higher Education

New State University Campus

Chapter 289 — Senate Bill 365 (Craven)

This act designates San Marcos as a campus of the California State University (CSU) system, to be known as California State University, San Marcos. Currently, San Marcos is a CSU off-campus center administered by San Diego State University, and serves only upper-division and graduate students. This act authorizes the conversion of the center to a full-service, four-year campus.

We estimate potential General Fund costs totaling over \$800 million, over an extended period of time, for principal and interest to repay general obligation bonds issued to construct additional facilities to provide a full-service campus ultimately accommodating 25,000 full-time equivalent (FTE) students. This cost may be higher to the extent that General Fund lease-purchase revenue bonds are used. In addition, we estimate potential annual General Fund costs to support a new campus of approximately \$500,000 in 1989-90, increasing to approximately \$90 million in 2020 and \$150 million (excluding inflation adjustments) if the campus reaches its Master Plan capacity enrollment of 25,000 FTE. These annual costs would be partially offset by revenues from student fees of approximately \$500,000 beginning in 1994-95, increasing to approximately \$15 million in 2020, and approximately \$30 million if the campus reaches its Master Plan capacity.

Actual costs for both construction and annual support would depend on appropriations by the Legislature. The 1989 Budget Act appropriates \$521,000 to establish the initial cadre of administration for the new campus, which is supplemented by \$1.5 million from CSU lottery funds.

Private Postsecondary and Vocational Education Reform

Chapter 1307 — Senate Bill 190 (Morgan)

This act repeals, on January 1, 1991, existing law governing the licensing and regulation of private postsecondary and vocational educational institutions and enacts revised procedures that will be operable through 1995-96. Specifically, the act:

- Transfers responsibility for administration of the licensing and regulation process from the State Department of Education to a newly created independent Council for Private Postsecondary and Vocational Education. The measure states legislative intent that the council's licensure and regulating responsibilities be funded solely through fees and federal funds;
- Specifies a fee schedule for licensing and other services, to be used until the council develops a new schedule—by January 1, 1992—subject to approval in the annual budget process. The fee schedule specified in the act will result in higher fees than those currently assessed;

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- Broadens the scope of responsibility of the council for licensing private postsecondary educational institutions, and revises the licensing and approval process; and
 - Requires the California Postsecondary Education Commission (CPEC) to review and evaluate the implementation of the bill and submit a report to the Legislature prior to September 1, 1995. Further requires the CPEC to convene an advisory committee, as specified, to submit by October 1, 1990 a report on the council's budget requirements.

We estimate that the act will result in costs and revenues of approximately \$1.5 million in 1990-91 and \$3 million in 1991-92 (over the amounts that will result from current law, which is operable through 1990-91) and approximately \$4.5 million annually thereafter through 1995-96, to the Private Postsecondary and Vocational Education Administration Fund. The source of funding will be fees paid by private postsecondary and vocational educational institutions. These estimates assume that the fee schedule established in 1992 will not differ significantly from the schedule required prior to that date.

In addition, we estimate that the Student Aid Commission and the CPEC will incur minor, absorbable administrative costs.

Health

Targeted Case Management

Chapter 6 — Senate Bill 50 (Seymour)

This act, an urgency measure, appropriates \$25 million from the General Fund to the Department of Developmental Services (DDS) to fund a deficiency in the regional center operating budget for 1988-89. This deficiency occurred because the federal government denied the state's proposal to fund targeted case management services through the Medi-Cal program.

The act also requires the DDS to (1) continue to pursue federal reimbursements of targeted case management services and (2) deposit any of these funds received into the General Fund.

The act appropriates \$25 million from the General Fund to fund a 1988-89 deficiency. At the time this report was prepared, the DDS did not know whether it would be able to obtain federal reimbursements.

Toxic Substances Control

Chapter 269 — Senate Bill 475 (Torres)

Chapter 1032 — Assembly Bill 41 (Wright)

These two acts, both urgency measures, make significant changes to the funding of the Toxic Substances Control program. In addition, these measures establish a comprehensive program related to toxic hot spots in bays and estuaries.

In recent years, the Toxic Substances Control program has been supported by a combination of fees, special taxes, and bond funds. The bond funds, which have supported site mitigation activities since 1985, were exhausted in 1988-89. In addition, fees supporting hazardous waste regulatory activities sunset on July 1, 1989. To address these funding problems, Chapters 269 and 1032 (1) restructure funding for the toxics program and (2) appropriate funds needed for operation of the program in 1989-90. Among their provisions, the acts:

- Continue existing fees on hazardous waste generators and facilities. The acts establish a base rate for these fees and taxes and eliminate formulas contained in existing law;

- Impose an environmental fee on corporations that use, generate, store, or conduct activities related to hazardous materials;
- Establish an activity fee charged to all responsible parties to cover the costs of the Department of Health Services for overseeing site cleanups; and
- Impose a fee on hazardous waste disposed of in other states.

We estimate that the acts will result in revenue of approximately \$115 million in 1989-90 and approximately \$100 million annually thereafter to the Hazardous Substance Account (HSA) and the Hazardous Waste Control Account (HWCA) from various fees. The measures appropriate \$10 million from the General Fund, \$35 million from the HSA, and \$6.4 million from the HWCA to supplement appropriations made in the 1989 Budget Act. These funds will be used for (1) operation of the Toxic Substances Control program in 1989-90 and (2) developing a comprehensive program to address toxic hot spots in bays and estuaries.

Long-Term Care Facilities

Chapter 731 — Senate Bill 1414 (Maddy)

This act changes references to "skilled nursing facilities" and "intermediate care facilities" in the Medi-Cal statutes into references to "nursing facilities" effective October 1, 1990, or a later date as determined by the Department of Health Services. This change is required by the federal Omnibus Budget Reconciliation Act (OBRA) of 1987. The measure also requires the department to adjust Medi-Cal long-term care reimbursement rates to reflect the costs to facilities for OBRA compliance.

This act will result in unknown Medi-Cal costs, potentially up to tens of millions of dollars annually (50 percent General Fund), to (1) consolidate the skilled nursing and intermediate care reimbursement categories and (2) reimburse nursing facilities for the cost of OBRA compliance. Actual costs would depend on the reimbursement methodology adopted by the department and on federal regulations that have not yet been issued.

Safe Drinking Water Program**Chapter 823 — Assembly Bill 21 (Sher)**

This act makes numerous changes to the state's drinking water program. Among its provisions, the act:

- Requires the Department of Health Services (DHS) to submit to the Legislature, by July 1, 1991, a comprehensive Safe Drinking Water Plan for California. The department may levy a one-time fee on specified water systems to cover the costs of preparing the plan;
- Requires the DHS to establish "recommended public health levels" (RPHLs) for contaminants at the time primary drinking water standards are issued;
- Requires water systems which have 10,000 or more service connections and which have levels of contamination exceeding the RPHLs to submit annual reports to the DHS on what they can do to reduce the level of contamination; and
- Permits the DHS to require water systems to prepare water quality improvement plans identifying what actions are being taken to meet the RPHLs. The act directs the DHS to amend water systems' permits to require implementation of the plans. The act requires the DHS to establish fees to recover its costs for reviewing water quality evaluations and improvement plans.

This measure will result in costs to publicly owned water systems of approximately \$9 million over several years beginning in 1990-91 and unknown costs thereafter to prepare and implement water quality evaluations and improvement plans and to pay state fees. To the extent that local agencies cannot recover their costs through fees, these costs would be state-reimbursable.

In addition, we estimate that the measure will result in unknown General Fund costs, probably between \$200,000 and \$400,000 annually, to increase the frequency of water quality inspections, identify treatment technologies, review standards, and support an advisory committee.

The measure also will result in annual General Fund costs from 1989-90 through 1994-95 of probably less than \$350,000 to develop plans, review water quality evaluations and improvement plans, and adopt regulations. These costs would be offset by fee revenue.

Medi-Cal Eligibility

Chapter 1016 — Assembly Bill 894 (Allen)

This act, which implements provisions of the federal Family Support Act, extends Medi-Cal eligibility for certain families who would otherwise lose their eligibility. The act also changes the method by which some Medi-Cal beneficiaries can meet their share of cost for Medi-Cal services.

This measure will result in annual costs starting April 1, 1990 of \$16.2 million (\$8.1 million General Fund) for additional Medi-Cal services, eligibility determinations, and changes to the share-of-cost process.

Drug Treatment for Persons Infected with Human Immunodeficiency Virus

Chapter 1246 — Assembly Bill 2251 (Friedman)

This act requires the Department of Health Services (DHS) to develop a program to provide drug treatment to persons infected with human immunodeficiency virus (HIV). Among its provisions, the act:

- Requires the DHS to provide services to persons whose (1) income is less than \$50,000 or (2) income is above \$50,000 if the costs of drug treatment exceed 20 percent of the person's income;
- Requires the DHS to establish a repayment schedule for persons with incomes more than four times the federal poverty level;
- Specifies that any person currently eligible for the existing HIV drug treatment subsidy program would be eligible for services under this program; and
- Permits the DHS to limit the program depending on the level of funding that the Legislature appropriates for this purpose.

The General Fund costs of this measure will depend on the level of funding that the Legislature appropriates. If the appropriation is sufficient to provide drug treatment to all persons who could be eligible under this act, we estimate that the measure would result in annual General Fund costs from \$15 million to \$365 million. Actual costs would depend on (1) the number of people who develop AIDS or are infected with HIV, (2) the number of people who apply for drug coverage, (3) the costs of drug treatment, (4) the extent to which HIV-infected persons who have not developed AIDS use covered drugs, (5) the portion of the costs repaid by the people who receive the coverage, and (6) how the department or counties administer the program. The General Fund costs would be reduced to the extent that federal funds are available.

Implementation of Proposition 99

Chapter 1331 — Assembly Bill 75 (Isenberg)

This act, an urgency measure, appropriates \$1.2 billion from the Cigarette and Tobacco Products Surtax (C&T) Fund for expenditure in 1989-90 and 1990-91 to establish new, and expand existing, health-related programs. The measure allocates funds from the Hospital Services, Physician Services, Unallocated, and Health Education Accounts. These accounts receive 90 percent of the revenues from the surtax imposed by Proposition 99.

Table 1 shows the AB 75 spending plan for 1989-90 and 1990-91. The revenue figures in the tables are based on assumptions used by the AB 75 conference committee. The spending plan shown in the table is \$37 million higher than the appropriations in AB 75 because it includes (1) some funds that have already been appropriated in the 1989 Budget Act and (2) administrative expenditures in 1990-91 that will be funded in the 1990-91 budget process.

Table 1

AB 75 Spending Plan

(dollars in millions)

<i>Program</i>	<i>1989-90</i>	<i>1990-91</i>
Resources		
Carryover from previous fiscal year	\$264.6	\$79.8
Revenues	<u>542.8</u>	<u>515.6</u>
Total resources	\$807.3	\$595.4
Expenditures		
One-time		
County capital outlay	\$82.3	—
Uncompensated care assistance	37.0	—
Physician services	24.9	—
Data system	10.0	—
Ongoing		
Mental health	25.0 ^a	25.0
Clinics	19.7	18.3
Perinatal services expansion	19.9	19.8
Children's hospitals	2.0	1.9
Rural health services	7.0	6.5
County medical services program expansion	10.0	9.9
California healthcare for indigents program	336.5	315.9
Child health and disability prevention program expansion	19.7	19.4
Health education programs	128.9	98.5 ^b
Office of Statewide Health Planning and Development administration	0.2	0.5 ^c
Department of Health Services administration	3.5	5.5 ^c
State Department of Education administration	<u>0.9</u>	<u>0.9^c</u>
Total expenditures	\$727.5	\$522.0
Carry-over to next fiscal year	\$79.8	\$73.4

^a Included in the 1989 Budget Act; no appropriation in AB 75.

^b Includes \$4.7 million in administrative costs to be funded in the 1990 Budget Act; no appropriation in AB 75.

^c To be funded in the 1990 Budget Act; no appropriation in AB 75.

The largest new program established by the measure is the California Healthcare for Indigents program (CHIP). The measure appropriates \$337 million in 1989-90 and \$316 million in 1990-91 to support the program. These funds will be distributed to counties operating medically indigent services programs (MISPs) based on specified percentage shares.

The measure specifies how counties shall allocate the funds for county and noncounty hospitals, unreimbursed emergency physician services, obstetric and pediatric services, and other services. As a condition of receiving C&T funds, the measure requires counties to maintain, at a minimum, a level of financial support of county funds at least equal to the county match under existing programs plus any overmatch of county funds in 1988-89.

The measure appropriates \$27 million from the General Fund in 1989-90 for allocation to MISP counties based on a formula involving their shares of MISP funding and the number of newly legalized persons under the Immigration Reform and Control Act of 1986. The purpose of this provision is to prevent funding reductions in individual counties as a result of funding changes in MISP and the State Legalization Impact Assistance Grant (SLIAG) in the 1989 Budget Act. The measure also requires the state to reimburse counties for the difference between their 1988-89 MISP funding and the combined total of 1989-90 funding from MISP, SLIAG funds, and the \$27 million General Fund appropriation. Therefore, this measure could result in unknown additional General Fund costs, depending on whether or not the state would have to reimburse counties.

This measure appropriates \$1.2 billion from the C&T Fund to support various health-related programs in 1989-90 and 1990-91. The measure also appropriates \$27 million from the General Fund in 1989-90 to protect the counties from funding reductions as a result of 1989 Budget Act changes. The measure's requirement that the state reimburse counties under specified conditions could also result in unknown General Fund costs, depending on whether or not the state would have to reimburse counties.

There is a significant amount of uncertainty in the amount of revenues that will be received over the two-year period affected by AB 75. We estimate that in the best case scenario, the four accounts affected by AB 75 would carry over \$55.3 million at the end of 1990-91. This is 11 percent of 1990-91 revenues. In the worst case scenario, expenditures would exceed revenues by \$7.7 million at the end of 1990-91. This is 1.6 percent of 1990-91 revenues.

Medicare Catastrophic Coverage Act

Chapter 1430 — Senate Bill 1413 (Maddy)

This act, an urgency measure, implements those portions of the federal Medicare Catastrophic Coverage Act (MCCA) that affect the Medi-Cal program. Among its provisions, the act:

- Requires Medi-Cal to pay Medicare premiums, coinsurance, and deductibles for persons with incomes below the poverty level whose assets are less than 200 percent of the SSI/SSP limit; and
- Specifies that the at-home spouse of a Medi-Cal-eligible nursing home resident may keep (1) \$60,000 of the couples property and (2) \$1,500 of the couple's monthly income, plus an additional amount to meet expenses for housing, utilities, taxes, etc.

This measure will result in costs of \$85.9 million (\$37.6 million General Fund) in 1989-90 and \$300 million (\$139 million General Fund) annually thereafter. The 1989 Budget Act includes \$85.1 million (\$37.2 million General Fund) for the costs of this act.

Medi-Cal Provider Claims

Chapter 1432 — Assembly Bill 210 (Filante)

This act, an urgency measure, permits Medi-Cal providers to submit bills for service up to six months after the month of service. Currently, providers must submit bills within two months.

The Department of Health Services estimates that this measure will result in costs of \$5.4 million (\$2.7 million General Fund) in 1989-90 and \$9.9 million (\$5 million General Fund) annually thereafter to extend the billing period to six months. Actual costs will be higher or lower depending on actual changes in providers' billing behavior.

Business and Transportation

Olympic Training Center

Chapter 1182 — Senate Bill 1403 (Campbell)

This act provides funding to the San Diego National Sports Training Foundation, a nonprofit corporation, for the development and construction of a California Olympic Training Center. The act requires the corporation to provide matching funds as a condition for receiving state funds.

The act also requires the Department of Motor Vehicles to issue commemorative Olympic license plates for a specified fee, upon request. In addition, the act creates the California Olympic Training Account for the repayment of the specified construction funds, and specifies that the account is required to consist of revenues derived from the Olympic license plates, less administrative fees.

This act appropriates \$15 million from the General Fund to the Department of Commerce in 1989-90, to be allocated in increments of \$5 million in 1990-91, 1991-92, and 1992-93, for the California Olympic Training Center. We estimate that the Department of Motor Vehicles will incur increased administrative costs to issue the commemorative license plates of approximately \$221,000 in 1989-90, \$183,000 in 1990-91, with minor annual costs thereafter. These costs will be offset from fees charged for the license plates. In addition, the act will also result in revenue increases to the California Olympic Training Account of approximately \$500,000 in 1989-90, \$555,000 in 1990-91, and \$111,000 annually thereafter.

California Major Medical Insurance Program

Chapter 1168 — Assembly Bill 60 (Isenberg)

This act establishes the California Major Medical Insurance Program in the Business, Transportation and Housing Agency to make available specified health insurance coverage to eligible Californians who are unable to get or afford such coverage.

Specifically, the act (1) establishes a board to administer the program; (2) prescribes the types of health plans the board must contract with, as well as enrollment requirements and participation eligibility for health care providers and recipients; (3) establishes specified, maximum rates, copayments and deductibles; and (4) creates the Major Medical Insurance Fund as a depository for specified revenues and fund transfers to support program expenditures.

The act appropriates \$250,000 from the Unallocated Account of the Cigarette and Tobacco Products Surtax (C&TPS) Fund to finance the initial costs of establishing and operating the program. In addition, the act provides for the transfer of \$30 million (1) during the period of January 1, 1990 through June 30, 1991 from specified accounts of the C&TPS Fund; and (2) annually, beginning in 1991-92, from the Unallocated Account of the C&TPS Fund to finance the ongoing costs of the program.

Driving Under the Influence

Chapter 479 — Senate Bill 408 (Leonard)

Chapter 1114 — Senate Bill 1119 (Seymour)

Chapter 1460 — Senate Bill 1623 (Lockyer)

These three acts strengthen California's Driving-Under-the-Influence (DUI) laws. Chapter 479 makes it unlawful for a person to drive a motor vehicle with a blood alcohol concentration (BAC) of 0.08 percent or greater. The previous standard was 0.10 percent. Chapter 1114 lowers the legal BAC level for the operation of commercial motor vehicles (trucks) or vessels — from 0.10 percent to 0.04 percent, effective January 1, 1992. The chapter also requires law enforcement authorities to order commercial operators with a BAC of 0.01 percent or greater out of service for 24 hours. Chapter 1460 establishes an administrative procedure for the Department of Motor Vehicles (DMV) to suspend a driver's license for certain alcohol-related driving violations.

Chapter 479 will have unknown but probably major General Fund costs to the extent a lowering of the legal BAC level results in additional arrests and convictions for DUI violators and subsequent commitments to state prison. There also will be unknown minor annual administrative costs to the Motor Vehicle Account to pay for court appearances of California Highway Patrol officers and for additional license processing costs to the DMV. Chapter 1114 will have one-time implementation costs of \$50,000 in 1991-92, and annual costs to the Motor Vehicle Account of about \$350,000 starting in 1992. Provisions in Chapter 1114 relating to the commercial vehicle drivers will satisfy the federal requirement that states adopt and enforce certain licensing sanctions by October 1993 to avoid withholding of federal highway funds.

Chapter 1460 will result in administrative costs to the Motor Vehicle Account of \$4.9 million in 1989-90 and \$8.2 million annually thereafter. These costs should be offset by fee revenues which Chapter 1460 authorizes the department to collect. In addition, the act appropriates \$800,000 from the Motor Vehicle Account to cover part of the start-up costs of the administrative suspension program in 1989-90.

Transportation Financing

Chapter 105 — Senate Bill 300 (Kopp)

Chapter 106 — Assembly Bill 471 (Katz)

Chapter 108 — Assembly Bill 973 (Costa)

These acts, part of the "transportation package" negotiated between the Legislature and the Governor, provide additional resources for transportation and reform state transportation programs. In total, the package is intended to raise, over 10 years (1990-91 through 1999-2000), about \$18.5 billion in new revenues for transportation by:

- Increasing the state's "gas tax" from 9 cents-per-gallon to 14 cents-per-gallon on August 1, 1990, and in 1 cent increments annually thereafter to 18 cents-per-gallon by January 1, 1994;
- Increasing commercial vehicle ("truck") weight fees by 40 percent on August 1, 1990, and by an additional 10 percent on January 1, 1995;

- Seeking voter authorization to issue a total of \$3 billion of general obligation bonds (\$1 billion at each of three elections — June 1990 and November 1992 and 1994) to fund capital improvements on intercity, commuter and urban rail transit systems; and
- Dedicating to specified transportation programs additional sales tax revenues generated from the increase in the gas tax.

The increases in gas taxes and truck weight fees, and the first of the three bond measures, will take effect only if voters approve modifications to the state's appropriations limit contained in SCA 1 at the June 1990 election.

The acts also allocate the \$18.5 billion in anticipated additional tax revenues and bond proceeds over the 10-year period among various transportation programs. In addition, the acts significantly revise the roles, responsibilities and procedures for transportation planning and for the programming of funds among transportation projects.

We estimate, if the voters approve the modifications to the appropriations limit, Chapters 105 and 106 will provide additional revenues for transportation — including new gas tax, weight fee, and sales tax revenues — of about \$15.5 billion over 10 years. We further estimate that, if voters approve the three bond measures to authorize the issuance of a total of \$3 billion for rail transit projects, as provided by Chapter 108, the General Fund will incur costs of about \$5.4 billion over 24-plus years for principal (\$3 billion) and interest (\$2.4 billion) payments.

Mass Transportation Programs

Chapter 1228 — Assembly Bill 1640 (Filante)

Chapter 1232 — Senate Bill 1391 (Keene)

These acts restore about \$11 million in Transportation Planning and Development (TP&D) Account funds vetoed from the 1989 Budget Act for mass transportation programs. Specifically, the acts appropriate about \$5.6 million to the Transit Capital Improvement (TCI) Program and about \$5.6 million to the State Transportation Assistance (STA) Program.

The TCI Program provides discretionary grants allocated by the California Transportation Commission for eligible transit capital projects.

The STA Program provides formula-driven apportionments to regional transportation planning agencies primarily for allocation to transit operators for capital or operating purposes. In certain areas, STA funds may also be allocated for streets and roads.

These acts appropriate about \$11 million from the TP&D Account for mass transportation programs.

Peninsula Rail Service

Chapter 1283 — Senate Bill 928 (Morgan)

This act reinstates specific authority for the Department of Transportation (Caltrans) to contract with a railroad corporation to provide passenger rail service from San Francisco to Santa Clara County — the Peninsula Commuter Service (Caltrain). Caltrans' current contract with Southern Pacific (SP) is scheduled to expire June 30, 1990 and prior legislation (Chapter 1434, Statutes of 1988) repealed Caltrans' specific authority to contract with SP to provide Caltrain service.

The act prohibits the new contract from extending beyond June 30, 1993 and further requires that the contract, and Caltrans' subsidy for the service during 1992-93, be assigned to a local agency by July 1, 1992. In addition, the act prohibits the California Transportation Commission from allocating:

- Funds available for state rail operations to the Caltrain service after 1992-93; and
- Funds for acquisition of the Caltrain right-of-way unless a local agency assumes responsibility for the service by June 30, 1993.

The act exempts the lease or purchase of the Caltrain right-of-way by a public agency from requirements of the California Environmental Quality Act (CEQA).

We estimate that there will be potential multi-million dollar costs to the Transportation Planning and Development Account annually from 1990-91 through 1992-93 if Caltrans negotiates a new contract for continuation of the Caltrain service after June 30, 1990.

The act potentially reallocates state transportation funds among eligible projects by making Caltrain right-of-way acquisition ineligible for state grants until specified conditions are met. It also could result in unknown potential savings to state or local agencies by exempting the right-of-way acquisition project from CEQA requirements.

Welfare and Employment

Greater Avenues for Independence Program

Chapter 77 — Assembly Bill 2171 (Eastin)

This act, an urgency measure, conforms the Greater Avenues for Independence (GAIN) program to the requirements of the federal Family Support Act (FSA) of 1988. The FSA requires states to implement, by October 1, 1990, a Job Opportunities and Basic Skills Training (JOBS) program in order to continue to receive federal funds under the Aid to Families with Dependent Children (AFDC) program. The FSA also provides additional federal funds for education, employment, and training programs to states that implement the JOBS program.

Prior to enactment of the FSA, California provided education, employment, and training services to households receiving AFDC through the GAIN program. California's GAIN program is similar, but not identical, to the JOBS program required by the FSA. However, the FSA required the state to make several changes to the GAIN program in order to continue to receive federal AFDC funds and the additional education, employment and training funds provided by the FSA.

Among other changes, Ch 77/89 requires AFDC parents with children between 3 and 5 years old to participate in GAIN for up to 20 hours per week. Previously, these parents were not required to participate in the GAIN program. In addition, Ch 77/89 requires a parent who (1) is 18 or 19 years old and who has not earned a high school diploma and (2) whose child is under 3 years old, to participate in the GAIN program solely for the purpose of earning a high school diploma or its equivalent.

The act also changes certain requirements of the GAIN program relating to (1) the number of hours that GAIN participants may be required to work in preemployment preparation, (2) the sanctions that result when an individual fails to participate without good cause, and (3) the number of weeks that GAIN participants can be required to perform job search.

The provisions of this measure sunset on January 1, 1991.

This act will result in net General Fund savings of \$68 million in 1989-90. This consists of increased costs of \$24 million, primarily because it requires certain AFDC parents, who were formerly exempt, to participate in GAIN. These costs will be offset by up to \$92 million in additional federal funds which the state will be able to claim for education, training, and employment programs in 1989-90. The 1989 Budget Act only includes \$76 million of these additional federal funds and therefore overstates the General Fund costs of GAIN by up to \$16 million.

The fiscal effect of this act in 1990-91 will be significantly less than in 1989-90 because the measure will be in effect for only the first six months of 1990-91.

Child Support Enforcement

Chapter 804 — Senate Bill 1380 (Watson)

This act requires the Department of Social Services (DSS) to submit a plan to the federal government, by October 1, 1990, for a statewide automated system for child support enforcement, and requires Los Angeles County to develop a separate automated system that interfaces with the statewide system.

Chapter 804 also requires the DSS to establish guidelines for setting time standards for responding to requests for assistance in child support enforcement, and requires county district attorneys to comply with the DSS guidelines.

The DSS indicates that the cost of developing the statewide plan will be approximately \$2.1 million over a two-year period, beginning in 1989-90. This cost will be shared between the federal government (90 percent, or \$1.9 million) and the state (10 percent, or \$210,000). The 1989 Budget Act appropriated \$145,000 from the General Fund to support the first-year cost of developing the statewide plan. Therefore, the state will incur additional General Fund costs of \$65,000 in 1990-91.

The DSS indicates that implementation of the automation system — not specifically required by Chapter 804 — would result in total developmental costs of approximately \$70 million over a period of about six years. (These costs exclude Los Angeles County which has been authorized by the federal government to develop a separate automation system.) This cost would be 90 percent federally funded and 10 percent state funded. The DSS also indicates that ongoing operating costs for the new system would amount to approximately \$18 million annually, partially funded by redirection of resources by the counties. The federal government would fund two-thirds of these costs, with the remainder to be funded by the state and/or local governments.

These costs would be offset by potential major savings in federal and county administrative costs and — to the extent the new system results in increases in child support collections — savings in state, federal, and county AFDC grant payments. (The AFDC savings would result from potential reductions in the number of families requiring this aid and from grant reductions due to increased child support collections.)

Local district attorneys would incur unknown, potentially major costs (several million dollars) to comply with the DSS guidelines. These costs would be offset by potentially major county cost-avoidance because, according to the DSS, failure to implement the guidelines would result in the loss of federal Child Support Enforcement program funding.

Emotionally Disturbed Children in Foster Care

Chapter 913 — Senate Bill 551 (Presley)

This act extends the sunset date, from January 1, 1990 to January 1, 1992, for foster care laws relating to the dependency status of certain emotionally disturbed children. As a result, juvenile courts can continue to maintain children in foster care who are placed there because (1) they are emotionally disturbed and (2) they are beyond the control of their parents. The act also requires county social workers to assess certain skill needs of children in foster care who are over 15 years of age, in order to bring the state into conformity with recent changes in the federally funded Independent Living Program.

The provisions of the act relating to emotionally disturbed children will result in costs of \$7.8 million (\$6.1 million General Fund, \$1.4 million federal funds, \$300,000 county funds) in 1989-90, \$15.6 million (\$12.2 million General Fund, \$2.8 million federal funds, \$600,000 county funds) in 1990-91, and \$7.8 million (\$6.1 million General Fund, \$1.4 million federal funds, \$300,000 county funds) in 1991-92. The 1989 Budget Act includes funds to cover the 1989-90 costs.

The provisions of the act that bring the state into conformity with federal law will allow the Department of Social Services to continue to receive up to \$8 million annually to operate the Independent Living Program in California.

Foster Care Reforms

Chapter 1294 — Senate Bill 370 (Presley)

This act makes several major changes related to foster care. Specifically, the act:

- Extends the sunset date on the 95 percent state/5 percent county sharing ratio for AFDC-Foster Care costs from July 1, 1990 to July 1, 1995 or two years after the implementation of an automated case management system, whichever occurs last. If the current cost-sharing ratio were to sunset, the state share of costs would decline from 95 percent to approximately 12 percent and the county share would increase from 5 percent to 88 percent. Thus, by extending the sunset, the act shifts \$424 million in annual costs from the counties to the state;
- Establishes a new rate-setting system for foster care group home providers, to be phased in over a three-year period starting on July 1, 1990. Currently, group home reimbursement rates are based on individual group homes' costs. Under the new system, group home providers will be reimbursed according to a schedule of standardized rates based on the level of care they provide. Once it is finally phased in, the new rate-setting system will result in increased annual costs of \$73 million from all funding sources;
- Provides for rate increases for foster parents in each of the years 1989-90 through 1993-94. The ongoing annual cost of these rate increases, beginning in 1993-94 will be \$56 million;

- Requires the Department of Mental Health to implement protocols to identify and treat the mental health problems of children in foster care. The ongoing annual costs of assessment and treatment will be \$12 million once all of the affected children have been identified and have begun receiving treatment, which should occur by 1993-94; and
- Requires the Department of Social Services (DSS) to implement a level-of-care-assessment instrument which counties will use to ensure that foster care children are placed in the appropriate level of care.

This act will result in net costs of \$16 million in 1989-90, increasing to \$144 million by 1993-94. Table 1 displays the total fiscal effect of these provisions:

	Funding Source			Net Costs
	General	Federal	County	
1989-90	\$11	\$5	\$1	\$16
1990-91	487	21	-421	87
1991-92	521	30	-420	131
1992-93	548	36	-419	166
1993-94	531	32	-419	144
1994-95	531	32	-419	144
1995-96 and annually thereafter	107	32	5	144

The act appropriates \$16 million (\$11.1 million General Fund) in 1989-90 for the purposes of providing a foster family home rate adjustment, providing additional staff support for the DSS, and developing a mental health protocol for children in foster care.

AFDC Payments

Chapter 1285 — Senate Bill 991 (Watson)

This act makes two major changes in the Aid to Families with Dependent Children (AFDC) program — one relating to the beginning date of aid and the other relating to immediate need — both of which would only take effect if the Superior Court for the County of Sacramento approves a proposed settlement in the *Welfare Rights League (WRL), Inc. et al, v. McMahon* court case.

Beginning Date of Aid. Under current law, AFDC aid payments begin (1) on the date that the county welfare department (CWD) authorizes aid if the county authorizes aid in the same month that the individual applies and (2) on the first day of the month of authorization if the county does not authorize aid until the month following application. If the proposed court settlement is approved, this act would establish the date of application as the uniform beginning date of aid for all eligible applicants for AFDC.

Immediate Need. Existing law requires CWDs to determine whether applicants for AFDC have the resources to meet their immediate needs and to grant immediate need assistance to those applicants who cannot meet those needs. This act makes changes in the eligibility requirements for immediate need, the amounts to be provided, and the procedures to be used by CWDs when granting immediate need payments.

The immediate need program in California is the subject of the *WRL v. McMahon* court case. The Department of Social Services (DSS) is negotiating a settlement in the case, and has entered into a tentative agreement with plaintiffs to implement the settlement through the implementation of this bill.

Assuming that the proposed settlement in WRL v. McMahon is approved by the court in time to implement the provisions of this act on July 1, 1990, the DSS estimates that the act will result in (1) increased AFDC grant costs of \$29 million (\$13 million General Fund) annually beginning in 1990-91 due to the changes in the beginning date of aid and (2) administrative savings of \$4.6 million (\$1.2 million General Fund) annually beginning in 1990-91 due to the changes in the immediate needs procedures. If the court does not approve the settlement in WRL v. McMahon, this measure would have no fiscal effect.

The department advises that, if the settlement is approved, it will result in a one-time General Fund cost avoidance of up to \$67 million as a result of the provisions of the proposed settlement that restrict the amount of retroactive payments for immediate need that the state would have to make.

Employment Training Panel

Chapter 926 — Assembly Bill 28 (Johnston)

This act extends the sunset date for the Employment Training Panel (ETP) program from January 1, 1991 to January 1, 1994. The act also makes several major changes in the ETP program, including the following:

- Extends eligibility to individuals who are unemployed and have exhausted their Unemployment Insurance (UI) benefits within the past two years, instead of one year as required under previous law.
- Permits the ETP to allocate up to \$2.7 million annually for funding employment training research projects for those individuals who are employed, but are qualified to be trained or retrained in skills for which there is a demonstrable shortage, and in a field where new employment opportunities will be created for unemployed individuals. Contracts to train these individuals will be approved only if the employer or contractor provides a job for at least one unemployed person for each person retrained.
- Allows the panel to delegate its authority to approve contracts for new hire training to local Job Training Partnership Act administrative entities.

By extending the sunset date for the ETP program by three years, the act will result in the following annual costs and revenues during the three-year period:

- *Costs to the ETP of \$70 million from the Employment Training Fund (ETF) for training, tax collection, and administration;*
- *Employment Training Tax revenues of \$70 million — \$55 million deposited in the ETF and \$15 million transferred to the UI Fund;*
- *ETF interest earnings of approximately \$15 million; and*

- *A \$1.8 million savings (\$610,000 General Fund, \$1.1 million Unemployment Administration Fund, and \$58,000 Disability Insurance Fund) because extending the ETP sunset will prevent a cost shift from the ETF to these other funds. If the ETP had been allowed to sunset, this shift would occur because the other funding sources would have to pick up the ETF's share of tax collection costs.*

Unemployment Insurance

Chapter 1146 — Senate Bill 600 (Roberti)

This act increases unemployment insurance (UI) benefits by raising the UI minimum weekly benefit from \$30 to \$40, and by raising the UI maximum weekly benefit from \$166 to \$190 in 1990, to \$210 in 1991, and to \$230 in 1992. The act also tightens UI eligibility requirements. In addition, it reduces employer UI taxes by (1) establishing a new lower tax schedule for 1990 and (2) allowing employers to make an additional contribution to their reserve accounts, which may result in a decrease in the employers' assigned tax rates.

According to the Employment Development Department, the act will result in net costs to the Unemployment Fund of approximately \$116.3 million in 1989-90, \$267.5 million in 1990-91, \$302.4 million in 1991-92, and decreasing amounts thereafter.

Extension of the Multipurpose Senior Services Program

Chapter 1318 — Assembly Bill 1503 (Quackenbush)

This act eliminates the June 30, 1990 sunset of the Multipurpose Senior Services Program (MSSP). The MSSP provides social and health services to frail elderly persons, with a goal of allowing them to live safely in their own homes rather than in nursing facilities.

This measure will result in General Fund and federal funds costs for the continued operation of the MSSP after June 30, 1990. The 1989 Budget Act includes \$22 million (\$11 million General Fund and \$11 million federal funds) to operate the MSSP. The actual annual cost of continuing the program will depend on annual Budget Act appropriations in subsequent years.

Disability Insurance

Chapter 1371 — Senate Bill 343 (Lockyer)

This act increases Disability Insurance (DI) benefits by:

- Eliminating the January 1, 1990 sunset on the maximum total DI benefit that an individual can receive. Under prior law, an individual disabled on or after January 1, 1990 would have been limited to 39 weeks of DI benefits, or 75 percent of the total wages earned during a one-year base period, whichever was less;
- Providing a new, 55 percent wage replacement floor for DI benefits, up to a specified maximum weekly benefit; and
- Increasing the maximum weekly benefit to (1) the maximum weekly benefit for workers' compensation temporary disability, or (2) \$266 in 1990 and \$343 in 1991 and thereafter, whichever is less. Chapter 892 (AB 276, Margolin), sets the maximum workers' compensation weekly benefit at \$336 in 1991.

The EDD estimates the act will result in costs to the DI Fund of at least \$69 million in 1989-90, \$265 million in 1990-91, and \$429 million in 1991-92 and annually thereafter, depending on future increases in the maximum weekly benefit for the Worker's Compensation program. Under current law, the EDD estimates that the DI tax rates will increase to cover the costs of this act.

Local Government Financing

Motor Vehicle License Fee Refunds

Chapter 718 — Senate Bill 839 (Seymour)

This act allows the owner of a vehicle to receive a refund or credit of the motor vehicle license fee if the vehicle is stolen or totally destroyed. The refund or credit is prorated according to the number of months in the year that the vehicle was in use.

In order to receive the refund, the vehicle owner must sign a statement that he or she has not been cited or convicted of driving under the influence in connection with the vehicle's loss. Chapter 718 permits the Department of Motor Vehicles (DMV) to recoup the costs of processing requests for a refund or credit through fees. The statute becomes effective January 1, 1991.

This act will increase administrative costs to the DMV by \$1.6 million in 1990-91, \$3 million in 1991-92, and increasing amounts in subsequent years. The DMV can finance these costs through fees charged to applicants. In addition, Ch 718 will reduce revenues to the Motor Vehicle License Fee Account by \$4.6 million in 1990-91, \$9.1 million in 1991-92, and increasing amounts annually thereafter. Subventions to cities and counties will be reduced by a corresponding amount.

Local Government Claims Bill

Chapter 788 — Senate Bill 235 (Alquist)

This act, an urgency measure, provides funding for reimbursement of the costs incurred by local governments for administering seven new state-mandated local programs. Each year the Legislature enacts a local government claims bill, such as Chapter 788, to provide funding for specific statutes and executive orders which are determined to impose state-mandated local programs by the Commission on State Mandates. In subsequent years, the funding for these programs is included in the annual Budget Act. Chapter 788 contains a total of \$48 million to fund the current- and prior-year costs of the new mandated local programs and deficiencies in a number of existing mandate reimbursement programs.

The act appropriates a total of \$47 million from the General Fund and \$1.1 million from the Restitution Fund to reimburse state-mandated costs incurred by local agencies and school districts.

County Property Tax Allocations

Chapter 966 — Assembly Bill 833 (Filante)

This act, an urgency measure, validates past property tax allocations made in Marin and Fresno Counties. In recent property tax audits of Marin and Fresno Counties, the Controller found errors in the amount of property tax revenue allocated to local school districts. As a result, since 1979-80, the school districts have received a lower share of county-wide property tax revenues than required under current law, and a correspondingly higher share of state school apportionments. Existing law requires the counties to reimburse the state for the resulting state costs for school apportionments incurred in 1983-84 and subsequent years.

Chapter 966 validates the property tax allocations made by Marin and Fresno Counties in 1979-80 through 1988-89. Thus, it excuses the counties from reimbursing the state for increased school apportionments during this period.

This act reduces state General Fund revenues from reimbursements by \$16.5 million in 1989-90.

Property Tax Delinquency Penalty Revenues

Chapter 1230 — Assembly Bill 2372 (Hannigan)

This act allows counties to retain property tax delinquency penalty revenues rather than allocating them among local government agencies and school districts. Under current law, individuals who are late paying their property taxes must pay a delinquency penalty to the county auditor. Current case law requires counties to allocate these revenues to local entities in the same proportion as their share of overall property tax revenues (*City of Los Angeles v. County of Los Angeles* (1983) 139 CA 3d 979). Chapter 1230 overturns the holding in the City of Los Angeles case. This will allow counties to retain these penalty revenues rather than providing them to other local agencies.

The act will increase property tax delinquency revenues to counties by unknown annual amounts, probably at least several million dollars, beginning in 1989-90. There will be a corresponding reduction in penalty revenues allocated to other local agencies and school districts.

General Government

Workers' Compensation

Chapter 892 — Assembly Bill 276 (Margolin)

Chapter 893 — Senate Bill 47 (Lockyer)

These acts increase the maximum weekly benefit for temporary disability, permanent total disability, permanent partial disability, and the maximum death benefits for dependents and burial expenses. In addition, the acts establish a separate temporary disability benefit maximum for injured workers receiving vocational rehabilitation services after a worker's injuries become permanent and stationary.

The measures also make various changes to reduce costs and eliminate delays in the delivery of benefit payments. The major changes include: (1) additional notification requirements mandated upon employers, claimants, and claimants' attorneys, (2) new provisions regarding the timing of disability payments, including monetary penalties to insurance carriers for noncompliance, (3) establishing a higher eligibility threshold for stress related claims, and (4) a reduction in the number of medical evaluators that an employee can obtain to prove a claim.

Chapter 892 also extends workers' compensation coverage to persons serving as volunteers, paid reserves or auxiliary law enforcement officers of a municipality, regional park district, or transit district.

The acts will result in estimated multimillion dollar annual costs to various funds beginning in 1989-90 to (1) provide increased workers' compensation benefits to state employees and employees of uninsured employers, and (2) resolve workers' compensation claims administratively and provide other administrative support functions. These costs will be offset to an unknown extent in future years by (1) a reduction in judges and related personnel, (2) revenue from fines and penalties for failure to comply with mandated benefit payment and adjudication procedures, and (3) various other savings.

In addition, Chapter 893 appropriates \$2.5 million from the General Fund as a loan to the Department of Industrial Relations for additional workers' compensation judges and related personnel. These funds are in addition to the \$4 million provided for this purpose in the 1989 Budget Act.

PERS-Care Employer Contributions

Chapter 1388 — Senate Bill 1264 (Cecil Green)

This act, an urgency measure, changes the formula used in determining the state contribution towards the cost of health benefits for state employees and annuitants that reside in areas which are not served by a Health Maintenance Organization (HMO) and have no alternative but to enroll in the state's fee-for-service health plan—PERS-Care.

Under prior law, the state paid 100 percent of the health benefit premium costs for state employees or annuitants, and 90 percent of the costs for dependents based on an average of the premium costs of the four plans with the largest enrollment.

This act provides that for those employees who reside in areas with no HMO alternative, the state's contribution towards their health benefits costs will be 90 percent of the PERS-Care premium for employees and annuitants, and 90 percent of the PERS-Care premium for dependents. This formula results in a higher state contribution because the PERS-Care premium is higher than the average premium cost used in the previous formula.

This act will result in costs of approximately \$11.6 million (various funds) in 1989-90 due to increased state contributions for health benefit costs for certain state employees and annuitants. These costs will increase annually due to increasing health care costs.

Purchasing Power Protection for Retired Teachers

Chapter 115 — Senate Bill 1407 (Cecil Green)

Chapter 116 — Senate Bill 1513 (Campbell)

These acts establish a funding mechanism that provides purchasing power protection benefits to retired teachers. These benefits are provided to partially offset the decreases in purchasing power of a retiree's initial retirement allowance caused by inflation. The acts create the Supplemental Benefit Maintenance Account which is funded with transfers from the State Teachers' Retirement Fund (STRF) sufficient to ensure that retired members of the State Teachers Retirement System (STRS) receive benefit payments equal to at least 68.2 percent of the purchasing power of their initial benefit. These transfers will be repaid with interest through annual payments from the General Fund.

Prior to these acts, the Legislature provided purchasing power benefits primarily through appropriations in the annual Budget Act.

These acts will result in General Fund costs of \$53 million in 1990-91, \$113 million in 1991-92, \$182 million in 1992-93, \$259 million in 1993-94, \$347 million in 1994-95, and increasing amounts annually thereafter. The STRS also will incur one-time costs of \$170,000 from the STRF in 1989-90 to implement these acts and ongoing annual administrative costs of \$80,000.

Capital Outlay

New State Buildings—Sacramento

Chapter 984 — Senate Bill 638 (Alquist)

This act, an urgency measure, requires the Department of General Services to construct a 430,000 gross square foot building to house the Secretary of State and State Archives on the block bound by 10th, 11th, O and P Streets (Site 7) in Sacramento.

The act authorizes the State Public Works Board to issue revenue bonds, negotiable notes and bond anticipation notes to finance the construction and equipping of this building. The act stipulates that construction costs are not to exceed \$100 million. These costs would be paid from the General Fund and potentially from other state funds. These costs would be partially offset by reduced lease costs.

Chapter 1366 — Senate Bill 42 (Craven)

This act, an urgency measure, provides for the financing of a new legislative office building on the property bound by 10th, 11th, N and O Streets in Sacramento. The act repeals a provision which called for construction of a legislative building in the area bound by 15th, L, 17th and N Streets.

The act requires the Legislature to review its current and long-term requirements for office facilities and to undertake a feasibility study for development of the new legislative office facility. The feasibility study, which is to be completed by January 1, 1990, is to include an analysis of various financing alternatives and a recommendation regarding potential options and respective costs. The costs of this building are unknown.

Chapter 1391 — Senate Bill 1506 (Boatwright)

This act authorizes the Department of General Services to construct a 385,000 gross square foot facility for the Franchise Tax Board. This facility would be constructed adjacent to the board's existing central office on Butterfield Way in Sacramento.

The act authorizes the State Public Works Board to issue revenue bonds, negotiable notes or negotiable bond anticipation notes to finance the project. The act stipulates that construction costs for the facility are not to exceed \$40 million. These costs would be paid from the General Fund and would be partially offset by reduced lease costs.

Prison Construction-Imperial County

Chapter 1413 — Senate Bill 662 (Bergeson)

This act, an urgency measure, appropriates funds to the Department of Corrections (CDC) for a previously authorized 2,000-bed maximum security prison, plus a 200-bed minimum security service facility, in Imperial County (Imperial I). The act also authorizes the Department of Corrections to construct a 2,000-bed medium security prison, plus a 200-bed minimum security facility, in Imperial County (Imperial II).

The act appropriates \$194 million to CDC from the 1990 Prison Construction Fund (to be funded by a general obligation bond, contingent on voter approval at a 1990 election for site acquisition, planning, and construction related to the Imperial I project. The act also appropriates \$10 million from the 1988 Prison Construction Fund for site acquisition and planning for the authorized Imperial II facility.

Work Camp and Prison Construction — Humboldt County and Coalinga

Chapter 1003 — Senate Bill 1694 (Keene)

This act, an urgency measure, appropriates funds to the CDC to construct a work-based camp facility in Humboldt County. It also appropriates funds for environmental studies, master planning and preliminary plans for a 2,000-bed medium security prison, with a 200-bed minimum security service facility, in the vicinity of Coalinga in Fresno County. The statute requires that the environmental impact report for the Coalinga prison include an evaluation of three or more potential sites.

The act appropriates \$2.7 million from the 1988 Prison Construction Fund for site acquisition, preliminary plans, working drawings and construction for the work-based camp in Humboldt County. The act appropriates \$2.5 million for site studies and preliminary plans for the prison in Coalinga.

Richard McGee Correctional Training Facility

Chapter 1420 — Senate Bill 817 (Presley)

This act authorizes the Department of General Services to enter into a lease-purchase agreement on behalf of the CDC for the purchase of the Richard McGee Correctional Training Center in Galt. The lease-purchase agreement may also include improvements to the current facility.

The act allows the CDC, at any time before or after the lease is entered into, to purchase the land and facility through issuance of bonds, negotiable notes or negotiable bond anticipation notes. The amount of the bonds or notes to be sold may not exceed \$11 million, to be paid from the General Fund. These costs would be partially offset by reduced lease costs.

Part 2 Summary of Legislation

First Extraordinary Session

This section discusses the 24 pieces of legislation which were adopted by the Legislature during the First Extraordinary Session in November and subsequently approved by the Governor. These measures were enacted to provide disaster relief to individuals, businesses and government entities incurring losses due to the 1989 Loma Prieta earthquake.

Disaster Assistance Programs

Chapter 1x — Assembly Bill 42x (Vasconcellos)

Chapter 2x — Senate Bill 1x (Mello)

These acts, both urgency measures, expand the authority of the Director of Finance to transfer and allocate funds to state and local agencies for purposes of disaster recovery. Specifically, the director may transfer funds from the Special Fund for Economic Uncertainties to various accounts within the Natural Disaster Assistance Fund (NDAF) and to the Disaster Response Emergency Operations Account (DREOA) in any amount necessary in order to cover eligible claims that may exceed the balances in those accounts.

These acts also allow the state to assume up to 100 percent of the local agency share of disaster assistance costs associated with the Loma Prieta earthquake. Under current law, the federal government generally pays 75 percent of these disaster assistance costs. The state and local agencies generally share the remaining 25 percent of the costs. For purposes of receiving state disaster assistance funds, Chapter 2x includes the University of California in the definition of a state agency. Chapter 2x allows state funds to be spent for the repair or restoration of public recreational facilities damaged in a natural disaster.

These acts could result in unknown costs to the General Fund and various disaster assistance funds. These costs will result, in part, from the state assuming up to 100 percent of the local agency share of disaster assistance costs. These costs will vary according to extent of damage suffered, and the amount of eligible disaster assistance costs associated with the Loma Prieta earthquake and any subsequent natural disasters.

Loans and Grants to Rebuild Disaster-Damaged Rental Housing

Chapter 3x — Assembly Bill 41x (Farr)

Chapter 4x — Senate Bill 3x (Marks)

These acts, both urgency measures, establish programs within the Department of Housing and Community Development to assist owners of disaster-damaged rental housing. Specifically, the programs provide deferred payment low-interest loans for the reconstruction or rehabilitation of such housing. The act creates the California Disaster Housing Rehabilitation Fund for the purpose of funding the loan program.

These acts appropriate \$33.5 million from the Special Fund for Economic Uncertainties, as follows: (1) \$32 million to the California Disaster Housing Rehabilitation Fund for loans to rehabilitate earthquake-damaged rental housing; partially offset by loan repayments to the General Fund in future years; and (2) \$1.5 million to the Farmworker Housing Grant Program for rehabilitation of earthquake-damaged farmworker housing.

Loans and Grants for Emergency Shelter and to Rebuild Owner-Occupied Housing

Chapter 5x — Assembly Bill 44x (Hauser)

Chapter 6x — Senate Bill 4x (Leroy Greene)

These acts, both urgency measures, establish programs to provide temporary shelter and rebuild owner-occupied housing after a natural disaster. Specifically the acts establish:

- A program in the Department of Housing and Community Development (HCD) to help homeowners rebuild after a natural disaster. The program provides deferred payment low-interest loans for the reconstruction or rehabilitation of owner-occupied housing. The act creates the California Disaster Housing Rehabilitation Fund for the purpose of funding the loan program;

- The Natural Disaster Emergency Shelter Program in HCD to provide grants to local public and nonprofit agencies to provide emergency shelter to victims of a natural disaster. The program includes providing rental security deposit guarantees and grants to disaster victims. The act creates the Natural Disaster Community Assistance Account within the Natural Disaster Assistance Fund for the purpose of funding disaster relief under this and other programs; and
- The Rural Emergency Assistance Housing Infrastructure Program in the Department of Commerce to provide grants to local public agencies to provide the infrastructure to support emergency housing necessitated by a natural disaster.

These acts appropriate \$41.5 million from the Special Fund for Economic Uncertainties. Of this amount \$32 million is appropriated to the California Disaster Housing Rehabilitation Fund for loans to help homeowners after a natural disaster. A portion of the loaned funds will be offset by loan repayments to the General Fund in future years. The remaining \$9.5 million is appropriated to the Natural Disaster Community Assistance Account, to be allocated as follows: (1) \$5 million to the Emergency Housing and Assistance Fund for purposes of the Natural Disaster Emergency Shelter Program, (2) \$1 million to the Rural Predevelopment Loan Fund, (3) \$1 million to the Urban Predevelopment Loan Fund, (4) \$1 million to the Office of Migrant Services, (5) \$1 million to the Department of Commerce for purposes of the Rural Emergency Assistance Housing Infrastructure Program, and (6) \$500,000 to the Emergency Housing and Assistance Fund to provide residential rental security deposit grants and guarantees.

State and Local Parks

Chapter 7x — Senate Bill 10x (Morgan)

Chapter 8x — Assembly Bill 39x (Seastrand)

These acts, both urgency measures, provide funds for repair of state park facilities damaged in the northern California earthquake of October 17, 1989. The acts also provide funds for grants to local agencies for technical assistance and limited stabilization on specified historic buildings damaged by the earthquake. In addition, the acts require that, where feasible, any federal funds received for purposes of these state and local projects be used to reimburse the state for funds appropriated in these acts.

These acts appropriate a total of \$1.5 million from state bond funds for (1) emergency earthquake repair in the state park system (\$1.3 million—1988 Park Bond Fund) and (2) five specific local assistance grant projects (\$171,000—1984 Park Bond Fund).

Individual and Family Grant Program

Chapter 9x — Senate Bill 11x (Alquist)

Chapter 10x — Assembly Bill 37x (Bates)

These acts, both urgency measures, appropriate \$19.4 million from the General Fund to the Department of Social Services for grants to individuals and families affected by the Loma Prieta earthquake. Under the federal Individual and Family Grant program, these individuals can receive up to \$10,400 for home repairs and replacement of items such as clothing and appliances. The federal government covers 75 percent of these costs and the state covers the remaining 25 percent. In addition, individuals and families with qualifying expenses in excess of \$10,400 can receive up to an additional \$10,000 through the State Individual and Family Supplemental Grant program, which is 100 percent state funded. The state also covers most of the administrative costs of the federal grant program and all of the administrative costs of the state supplemental program.

Of the \$19.4 million appropriation, the measures allocate \$10 million for the state's share of the federal grant program, \$5 million for the grants under the state supplemental program and \$4.4 million for the administrative costs incurred in awarding grants through both programs.

Earthquake Emergency Loan Guarantees and Grants

Chapter 11x — Senate Bill 12x (Mello)

Chapter 12x — Assembly Bill 40x (Farr)

These acts, both urgency measures, provide funding for earthquake disaster relief programs to assist small businesses and agriculture-related enterprises suffering economic losses as a result of the Loma Prieta earthquake. Funds allocated to the Department of Commerce will be used to contract with nonprofit Regional Development Corporations to provide loan guarantees for small business and agriculture-related enterprises. Funds provided to the department will also be used to administer the California Earthquake Emergency Grant Aid Program to make grants to localities and specified nonprofit organizations for technical assistance to small businesses and communities.

These measures appropriates \$1 million from the Disaster Relief Fund to the Department of Commerce for technical assistance grants. In addition, they authorize the Governor to allocate funds from the Special Fund for Economic Uncertainties to the Department of Commerce for loan guarantees. It is not yet known how much money will be allocated for this purpose.

Temporary Sales Tax Increase

Chapter 13x — Assembly Bill 48x (Areias)

Chapter 14x — Senate Bill 33x (Mello)

These acts, both urgency measures, temporarily increase the state sales tax rate by 0.25 percent (one quarter-cent per dollar of sales). The increased rate is effective for a 13-month period, from December 1, 1989 through December 31, 1990. The measures appropriate all of the revenue produced by the tax increase for earthquake response and recovery efforts. Both measures also (1) suspend the education funding requirements of Proposition 98 (otherwise the state would be required to allocate 40 percent of the revenue to schools) and (2) exclude earthquake disaster assistance provided by the state to school districts from counting in the permanent school funding base that the state must maintain under Proposition 98.

We estimate that these acts will result in additional revenues totaling \$785 million for earthquake disaster relief (\$360 million in 1989-90 and \$425 million in 1990-91). In addition, the State Board of Equalization estimates that it will incur General Fund costs of \$1.6 million annually in 1989-90 and 1990-91 to administer the temporary tax increase and to conduct taxpayer audits.

Income Tax Relief

Chapter 15x — Assembly Bill 36x (Klehs)

Chapter 16x — Senate Bill 34x (Garamendi)

These acts, both urgency measures, allow individuals and corporations more flexibility to deduct from their taxable income property damage and business operating losses that are due to the Loma Prieta earthquake. Generally, individual and corporate taxpayers can deduct casualty and operating losses in the year that they occur, subject to certain limits. If the deductible loss exceeds that year's income, then half of the "excess" loss may be carried forward and deducted for up to fifteen years. Individuals also may deduct disaster-related losses from their income in the prior year and receive a refund. These acts allow both individual and corporate taxpayers to carry forward all of their excess losses related to the earthquake for up to five years, with half of any remaining excess loss deductible over the subsequent 10 years. In addition, corporations, as well as individuals, could carry back their losses to the prior year.

Under existing law, counties may allow owners of properties damaged in a disaster to defer their property tax payments until the property has been reassessed to reflect its lower damaged value. The county then receives a loan from the state in the amount of the deferred payments on the first tax installment due after the disaster. The county repays the state the full amount of the loan after the next installment of property tax is due. These measures allow counties that were affected by the earthquake to reduce their repayment to the state by their property tax revenue loss in 1989-90 due to the disaster reassessments. Thus, the state will make these counties "whole" for their revenue losses due to the reassessment of damaged property.

Generally, these provisions are similar to those enacted for the Whittier earthquake in 1987 and certain other disasters.

The fiscal effects of these measures will depend on the amount of damage caused by the earthquake and the tax situation of those individuals and corporations who incurred losses or own damaged property. On a preliminary basis, the Franchise Tax Board estimates General Fund revenue losses totaling about \$32 million through 1993-94 due to the loss carryforward and carryback provisions. The net state cost of replacing lost local property tax revenue probably will range between \$10 million and \$20 million, if damage to taxable property is between \$2 billion and \$4 billion.

Transportation Services

Chapter 17x — Assembly Bill 38x (Sher)

Chapter 18x — Senate Bill 36x (Kopp)

These acts, both urgency measures, establish a statewide seismic safety inspection and retrofit program for all publicly owned bridges, provide for "fast-tracking" of certain emergency repairs of transportation facilities and make funds available for emergency ferry and transit service.

- *Bridge and Highway Seismic Safety.* These acts require the Department of Transportation (Caltrans) and specified local agencies to inspect all publicly owned bridges for seismic safety and to complete seismic retrofit projects on all deficient bridges by December 31, 1991. The acts transfer \$80 million from the Disaster Relief Fund to a new Seismic Safety Retrofit Account and appropriate these funds to the department and local agencies to carry out seismic retrofit projects. These acts also appropriate \$1 million from the Disaster Relief Fund to Caltrans to develop revised seismic standards for the design of highway and bridge facilities.
- *Emergency Repair of Transportation Facilities.* The acts specify that emergency repair and restoration of certain earthquake-damaged transportation facilities are exempt from the requirements of the California Environmental Quality Act, and require permitting agencies to approve or deny a permit for emergency projects within 15 days of receipt of an application. The acts also create an ad hoc earthquake emergency review panel to hear Caltrans' appeals of permitting agency decisions. These provisions would sunset on June 1, 1990, unless otherwise extended.

- *Emergency Ferry and Transit Service.* The acts reappropriate \$3.8 million in Transportation Planning and Development (TP&D) Account funds — from funds previously appropriated for transit capital improvements — for allocation to the department and local agencies for specified earthquake-related emergency ferry and transit services.

The acts further exempt seismic safety projects and expenditure of state and federal disaster relief funds from statutory provisions governing the allocation of transportation expenditures in the state (that is, the “north/south split” and “county minimum” requirements).

The acts appropriate \$80 million from the Seismic Retrofit Account for bridge seismic retrofit projects, and \$1 million from the Disaster Relief Fund to develop revised seismic standards for the design of new transportation facilities. In addition, the acts reappropriate \$3.8 million in TP&D Account funds (previously appropriated for transit capital improvements) for earthquake-related emergency ferry and transit services.

Disaster Relief Appropriation

Chapter 19x — Assembly Bill 43x (Vasconcellos)

Chapter 20x — Senate Bill 40x (Campbell)

These acts, both urgency measures, amend the 1989 Budget Act to allow for additional appropriations from the Special Fund for Economic Uncertainties (SFEU) for disaster relief. Control Section 12.30 of the 1989 Budget Act included language to allow the Director of Finance to allocate up to \$20 million from the SFEU for emergency or disaster relief.

These measures increase the amount of money that may be allocated by the Director of Finance directly from the SFEU for disaster relief purposes from \$20 million to \$40 million for the 1989-90 fiscal year.

Bay Bridge and I-880 Victim Assistance/Unemployment Insurance

Chapter 21x — Senate Bill 45x (Lockyer)

Chapter 22x — Assembly Bill 45x (Willie Brown)

These acts, both urgency measures, establish the following programs:

Victim Assistance. The measures establish an emergency claims process to provide immediate relief to the dependents of victims of the collapse of the San Francisco-Oakland Bay Bridge and the I-880 Cypress structure. The claims process will be administered by the State Board of Control and will have two phases. The first phase provides from \$25,000 to \$50,000 for specified claims, with each family receiving a maximum of \$200,000. The second phase allows dependents to apply for an adjustment of benefits for economic or noneconomic losses. If the dependent accepts the offer, all other legal remedies are waived against the state. Payments made pursuant to Phase I will offset any amounts which may be received in Phase II or as the result of litigation.

Unemployment Insurance. The acts waive the one-week waiting period for all Unemployment Insurance (UI) claimants who file between October 15 and December 2, 1989 within the identified disaster areas. The measures also provide that the benefits paid as a result of this waiver will not be charged to employer reserve accounts.

The acts transfer \$30 million from the Special Fund for Economic Uncertainties to the new San Francisco-Oakland Bay Bridge and I-880 Cypress Structure Disaster Fund to pay claims against the state pursuant to the earthquake. In addition, the Employment Development Department (EDD) estimates that the act will result in Unemployment Insurance Fund costs of between \$4 million and \$8 million.

Disaster Assistance for Private Nonprofit Organizations

Chapter 23x — Senate Bill 38x (Petris)

Chapter 24x — Assembly Bill 35x (Cortese)

These acts, both urgency measures change the definition of "local agency" for purposes of receiving state funds for disaster assistance. Specifically, the measures define "local agency" to include county offices of education, community college districts, and specified private nonprofit organizations. State assistance to private nonprofit organizations would be limited to \$5 million in the event that funding is insufficient to pay all eligible claims.

These acts also allow up to \$1.5 million from the Redemption Bonus Account to be used by certified community conservation corps for disaster assistance activities associated with the Loma Prieta earthquake. This provision would be repealed on July 1, 1990 unless the date is extended by a later enacted statute. Any funds from the Redemption Bonus Account used for disaster assistance must be repaid to the account, if the community conservation corps receive reimbursement for their disaster assistance activities from another source.

By broadening the definition of local agency, this act will result in additional costs to the state to provide disaster assistance to county offices of education, community college districts, and specified private nonprofit organizations as a result of the Loma Prieta earthquake and any subsequent natural disasters. The magnitude of the additional costs is unknown and will depend on the amount of eligible costs incurred by these entities.

EXHIBIT D

THE GOVERNMENT'S RESPONSE TO THE NORTHRIDGE EARTHQUAKE

HEARING

BEFORE THE

SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY

OF THE

COMMITTEE ON GOVERNMENT
REFORM AND OVERSIGHT
HOUSE OF REPRESENTATIVES

ONE HUNDRED FOURTH CONGRESS

SECOND SESSION

JANUARY 19, 1996

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(II)

CONTENTS

	Page
Hearing held on January 19, 1996	1
Statement of:	
Andrews, Richard, director, Governor's Office of Emergency Services, California; Constance Perett, manager, Emergency Services, county of Los Angeles, CA; and Major General Robert J. Brandt, Assistant Adjutant General and Commander, California Army National Guard	57
Jones, Donald W., vice president, disaster services, American Red Cross; James T. Haigwood, CEO, Los Angeles Chapter, American Red Cross; Terri Jones, director, special projects, California Community Founda- tion; and John Suggs, director, public policy and government affairs, the United Way of Greater Los Angeles	106
Riordan, Richard, mayor, city of Los Angeles, CA	37
Wilson, Blenda J., president, California State University, Northridge; Robert Maxson, president, California State University, Long Beach; and J. Richard Williams, dean of engineering, California State Univer- sity, Long Beach	148
Witt, James Lee, Director, Federal Emergency Management Agency	9
Letters, statements, etc., submitted for the record by:	
Andrews, Richard, director, Governor's Office of Emergency Services, California, prepared statement of	61
Brandt, Major General Robert J., Assistant Adjutant General and Com- mander, California Army National Guard:	
Information concerning cost and grant summary	94
Prepared statement of	86
Haigwood, James T., CEO, Los Angeles Chapter, American Red Cross, prepared statement of	115
Jones, Donald W., vice president, disaster services, American Red Cross, prepared statement of	110
Jones, Terri, director, special projects, California Community Foundation, prepared statement of	121
Maxson, Robert, president, California State University, Long Beach, pre- pared statement of	161
Perett, Constance, manager, Emergency Services, county of Los Angeles, CA, prepared statement of	77
Riordan, Richard, mayor, city of Los Angeles, CA, prepared statement of	42
Suggs, John, director, public policy and government affairs, the United Way of Greater Los Angeles, prepared statement of	140
Williams, J. Richard, dean of engineering, California State University, Long Beach, prepared statement of	167
Wilson, Blenda J., president, California State University, Northridge, prepared statement of	152
Witt, James Lee, Director, Federal Emergency Management Agency, pre- pared statement of	14

THE GOVERNMENT'S RESPONSE TO THE NORTHRIDGE EARTHQUAKE

FRIDAY, JANUARY 19, 1996

HOUSE OF REPRESENTATIVES,
SUBCOMMITTEE ON GOVERNMENT MANAGEMENT,
INFORMATION, AND TECHNOLOGY,
COMMITTEE ON GOVERNMENT REFORM AND OVERSIGHT,
Northridge, CA.

The subcommittee met, pursuant to notice, at 10:02 a.m., at the California State University, Northridge, CA, Hon. Steve Horn (chairman of the subcommittee) presiding.

Present: Representatives Horn, Flanagan, and Davis.

Also present: Representatives Dreier, Dixon, McKeon, and Torres.

Staff present: J. Russell George, staff director and counsel; Andrew G. Richardson, clerk; Kevin Sabo, general counsel; Jeff Wilmot, professional staff member; and Cheryl Phelps, minority professional staff member.

Mr. HORN. A quorum being present, the Subcommittee on Government Management, Information, and Technology will come to order.

On January 17, 1994, an earthquake measuring 6.7 percent on the Richter scale struck the Los Angeles area. It was one of the most devastating natural disasters ever to confront our Nation. In its wake, more than 70 people lost their lives, and thousands were injured. Tens of thousands of structures were damaged, leaving over 25,000 people homeless. Severe destruction to the freeways occurred tying up the region's transportation network. The damage resulting from the quake was estimated to exceed \$20 billion.

Immediately following the earthquake, the Federal Government, working with State and local governments, mobilized its responses. Coordinated by the Federal Emergency Management Agency, FEMA, the recovery effort continues through this day.

The purpose of today's hearings is to determine the adequacy of the Federal Government's response, the cooperation between Federal, State, local governmental entities as well as the work of non-profit and community organizations. In a region where earthquakes are a constant threat, it is imperative for Members of Congress to understand first-hand what occurred in the aftermath of the Northridge earthquake in order to learn from it.

The witnesses who will be assisting us in this effort are James Lee Witt, the Director of the Federal Emergency Management Agency; the mayor of Los Angeles, Richard Riordan; Mr. Richard Andrews, the director of the Governor's Office of Emergency Serv-

(1)

ices in the State; Constance Perett, the manager of the Emergency Services for the county of Los Angeles; and Major General Robert Brandt, the Assistant Adjutant General, California National Guard.

We also have with us today representatives of private relief organizations which had a key role in the aftermath of the Northridge Earthquake. Representing the National Headquarters of the American Red Cross is the vice president for Disaster Services, Donald Jones. Along with us are James Haigwood, the Chief Executive Office, Los Angeles Chapter of the Red Cross; Terri Jones, director of special projects, California Community Foundation; and John Suggs, the director of public policy and government affairs, United Way of Greater Los Angeles area. Then we will be hearing from Dr. Blenda Wilson, our host as president of California State University, Northridge, and I may say, as we all know, this campus was greatly damaged by the earthquake.

We will also have on the last panel Dr. Robert Maxson, the president of California State University, Long Beach; and Dr. Richard Williams, the dean of the College of Engineering at the University, whose testimony will guide us in the direction of what mitigation efforts can be made in advance of tragedies, be they earthquakes, hurricanes, floods, all of the things FEMA and this State have gone through with the exception of hurricanes in the case to California, and their testimony will assist us in learning more about mitigation efforts which can be used to lessen the impact of similar earthquakes or other disasters in the future.

We thank all of them for coming out here on Friday and joining us, and we look forward to their testimony. It is an indication of the importance of this subject matter to the Members of the House of Representatives by the number of Members we have visiting with the subcommittee today.

To my immediate left is the vice chairman of the subcommittee, Representative Michael Flanagan of Illinois, and he will be joined soon by another member of the subcommittee, Tom Davis of Virginia, who was delayed in a fog in Chicago and is on his way.

With us today are a number of key representatives from the Los Angeles Region, and we will be hearing from them shortly. Representative Julian Dixon is on my immediate right, a long-time member, key member, of Appropriations, was very active in securing the funds and, as I mentioned to Julian this morning, he was certainly in every meeting I was in and played a major role in the congressional response to this and many other disasters.

We also have with us a key member of the majority, David Dreier, one of the principal leaders of the House as a member of the Committee on Rules.

We will have with us Marty Martinez, who will be here, and we have with us now Howard "Buck" McKeon, in whose district we are, and president of the freshman class that I came in with, and a very respected Member of the House.

With us later today will be Representative Esteban Torres and Representative Maxine Waters.

I would now like to turn to the ranking minority member here, Congressman Dixon, for any opening statement he might wish to make.

Mr. DIXON. Thank you very much, Mr. Chairman. I don't really have an opening statement. I will be very, very brief. First of all, I would like to thank you and the committee members for paying attention to our region of the country that has been impacted over a period of time with an extraordinary number of disasters.

I think that in a bipartisan and cooperative way, when the earthquake hit us, you saw our California delegation in its entirety working together to rapidly bring funds to those here in southern California. Obviously, disaster relief and mitigation issues are going to be examined in the coming Congresses for, as a member of the Appropriations Committee, I think that we all know and understand that whereas Members of Congress are sympathetic, sometimes they are exacerbated by the fact that there is a continuing flow of money coming to California to bail out situations that occur from Mother Nature. It certainly occurs in other areas of the country, but we have had a great deal of dialog in the Appropriations Committee as it relates to funding for disasters in California.

Finally, I would like to say that, as we talk about the overview of how FEMA performed in the last disaster, the earthquake, I am very pleased to say that from my observation, their performance was excellent. Was it perfect, no. Are institutions of Government ever perfect, absolutely not. But I have found that Director Witt has been not only on the scene, but very cooperative with the California delegation.

I also recognize that from time to time that agencies of goodwill will have differences and I think the testimony here today will reflect some of those differences. Nevertheless, whether it is the city of Los Angeles, or the State of California or FEMA, our Federal representative, I think in the last disaster, the earthquake, that they responded in good faith, had a high degree of cooperation and I think our task is to make sure that in the future that degree of cooperation and success continue.

Thank you very much.

Mr. HORN. Thank you.

I now yield to the vice chairman of the subcommittee, Representative Flanagan of Illinois.

Mr. FLANAGAN. Thank you, Mr. Chairman.

I am inundated with bits of paper here, because I am from the land of flatness and the land where we don't have earthquakes. I would like to echo what Mr. Dixon had said so eloquently, as he always is, in that, the general perception is California is the natural disaster theme park and that we are constantly pouring money into it. That is why hearings like this are so important, to bring Members from Illinois and Virginia and other places, other than the California Delegation who are so well acquainted with the intimate problems, to take that information not just back to Washington, but to points in the Nation and explain that when an earthquake causes billions of dollars in damage, destroying institutions of higher learning and homes and businesses and other areas is not to be taken lightly and certainly the Federal Government has a role.

We are here for oversight reasons. We are here to make sure that the money that is appropriated is well spent. In an effort to make sure that it is well spent, that we acquaint ourselves with

the operations of FEMA and other relevant authorities. So I congratulate the chairman for having these hearings, for bringing Members from outside of the near area and with that I yield back.

Mr. HORN. Thank you very much.

I now yield to Mr. Dreier, the gentleman from California and east Los Angeles.

Mr. DREIER. Thank you very much, Mr. Chairman.

Leave it to Steve Horn, a former university president, to bring us to a university campus. It is very nice to be here and I will say that it is amazing for me to see the devastation that still exists here, just as we were driving in. I would like to say that it is an honor to be with my friend and colleague, Buck McKeon, who was on the front line 2 years ago dealing with this situation here.

Also Mike Flanagan, I got a call at 6 this morning from my sister who is almost, not quite, a constituent of his telling me about the snow and the weather in Chicago. So I will say that I know that it was a real sacrifice for Mr. Flanagan to come to southern California.

Mr. FLANAGAN. A shattering one.

Mr. DREIER. Yes, but I will say, to respond slightly to Michael's remark, earthquakes are not simply a California phenomenon. There are 39 States of the 50 that have a high propensity, not as high as California's in many instances, but do have a propensity for earthquakes. We all know that the most serious earthquake in the history of this country did not take place here in California or Alaska, but on the Madrid fault line, right in the center of the United States. It seems to me that the presence of Mike Flanagan and Tom Davis and others from around the country will help us demonstrate that this is not simply a regional issue and it is one that needs to be addressed nationally.

I will never forget on October 1, 1987, it was late morning and I was on the floor of Congress and my very good friend and colleague, who I guess is going to be here later, Esteban Torres, came up to me on the House floor and said, "David, did you hear about the California earthquake this morning?"

I naturally felt helpless, and I found that that earthquake was 5.9 in magnitude, it took place in what is known as the Whittier Narrows area, which at that time I was privileged to represent.

In the wake of that we had not only the tragedy of the earthquake, but, quite frankly, a very tragic experience dealing with the Federal Emergency Management Agency and other Federal agencies. And my office was there for literally days as the only Federal entity on the spot in the wake of the Whittier Narrows earthquake.

So I took it upon myself, working with a number of my colleagues, at that point to ensure that we improve the coordination between the State and the Federal Government. I am pleased to see Dick Andrews here. I should say it is great to see James Lee Witt and Dick Andrews and others of you in what is other than a disaster situation. I mean, every time I look at you all we are dealing with a real tragedy. So it is nice to see you.

But we were able, following the 1987 earthquake, I believe, to take some very major steps in preparation for another earthquake.

We all know what happened 2 years later on October 17th. I was, at that point—we all remember where we were during these earth-

quakes—I was watching the World Series, like many people, in Washington, DC, in my office and, of course, we could see what happened then. In the Loma Prieta earthquake, I believe, and based on the reports that I got from our colleague, Tom Campbell, and many others, we were able to respond more effectively to the Loma Prieta earthquake because of the things that we had learned from the Whittier Narrows earthquake in 1987.

Likewise, I believe that the Loma Prieta quake helped lay the groundwork, with the fine leadership of James Lee and Dick and others, for the tragedy of the Northridge quake.

As was said by Julian, the response was not perfect, but it clearly has been a marked improvement over the situation that I faced in the area I represented in 1987. I hope that this hearing will join in our effort to bring about legislation which will allow us to deal on a nationwide basis with the earthquake problem and the overall natural disaster effort, which our colleagues Bill Emerson and others have been involved in back in Washington.

It seems to me that we do need to realize that the American people have had a pattern, a pattern of whenever any kind of natural disaster hits they look to one place, the Federal Government. The Federal Government has been, in the eyes of many, the panacea to the challenges of natural disasters. I believe that that must come to an end.

Last year, for the first time ever, in providing assistance following the Northridge quake we were able to see the U.S. Congress provide assets to deal with the emergency appropriation. I am glad that after the President had vetoed that initial bill that he finally signed the bill to provide assistance out here for that.

I think that as we look toward the future it is very apparent that we have to find ways in which we can develop a private/public partnership to wean the American people away from total reliance on the Federal Government as its source in the response to these disasters.

So I would like to again say it is a privilege to be here with my pal, Buck, and I am very proud of Steve Horn's superb work. He has done an excellent job on this and he has been very diligent in every issue that he has undertaken. I look forward to the testimony of our friends and I guess I should apologize right now that I am going to have to be at a lunch down in Los Angeles. So I will cut my statement off, after having spoken for 15 minutes, and move ahead.

Mr. HORN. I now yield to the gentleman from California, whose jurisdiction the campus at Northridge is located and a good part of the damage of the earthquake occurred, Buck McKeon.

Mr. MCKEON. Thank you, Mr. Chairman.

It is intimidating having to sit here next to Mr. Dreier and follow him at the microphone. He has this golden tongue and he is able to go on and on and always says great things and says them in a great way. But it is a real honor to be here with him and our other colleagues here.

I would like to say, Mr. Chairman, I have had the opportunity of working with you since we went to Congress. In my opinion you are one of the hardest working Members in Congress. We went on a trip, I remember, in the Public Works Committee early on, and

the rest of us, when we would get on the plane would kind of sit back and relax and the chairman would start going through volumes of books, reading and marking, and I thought he never stops. I appreciate your coming here to our district and holding this hearing.

I think early on in the disaster I talked to Director Witt and I said, you know, it is really important, the leadership. I remember the room when we opened the first disaster center, Dick was there, the Governor was there and your first words were, we need to stick together, and everybody did and I think that it was great to be a part of that, that we could all pull together and we weren't talking about Democrats or Republicans or liberals or conservatives or whatever. We were pulling together as Americans to try to help people through a tough time.

I am pleased to be a part this morning of this House Subcommittee on Government Management, Information, and Technology, to evaluate the Federal Government's response to the 1994 Northridge earthquake.

Mr. Chairman, as you know, on January 17, 1994, my district was hit by one of the most damaging earthquakes in our Nation's history. This disaster resulted in over 70 deaths, more than 18,000 injuries and damaged nearly 60,000 structures, many of which have not yet been repaired and are still visual reminders of that. Several freeways and bridges linking Los Angeles with other parts of the county collapsed, causing massive traffic disruptions. FEMA estimates the total damages at \$25 to \$30 billion, making it the costliest disaster in our history.

California State University at Northridge, which is hosting this hearing today, suffered dramatic damage. Several buildings were too damaged to be repaired and another 15 to 20 required major structural repairs. The full and partial closings of buildings delayed the start of spring term for 3 full weeks.

We were just getting ready to start classes and I think without the leadership of Dr. Blenda Wilson, the president of the school, and the way she was able to rally people and to get things going, we probably would have lost a whole semester. And I want to commend her for the great work that she has done.

In the aftermath of this terrible disaster, FEMA, together with local government disaster agencies, rose to the challenge and immediately implemented emergency plans and opened dozens of emergency operations centers, to serve hundreds of thousands of victims.

In those early days and since then, I have had the opportunity to work closely with FEMA and OES to assess disaster recovery plans and ensure the flow of Federal aid to rebuild homes, locate temporary housing and procure low interest SBA disaster loans.

I was at a meeting just the other night where a local agency was handing out awards for people who had done great things to recover and to get their businesses back and to keep people working through this period. While no one doubts the tremendous hardships suffered by victims of this earthquake, I can assure you that without FEMA's early relief and recovery efforts the disruption of their lives would have been far worse.

While there are still several important issues facing us today, such as the funding of several damaged hospitals and schools under the public assistance program, defining hazard mitigation regulations and the review of mobile home bolting inspections, the vast number of disaster applications have now been completed and adequately funded. Much has been learned from this disaster and it has been reaffirmed the lesson that reducing property damage and life loss in earthquake is a continuing process of improving design codes for new construction, expanding the capability of Federal and State emergency response systems and educating every resident of California about how they protect themselves from the dangers of earthquakes.

Again, I thank you, Mr. Chairman, for allowing me to participate in this meeting and I look forward to hearing from our panels.

Mr. HORN. Thank you very much.

It is now my pleasure to introduce a very distinguished representative from southern California, Esteban Torres, who is a member of the House Committee on Appropriations and, at the time of the earthquake, was a key member of the so-called "Veterans Affairs, Housing Urban Development Independent Offices Appropriation Subcommittee" under which the funding for the Federal Emergency Management Agency occurs.

So we are delighted to have you with us this morning. Would you have some comments to add?

Mr. TORRES. Thank you, Mr. Chairman, for your kind introduction.

I want to thank you and the members of the panel for being here with us today. I certainly want to welcome Director Witt and the mayor to this very important hearing.

While I have no statement, I just simply want to acknowledge and thank you for bringing this hearing about. It is very important for us to be able to, after this anniversary of this disastrous occasion to revisit what has happened and the role that the relevant agencies of Government, the city of Los Angeles and the Federal Government have taken. So that we can measure and look at for future type situations.

I look forward to hearing from Director Witt's comments, as well as the mayor's and to that degree, Mr. Chairman, I yield back the floor to you.

Mr. HORN. Thank you very much.

Before I introduce the director, we have with us this morning, and she will be a very prominent spokesperson on the last panel, Dr. Blenda Wilson, the president of California State University Northridge. I would like her to come forward.

We want to thank you for all the help which your very fine staff has given this subcommittee. It has really been superb and we deeply appreciate it, when you are running one of the largest educational institutions in America, to have your staff take the time they have with us. So thank you and I think you wanted to say a few welcoming remarks.

Ms. WILSON. I do.

Mr. HORN. We will be glad to hear that.

Ms. WILSON. Thank you Congressman Horn, Congressman McKeon and members of the committee.

It is my pleasure to welcome you to Cal State Northridge. We are pleased that you would elect to hold a hearing on this important agency and important topic on our campus. We are pleased also to welcome back to the campus Director James Lee Witt and the Director of the Office of Emergency Services, Dick Andrews, and members of the staff of FEMA and OES, many of whom we have come to know quite well over these past 2 years.

Sitting in this lovely climate today, in a campus that, for all the previous damage, looks pretty normal, to us at least, it is hard to visualize last week's blizzard of 1996, a storm with enough awesome power to paralyze the entire eastern seaboard, a circumstance in which the services of FEMA were once again tapped and mobilized. It is also difficult in this almost normal environment to visualize the devastation of another catastrophic event, the Northridge earthquake of 1994.

Seen through the prism of time, for sure, much has been accomplished at the campus, but the road to recovery has been long and winding. All 107 structures within the physical plant, 53 of them major facilities, were effected by the earthquake. It was only through the extraordinary and dedicated efforts of university faculty, staff and students, relief and community service agencies, local government officials, construction crews and contractors and particularly our California congressional delegation that we were able to open the campus on February 14th, only 2 weeks off the normal schedule.

FEMA's performance during that time was essential and exemplary. During the 4-week window, we moved rapidly from operating the campus out of one tent to multiple tents, to off campus sites and finally to 480 temporary structures, trailers and domes.

Six months later, by the beginning of the fall of 1994, we were able to move back partially or fully into some of our buildings. Most importantly, we were able to reopen the main core of the Oviatt Library, just 3 days before the start of fall classes, a feat no one thought could be accomplished, including the project engineers.

We are eager at this time, near the second anniversary of the earthquake, to conclude discussions, which we are currently having with FEMA, to provide a summary grant to Cal State Northridge, to enable the campus to complete repairs totally by December 1997.

Later in the program I will testify more directly and specifically on the university's emergency response and how the campus interfaced with FEMA and other governmental agencies, what worked, as well as some ideas on improvement and some of our experience about those things we learned as a university. I believe our experience can be both useful and helpful to the subcommittee members. And I look forward to hearing the testimony today.

Again, our welcome. We are delighted you are here.

Mr. HORN. Thank you very much, Dr. Wilson. It is a great pleasure to have you here.

We will now begin with our first witness, the very distinguished Director of the Federal Emergency Management Agency. When I first came to the House in 1993 and served on the then Public Works Transportation Committee and this committee was called Government Operations, after a few hearings in which the Director

participated, all the old-timers, regardless of party, regardless of ideology, said this is the best person we have seen in that job. He has certainly lived up to that reputation. On a bipartisan basis he is a highly regarded professional who had a distinguished State experience in dealing with emergencies and has brought that understanding of State-Federal cooperation to Washington, DC. So we are glad to have him with us.

Now the tradition of this committee is to swear in all witnesses as to testimony and I will shortly do that and with the key witnesses, such as the Director, the mayor, the director of the California Emergency Services National Guard, we will have somewhere between 5 and 10 minutes of oral presentation from the heart, looking us in the eye. And they have all brought very full statements which will be automatic for each witness that we put in the record immediately after introducing them.

So we are interested in the highlights, the summary of those statements and then we will have a round of questions, limiting each Congressional Member to 5 minutes. We won't stop with one round, we will stop when everybody says I have had it in terms of the questions I have available. So we will alternate between parties with 5 minutes.

Now, Mr. Director, if you will stand we will swear you in.
[Witness sworn.]

Mr. HORN. The clerk will note that the witness has affirmed.
We are delighted to have you summarize your statement.

STATEMENT OF JAMES LEE WITT, DIRECTOR, FEDERAL EMERGENCY MANAGEMENT AGENCY

Mr. WITT. Thank you, Mr. Chairman and members of the committee. It is an honor to be here with you today for this very important hearing and I really appreciate the opportunity to be here and to discuss the response to the Northridge earthquake.

I really want to thank Blenda Wilson for her hosting this committee hearing as well.

As we look back 2 years ago today and what happened and the disruption and cost with freeways being knocked down and lives being put on hold—

Mr. HORN. Mr. Director and the staff, we are going to need to keep that microphone very close. We have this happen often.

Mr. WITT. OK, I'll try better.

Mr. HORN. Otherwise they can't hear.

If you can't hear in the back put your hand up and we will get it closer.

Mr. WITT. We had 57 people that lost their lives in this earthquake and we had thousands of people that were homeless. We had schools, hospitals that had been disrupted and we had search and rescue teams from not only California, but other areas that came in. And we had people sleeping in the parks. I will never forget when Dick and myself and some of the staff had walked through the parks and talked to these people and little kids laying on their blankets in those parks without any protection. And every time we had an aftershock the people that could go back in would run back out. It was just devastating.

It was, of course, the largest disaster that we have ever had that would hit an urban area. We had taken over 681,000 applications from individuals. And the total losses, as the chairman said earlier, \$25 to \$30 billion in losses. FEMA to this date has provided \$3.4 billion in the recovery efforts on public assistance and individual assistance, plus billions more dollars from other Federal agencies.

The administration's comment and the President's comment was, on that first day, do whatever we have to do to help California recover. What he meant, and what he intended, and what he wanted, was that we utilize every available Federal resource to make sure that we supported the State and local efforts in the recovery and response that we had to do.

Also there was a commitment by not only you, the Members of Congress, but also from the President and all of us that we would be here as long as it took to help make sure that that recovery effort was completed in long-term.

The scope and the magnitude of this earthquake required FEMA and other Federal agencies to really come together and foster a partnership. I remember several nights that Secretary Riley, Secretary Peña, Rodney Slater, the Federal Highway Administrator, Secretary Henry Cisneros, and all of us would meet late in the night together to make sure that that effort was united. That has made a big difference in how we respond, by doing it together and maximizing that Federal dollar to its limit in disasters.

We formed partnerships with Mayor Riordan, Blenda Wilson, here, other subgrantees, Dick Andrews and the State OES, Governor Wilson's office. What was really interesting was the partnership that we had formed with you, Members of Congress and your staff. We had Members of Congress and their staff working with us on outreach teams in the communities, going out and coming back and saying, you know, we have got a problem over here, what can we do about this. It was a tremendous effort and it helped us a great deal.

We had a tremendous effort by all of the communities in supporting what we were doing in outreach and community leaders. The community-based organizations here in California just did a fantastic job in outreach and helping us to get information out to those individuals. They passed out information in churches on Sunday morning church services at night, which really made a big difference.

The people of Los Angeles themselves, the strength that they had to endure this and to overcome those odds was incredible. You saw neighbors helping neighbors and supporting each other in this crisis.

We did create a lot of new innovations. We did fast track housing. Of course there was mistakes, but any time you make those changes and try to do it better and more effective and more efficient and with that mass of people that needed assistance, and Dick Andrews and I talked about this, is there a way that we can get that assistance out faster.

So we used the State's modeling system and overlaid it with zip code maps to help get that money out to those individuals to get their lives back faster. And yes there were some that did not deserve to get that money, but it was over 85 percent accurate on

what we did. There has been a tremendous effort and some people that didn't need the money sent the checks back and other people's has been collected since then.

The IG's office, very early I asked the IG to come out here. I asked our general counsel to come out here to be part of our team. And very early Dick and myself, and the IG, and all of us decided that we were not going to tolerate fraud and that we were going to have the press conferences and we were going to advertise this. We would not tolerate fraud, because the people that needed this money, it was important that they get it. And that worked very well.

We had an Ace Computer Compact which we used for the first time, where it would actually estimate the damages when the inspectors went out. It cut the time down considerably in getting checks back to individuals and that was the first time we have ever used it.

The recovery channel, between the State OES and FEMA, we established a recovery channel for the first time, by satellite, that would link up 100 different cable television stations could pull this recovery channel down with vital information to those individuals and businesses and elected officials and it worked extremely well. Service centers, we set up 11 service centers where all State agencies, Federal agencies would be in a service center where people could just come in and inquire or had problems and we would try to follow through and take care of those problems.

The language barriers that we had were just incredible and it was a task in itself to make sure that we had the people in service centers, on our hotline, that could answer their questions in several different languages. I think the outreach teams that we had here with the State and FEMA and the local constituents and community based organizations made a tremendous difference. For the first time, California OES and FEMA had an outreach team that worked individually with those local elected officials, saying this is what you are going to have to do, this is what we need.

We signed an MOU with the State of California on mitigation. Has it made a difference? Maybe it is fixing to really start making a difference by putting more of the responsibility and the authority in the State's hands to approve or disapproved mitigation projects, with FEMA following through, providing technical assistance or whatever we need to do.

We are working on a national MOU now with NEMA and Dick is the president of NEMA now. Where we can sign an MOU with every State in advance of a declaration or a catastrophic disaster or whatever it may be, where it could be in the forefront and then already have it planned and in place and ready to go. Lessons learned? Absolutely, centralization of application process and functions work. It actually works and it speeds up the process.

FEMA and the Nation need to develop better ways of coordinating damage assessments, particularly in earthquakes. We learned a lot from that in California. The new contract we have with contractors on inspections, we put it in their contract that these inspectors had to be trained. The need for pre-identified teams of highly specialized responders, very early, first week, it was very

clear we had to bring in some very competent people that could set these programs up very quickly.

When we got through with that we went back to Washington and I said we have to form some teams. We formed three teams of very highly skilled people to be part of these teams. These teams now are the red, white, and blue, teams that would respond to disasters like Hurricane Marilyn and they would stay on the scene for 3 weeks just setting the programs up, the disaster field office up, and making sure everything was functioning and functioning correctly. These teams are on alert every month and we activated them in Marilyn, we activated them in Hurricane Opal and they worked extremely well, much faster.

The difference between the urban and rural disasters, as I said earlier, it was the language barriers. It was very critical that we had people to come in to help with that. The State OES and FEMA and also American Airlines supported that effort, as well as National Guard and Army Reserves. The American people, local and State officials and Congress had expressed their desire for us to be expedient, flexible and compassionate when we administer our disaster funds, but in doing so we must find solutions which will uphold our responsibilities as well and we must be good stewards of the American tax payer's dollars, as well.

So what do we find ourselves in? We find ourselves in a situation, many times, where as we respond and we go into recovery efforts we find ourselves having to solve problems. We find ourselves trying new approaches which creates problems. We find ourselves trying to evaluate and modify, but it may cause problems during that time right then, but it is going to improve our agency and the Federal Government's response in the future, which I think will make a big difference.

Building back better? Absolutely. Mitigation is the key to make a difference in California, in the midwest, in the Virgin Islands, wherever it may be. The schools, when I walked through the schools and saw all of the suspended lighting and the suspended ceilings that fell on all the school desks, just think what we would have had if those children or those faculty members had been in those schools. The fatality would have been much higher, injuries would have been much higher.

So it is important that we secure those ceilings in the future that they will not fall and that is what mitigation can do. Hospitals, we have been working very closely with the hospitals in California and the State OES and we have made some changes and some recommendations instead of the normal process that we have been going through and going through that appeal process if need be.

So we have worked with them in establishing what we call algorithm in doing mitigation and letting them use those dollars for alternate projects, where they can build back better. Has that caused some problems? Absolutely? Is it going to be better? I think so. Will it make a difference? I think it will, because what is critical is for those hospitals and those critical care facilities be up and operating the next time we have an earthquake. And that those patients know that they are secure and they are safe when they are in that hospital. Because that function is absolutely critical. With the people that we had injured in Northridge and the people that were in

those hospitals, it is just essential that they be operational. So this I hope will make a difference in helping them to build back better.

Homeowners mitigation and housing programs can make a difference. We have had thousands of people to be part of that. Have we had some problems in that? Yes, sir. The bolting that you mentioned earlier, yes there were some problems there. We worked through thousands of those and based on the thousands that we have helped, it is a minor problem, considering how many we have helped and with the people that are coming back with appeal.

In our guidelines for still movement frame buildings, we are reviewing those. We are looking at those, because the still movement frame buildings did not do what they were supposed to do under this type of an earthquake. So, hopefully, working together with the State in engineering we can come back with recommendations of how to improve that.

Closing remarks: there have been those who have questioned the Government's commitment to long-term recovery in California. On behalf of myself and the administration, I can assure you that we will be here as long as it takes to help support the State and local effort in that recovery. It is important that we do whatever we can to get these communities back in full operation, because it impacts the whole Nation, not just California.

Mr. Chairman, thank you.

[The prepared statement of Mr. Witt follows:]

**Testimony of James Lee Witt
Director
Federal Emergency Management Agency**

Thank you Chairman Horn, members of the Subcommittee, and members of the Los Angeles delegation for inviting me to address this distinguished panel on FEMA's response to the Northridge Earthquake.

I must first applaud your leadership in acknowledging the two-year anniversary of this catastrophic disaster by coordinating this forum to assess what our response has been to date, and what we plan to do in the future. These hearings give me the opportunity to reaffirm the Administration's continuing commitment to the long-term recovery needs of Southern California.

It is hard to believe that it has been two years since a 6.7-magnitude earthquake produced the largest disaster ever inflicted on an urban area in the United States. The Northridge earthquake claimed the lives of at least 57 people, injured more than 11,000, damaged approximately 114,000 residential and commercial structures, and caused \$20 to \$25 billion in estimated property damage and economic losses. In less than 30 seconds of shaking, the Northridge earthquake surpassed Hurricane Andrew as the nation's costliest disaster in terms of federal expenditures.

The human toll of this disaster is reflected by the more than 681,000 applications FEMA received for assistance from people whose homes were damaged or destroyed. The number of people seeking state and federal disaster assistance was more than double any previous single U.S. disaster.

Minutes after the earthquake hit, the federal response to the disaster was taking shape. President Clinton directed all federal agencies to devote their resources to response and recovery efforts. Within an hour, FEMA's Regional Operations Center was activated and we joined forces with the Governor's Office of Emergency Services and other Federal agencies to mobilize emergency shelter for disaster victims; provide food, water and emergency supplies; dispatch emergency medical and urban search and rescue teams; clear debris from damaged roadways and bridges; and begin the repair of impacted bridges and highways.

By the end of the first day, I, as well as Housing and Urban Development Secretary Henry Cisneros, Department of Transportation Secretary Federico Pena, then SBA Administrator Erskine Bowles, and Federal Highway Administrator Rodney Slater, were on-scene to direct a wide-ranging response effort. With our state and local partners, we forged a monumental recovery effort for disaster victims in Los Angeles, Ventura, and Orange Counties.

Through the cooperative efforts of 27 agencies, and the American Red Cross, the federal disaster response met the benchmark that President Clinton set for recovery operations -- that it be *collaborative, fiscally responsible, flexible, efficient, compassionate and fast*.

FEMA has spent over \$3.4 billion thus far in its disaster relief and recovery efforts.

Our individual assistance programs meet the immediate temporary housing and other critical needs of disaster victims. To date, FEMA has obligated over \$1.4 billion to the more than 680,000 people seeking housing repair funds, mortgage and rental assistance, disaster unemployment assistance and a variety of essential unmet needs. Since January 17, 1994, more than 2.6 million people have called our helpline seeking disaster relief information; FEMA has reached more than 1.7 million people to offer crisis counseling services through providers in the three-county disaster area with FEMA's disaster mental health programs; and more than 134,000 people have applied for funding to repair and strengthen their homes to prevent future earthquake damages.

Through our infrastructure program, FEMA has obligated more than \$1.7 billion to help local and state governments and certain non-profit agencies. More than \$600 million has been provided to help rebuild public facilities such as schools and hospitals. We have also provided \$278 million for debris removal, \$435 million for emergency protective measures, \$13 million for repairs to roads and bridges, \$3.7 million for water control facilities, \$260 million for utility repair and \$117 million for various other recovery costs in the public sector.

These cold numbers represent real human needs and hopes. Three months ago, I visited Santa Monica Community College, a campus of 22,000 students, which boasts the proud distinction of sending more community college students to California's four-year university system than any other local school. I went to the campus to announce that FEMA would be providing almost \$19 million for the reconstruction of their science building which was totally demolished in the earthquake. Since the earthquake, students took science classes in what they called "Science Village," a remote set of temporary mobile classrooms which are also being funded by FEMA. With construction set to begin soon on this new science building, we are providing the funds to construct a facility that complies with current earthquake building codes which will protect the building against similar damage in the future. This is only one example, out of 513 infrastructure applicants where FEMA funds not only rebuild the buildings, but in doing so rebuild community.

Our preference of course is to reduce the number of devastated communities and families in the future. The Hazard Mitigation Grant Program provides funds to reduce or prevent property damage in future disasters. We anticipate providing \$700 million in matching funds under this authority. The program is just getting underway, but we have already made significant mitigation investments in this earthquake recovery. For example, when I toured schools immediately after the earthquake, I noticed that many ceiling systems had completely collapsed onto desks, onto labs and onto the shelves of school libraries. There is no question that, had the earthquake occurred during school hours, a number of students and faculty would have been seriously injured or killed. Last month, I approved the allocation of \$106 million in mitigation funds to retrofit school ceilings in 63 school districts throughout Southern California. These funds will be used to secure suspended ceilings and attached lighting systems in more than 13,000 school buildings to assure the future safety of our children.

The amount of federal assistance provided for this disaster is only one part of the Northridge earthquake recovery. As I indicated before, President Clinton directed that this recovery effort be *collaborative, fiscally responsible, flexible, efficient, compassionate and fast*. From January 17, 1994 to January 19, 1996, FEMA has continued to develop innovative strategies to provide service more quickly and efficiently than ever before. Eliminating time-consuming bureaucratic procedures, making use of the latest technological advances available to the federal family, and developing strong partnerships helped to produce new ways of delivering relief to the victims of this disaster.

Expediting assistance was the number one goal of the federal government following the earthquake. The President's immediate disaster declaration enabled the government to mobilize its resources on-the-spot. When senior administration officials arrived in Los Angeles, they were able to offer disaster funding immediately to ensure that victims received the help they needed. Federal programs were adapted to meet the unique needs of earthquake victims, and disaster assistance applications were simplified to make it easier and faster to apply.

The enormity of this disaster demanded that we find creative ways to deliver assistance on a massive scale. An immediate infusion of 5,000 federal disaster workers enabled the agency to quickly set up a comprehensive disaster assistance network that covered more than 2,100 square miles severely impacted by the earthquake.

Three days into the disaster, 11 Disaster Application Centers were strategically located throughout the disaster area to bring assistance to the thousands of victims seeking assistance. Eventually 21 centers were opened and mobile application centers were established in 80 locations to reach individuals who otherwise could not register for assistance. One month into the disaster, FEMA opened and operated 11 long-term Earthquake Service Centers, which enabled disaster victims to meet with representatives from all disaster assistance providers. More than 150,000 people applied for Federal disaster assistance at these centers. In the one year period of April 1994 to April 1995, 430,000 persons visited the Service Centers for a wide variety of Federal, State and local help available.

For the first time in any disaster, FEMA implemented a Fast Track Disaster Housing Assistance Program. To get money rapidly into the hands of victims, FEMA provided expedited assistance using a zip code map in conjunction with a seismic map of the area hardest hit by the earthquake. The overlay of the maps identified where the most damaged homes were likely to be. Housing checks were immediately sent to all individuals from those areas that had applied for aid, prior to completing inspections. An inspection team was later sent to verify losses and a collection process was put in place so that only those who needed the funds ultimately received them.

In responding to the needs of disaster victims, we have to be vigilant in our responsibilities to the taxpayers. In doing so, I am fortunate to have a solid management team that includes my Inspector General (IG) and Chief Financial Officer. Disaster response is the

responsibility of all of FEMA. Immediately following the earthquake the IG investigators were on the scene and organized a multi-agency task force to address fraud against FEMA and other disaster assistance agencies. They were given high visibility in press conferences and included fraud awareness as part of our employee training. The results have been very positive and I am convinced that the high profile of our efforts discouraged others from engaging in fraudulent activities.

For some time, FEMA has been looking to the use of advanced technology to support our operations. For instance we use a toll-free registration number to accept registrations from disaster victims over the telephone. Following the earthquake, over 530,000 people took advantage of this convenient service, which saved the government money and disaster assistance applicants valuable time.

FEMA housing inspectors used the newly developed Automated Construction Estimates (ACE) system. The ACE system, a hand-held computer, allowed inspectors to record disaster damage evaluations in the field and transmit them to a central computer for processing. This innovation saved taxpayers an estimated \$36 million in administrative and processing costs and significantly hastened the delivery of disaster assistance by removing travel time of inspectors to the central office.

Disseminating disaster information to the public is one of the most important efforts this agency undertakes in times of crisis. Immediately following the earthquake, we established the Recovery Channel, a 24-hour disaster information network that was broadcast on 125 cable television outlets in English, Spanish, and various Asian languages and dialects. The Recovery Channel provided up-to-date disaster assistance information to millions of impacted residents. In addition, the "Recovery Times", a FEMA newspaper, provided written information to victims in the various languages and dialects present throughout the disaster area.

As a matter of pride, allow me to point out that FEMA has just won two technology leadership awards for our innovative use of technology in disaster; one for the use of the ACE system to collect and process residential damage and reconstruction costs, and the other for our information dissemination efforts via the Recovery channel. Using technology is one of the ways we have improved our response, and we will continue to look for opportunities to do so in the future.

Under our broader interests in promoting disaster awareness and preparedness with the public, FEMA has a long history of sponsoring and encouraging the development of public safety materials. Contributing to earthquake awareness, FEMA sponsored the publication of two reference materials which examined the seismic characteristics of the Northridge earthquake, and its impact upon the structural integrity of buildings; "Putting Down Roots in Earthquake Country," and "Northridge Earthquake: Turning Loss to Gain". Both of these efforts were collaborative, involving other Federal and State Agencies and other seismic experts.

Another multi-year project which we are funding as a result of the earthquake is on the performance of steel moment resisting frame construction. This construction method failed to perform in Northridge as expected, and thus triggered a major review. The first phase of the project was to develop interim guidelines to provide guidance for the repair and retrofitting of damaged buildings. Following their development, to promote wider awareness, we conducted a series of public seminars on the interim guidelines, including one here in Los Angeles on September 19, 1995. The second phase of this project, anticipated to take as long as three years, is the development of design criteria for steel moment resisting frame construction to address the rehabilitation of existing buildings and the design of new construction. This resource document could be incorporated into model building codes that guide design and construction throughout the country and will have significant impact on the efforts of jurisdictions not only in California, but in the central and eastern United States in mitigating seismic risk.

Partnership is a cornerstone of disaster response. The partnership that was formed between the 27 federal agencies and the Red Cross responding to this disaster enabled us to avoid a duplication of efforts and expedite disaster relief. Our partnership with the Governor's Office of Emergency Services has been invaluable in getting disaster relief on the streets and into the hands of individual victims, local governments and others who are recovering from this catastrophe. I want to thank the state of California, and in particular Dr. Richard Andrews and his staff, who have worked with us in meeting Southern California's rebuilding needs. And our partnership with local officials, community leaders and community based organizations, especially in the early days of the response, allowed us to forge a team which effectively molded the disaster response to fit the nature and needs of this community.

The saying that "hindsight is 20/20" is especially true for those who manage disaster operations for a living. With an event as large as the Northridge earthquake, there are bound to be recovery efforts that did not meet expectations, or, had unintended consequences for the agency and for disaster assistance applicants.

Under the public assistance program, the Architectural and Engineering (A&E) review process initially used is a case in point. As originally agreed to with the State, the state and local applicants for public assistance were charged with documenting structural damages to facilities caused by the disaster. This was done for three primary reasons: (1) to be able to provide funding eligibility decisions to State and local applicants while the project design was still in the concept stage, thus reducing the amount of work necessary to obtain a FEMA decision and obtain assistance, (2) to reduce the time that inspections would require so FEMA could reach as many applicants as possible in as little time as possible; and (3) to identify and resolve issues at the beginning of the process, so that they would not impede progress later. However, damage estimates submitted to FEMA revealed that applicant consultants were not familiar with FEMA eligibility criteria. Ultimately, we did have to conduct our own A&E inspections to clarify and verify applicants' requests for assistance which led to some discrepancies in what applicants requested and what the agency had the authority to pay for.

In an effort to provide immediate assistance to affected governmental and certain private non-profit applicants, FEMA advanced \$305 million to the State and local governments to fund immediate needs such as emergency shoring and debris clearance. Unfortunately, we are now learning how difficult a task recouping and accounting of these funds really is. We are fine tuning this concept for future implementation rather than abandoning it because the advanced funding played a major role in keeping several applicants afloat during their response and recovery phase of activity. I think this example illustrates one of the tensions in disaster response. The American people, local and state officials, and the U.S. Congress have expressed their desire for us to be expedient, flexible and compassionate in our administering disaster relief. But in doing so, we must find solutions which uphold our responsibilities to be prudent stewards of the Nation's resources. Consequently we find ourselves in cycles of problem solving, trying new approaches, evaluating and modifying.

Both FEMA and California's Office of Emergency Services are aware that we need to speed up the delivery of our Hazard Mitigation Program so that it becomes a more integral part of the recovery efforts. In the interim, FEMA and California have signed a Hazard Mitigation Grant Program Memorandum of Understanding which will ensure the delivery of the program much more quickly in future disasters and which vests greater authority in the hands of the State.

As the long-term recovery effort for the Northridge earthquake focusses on the future, our programmatic thrusts will reflect the new direction of FEMA. At a time of financial belt tightening in Washington, and throughout the country, it is imperative that we continue to minimize the costs of disaster assistance, yet continue to meet the needs of the victims.

Over the last few years, the people of California have been tested by man-made and natural disasters. I am proud that FEMA has worked diligently to respond swiftly and effectively to each event. However, the state of California, and the nation, cannot afford the cost of back-to-back disasters. Mitigation is the only way we can reduce the drain on the U.S. Treasury posed by future hazards.

New disasters, without increased mitigation programs, can potentially drain the federal budget and restrict our ability to control escalating disaster costs. Mitigation is the future of emergency management and mitigation is a priority at FEMA. Rebuilding following a disaster is one opportunity to build communities safer and more able to withstand the next disaster.

There are a few more mitigation initiatives that I would like to share with you and that I believe demonstrate the direction FEMA will take in order to diminish the impact of natural hazard events in America.

One is an exciting initiative to rebuild hospitals damaged in the Northridge earthquake to a level of mitigation that goes beyond the life-safety standard. This discretionary mitigation proposal will ensure, for the first time, that hospitals in earthquake zones will be designed to

function in the event of another quake. Critical care facilities, such as hospitals, must continue to function after a disaster. The seismic retrofit of hospitals is a significant step in mitigating the earthquake hazard in Southern California.

We also want to work with the Congress to develop pre-disaster mitigation incentives and opportunities, the intent being to help protect communities before disaster strikes by providing assistance to undertake a host of mitigation activities. For example a pre-disaster mitigation fund which could be used to retrofit critical facilities in high risk areas. Such a fund would complement our current efforts to help states set up Disaster Trust Funds. We are also interested in using cost share formulas for Federal assistance as a mitigation incentive. We will continue to work on the development of new incentives that will make it easier for state and local governments to invest in mitigation. Public buildings that are well-built, and built to codes will benefit us all in reducing the costs of disasters.

The federal government has responded to the Northridge earthquake on an unprecedented scale. Two years later, I am proud of the assistance that we have provided to Southern Californians. Much more remains to be done in this recovery operation. It will take years for impacted communities to rebound from this devastating event.

There have been those who have questioned the federal government's commitment to the long-term recovery of Southern California. Today, I echo President Clinton's early pledge that we will do everything we can to respond to the continuing needs of individuals, families, businesses and communities arising from the Northridge earthquake. That promise is as real today, as when it was made on January 17, 1994. I look forward to working with you as we confront the recovery challenges that lie before us.

Thank you, both for your interest today and in the support you have given me and the staff of FEMA.

Mr. HORN. Thank you very much for that very thorough overview.

I now yield the first 5 minutes to the vice chairman of the subcommittee, Mr. Flanagan of Illinois.

Mr. FLANAGAN. Good morning, Mr. Witt.

Mr. WITT. Good morning.

Mr. FLANAGAN. I compliment you on a very fine and thorough statement. They need to hear me, too, OK.

The scope of the earthquake was, I guess, apocalyptic really isn't too bad of a term to use, considering the tens of billions involved in the losses and the loss of life. What impediments did you endure on your way to recovery, which we are still going through?

I am not talking about the larger picture ones that you were talking of mitigation and other things where we can cure those. I am talking about a far more technical level, things that we can correct immediately.

What along the way was in your way to get things done? How can we fix it? How can we make it better, get it out of your way so we can streamline this and what wasn't in your way, perhaps, that you thought was that we can key into and make sure that that mistake doesn't happen again, if there was one?

Mr. WITT. There was a lot of mistakes and a lot of lessons learned. There is no doubt about that. I think that one of the most important lessons that I have learned, since being with FEMA and particularly brought to my attention in Northridge, was the fact that a lot of the staff at FEMA, they work very, very hard and are very dedicated and they really want to make a difference, but what has happened over the years is that they have been involved in so many disasters that, they have basically taken those disasters and have said, well, this is the way we did it the last time.

So what is important, from what I learned here in California, was a lot of the decisions that were made and have been made in previous disasters were based on what they had done before without having policy established. So what we are doing now, we are going back and developing that policy to have a policy book where we can share that book with our Federal coordinating officers like Leland Wilson, like the State director, Dick Andrews, and like our disaster field offices. They can open the book and there is that policy and that was not there. Some policies are, yes, but not the policies that we need in place to address mitigation, to address public assistance, individual assistance and temporary housing and all of those vital programs in the disaster.

Mr. FLANAGAN. Perhaps on a more specific level, could you tell us, anecdotally perhaps, you are talking to someone who has never been in an earthquake, not even a small one—

Mr. HORN. Stick around.

Mr. FLANAGAN. Yes, stick around, thank you. [Laughter.]

I am going to take you back to Chicago with me and introduce you to the concept of snow.

My question is really, can you tell us about—we just received some testimony a few minutes ago that we will hear later from the California Community Foundation, where there were grants distributed to lawyers to help people make grants. Maybe this is a good thing, maybe it is not. We will hear about it later.

But the long and the short of it is, did things like that help or were there other things in the way that we can remove now, that we can fix? I mean, this is the opportunity to tell us about these things.

Mr. WITT. I think the report that the IG had done on the disaster fund and the responses that we do was a very, very critical and very in depth report that I think identified a lot of areas that you are talking about that we can make a difference. I supported the IG's report with the recommendation that I went back to Congress with.

I think the most critical thing that we have faced, not only California but other disasters, is the eligibility part of our programs. What is eligible? What is not eligible? Force count in labor, which is what we pay in overtime and equipment and so forth or whatever it may be, but that is an issue, and Dick has an issue with that.

Where should we pay just overtime, or should we pay straight time? Is it a responsibility of us, or is it a responsibility of State and local government when they have those employees that they are paying 40 hours a week, but they shift them over to another job to do other work in a disaster?

Should we be responsible for that time, such as disaster application centers, where Dick had staff in disaster application centers working right along with our staff, that were not back in the office doing the job that they were hired to do, that is an issue that we need to resolve in the future?

Mr. FLANAGAN. Well, I think that you, with this particular one that you have mentioned, have identified a problem that is resolved on this side of the microphones not so much on that side. It is a matter of federalism, it is a matter of policy that Mr. Dreier was articulating so well earlier.

If you are lacking in that and, consequently, it is an impediment, tell us so. It is what we are doing here. We are oversight, let us help you get what you need to get it done better because, when you do your job well, people survive and things happen that are good.

Mr. WITT. There will be a lot of recommendations coming from us to Congress to make sure that the lessons that we have learned in Northridge we can implement in future disasters and I am looking forward to that.

Mr. FLANAGAN. Thank you, Mr. Witt.

I yield back.

Mr. HORN. I now yield to the gentleman from California, Mr. Dixon, for 5 minutes.

Mr. DIXON. Thank you very much, Mr. Chairman.

Director Witt, I would like to continue along the line that Congressman Flanagan was speaking, talking about the future. I am not sure that we in California or a general national constituency understand a desire to reshape policy as it responds to national disasters.

At the present time the Federal Government, as I understand it, picks up 90 percent of the money. In the most recent situation I felt, unfortunately, but it was certainly the will of our body that there had to be offsets made on other programs in other States to cover that. I don't want to argue the equity of that, but picking up

on what Mr. Dreier has said, there is going, at some point, to be a change.

If an earthquake occurs in the next hour, people will anticipate it will be the same program and it probably will, but if it happens 6 or 9 months or a year from now, there will probably be policy changes that will make the response, as it relates to making people whole, different.

So I would like you to comment on whether the current money that is committed is enough to keep commitments to California, whether or not you think that 90 percent is a good national policy and what changes you would make, other than overtime, in the future.

Now, I certainly am a strong advocate for California. However, I recognize that the climate, notwithstanding Mr. Dreier's statement, that earthquakes can occur in a lot of other States, the climate is that there is more frequency of these disasters occurring in California and other State representatives aren't as sympathetic to our cause as Members from California.

So if you could comment generally about the future, where are we going, I would appreciate it.

Mr. WITT. First, let me say that California's cost share was a 90/10 cost share and I did make that recommendation to the President that it be a 90/10 cost share. Of course, Dick Andrews would have rather had 100 percent Federal, which he asked for, by the way. And I don't blame him, I would too. He was doing his job as State director and I don't blame him.

Mr. DIXON. Right.

Mr. WITT. I admire him for hanging in there. And we did a 90 percent cost share in the Midwest floods, because we had 9 States and 500 counties effected. So the two times we have done this 90/10 cost share and I did make that recommendation. But it is important that the cost share—normally the cost share is 75/25, 75 Federal/25 percent State, unless it is a disaster of any magnitude that involved as many people like this one did and State resources and local resources. I think what we are looking at, and what we are looking at now is, how can we change this? What can we do better in the future?

Let's look at giving the States and local communities an incentive program. Let's look at, if they develop a mitigation program in their State that is a viable mitigation program, Statewide mitigation program, and they are supporting that program within that State and making mitigation efforts—like California has very good building codes and building standards, a lot of States don't—if they develop that mitigation, good building codes and building standards, and if they do a tremendous amount of work in being able to meet those disasters, then let's give them a better cost share, an 80/20 instead of 75/25.

Let's give them some incentive in better administrative costs or whatever we can do. Let's give them something to work for and that will save disaster dollars in the future. I think that could make a difference.

We are looking at and just developed a national mitigation strategy and had our very first conference on that, but, you know, we

only do mitigation work with the State and local community when we have a Presidentially declared disaster.

Then we can really make a difference, just like it is going to do in California, just like it is doing in the Midwest floods, because we will not spend disaster dollars because houses are living in flood prone areas, because we have moved them out. The suspended ceilings in these schools, fixing them back better, they won't fall again in another earthquake. It won't cost us those dollars again.

What I would like to see, and I know the light is on, but I would like to see, working with the States and local communities and working with Members of Congress and the administration, a pre-disaster mitigation trust fund for this country. Each State would prioritize mitigation projects that would make a difference in future disasters and we could support them in prioritizing certain mitigation projects, projects that would cut costs in future disasters. Then we would really make a difference in the cost and people's lives.

Mr. HORN. I now yield 5 minutes to the gentleman from California, Mr. Dreier.

Mr. DREIER. Thank you very much, Mr. Chairman.

Thanks, Mr. Director, for your very helpful testimony. I would just like to raise a couple of issues which I think are specifically related to the Northridge quake and figure out ways, as I said, from the Whittier Narrows quake and the Loma Prieta quake that we can learn.

We know that one of the things that became very hotly debated here in California was the assistance checks that were provided to people who were not qualified. There was a great deal of attention focused on that. I would like to have some sort of update from you first as to how you are doing at recovering those funds, No. 1.

No. 2, what steps can be taken to ensure that that problem does not exist in the future? So that we are able to take the very scarce resources and ensure that they get to those victims of the quake who are truly in need.

Mr. WITT. In Northridge we had the issue to come up with who is eligible and who was not eligible based on whether they were here illegally or legally a resident.

Mr. DREIER. Really?

Mr. WITT. Which Congress passed an amendment to make sure that when they did register for assistance that they would sign that they were here legally. We are still following that in all of our disasters.

The other is the means test. We do not have a means test on the eligibility criteria for people that receive temporary housing assistance in the Stafford Act. If we had to do a means test on the income of individuals in a disaster, then I think we would be putting ourselves in a situation—which we may have to go ahead and do that, but I think we would put ourselves in a situation of not being able to get those critical dollars to individuals as fast as we need to. That would be my concern about that.

Mr. DREIER. As we look at the second anniversary we know that just this month we have seen finally a resolution to the dispute that existed between the Los Angeles Unified School District and

the Federal Emergency Management Agency. It has been 2 years. We are all gratified that it appears to have been resolved.

What recommendations would you have dealing with that in the future?

Mr. WITT. I think we have learned a lot from that situation particularly. But, you know, we did send over \$300 million in advance to help the schools and other critical facilities to do emergency work in getting their schools back open. I think that one of the issues that we have that really needs a lot of work, as I said earlier, is the inspectors, also the engineers and the architects in defining what is eligible and what is not eligible so that they understand that and it is clearly put to them in the information that they need. That has caused us more problems than anything.

Mr. DREIER. My colleague, George Brown, and I, following that 1987 quake to which I referred earlier, worked through the past several Congresses to try and figure out a way in which we could put into place some sort of insurance plan, a national insurance plan. We know that in this Congress we have the Natural Disaster Protection Act. We have a task force that has been put together to deal with that. We are faced with some serious problems here, with a potential of 95 percent of those who would be looking for insurance policies not able to get those because underwriters are not geared toward coming into troubled areas.

I would just like to ask you, James Lee, is there a chance that you would be able to—maybe you have been involved, but it is my understanding that there has been some problem with your potential support of the Natural Disaster Protection Act, some of these things—is there a chance that you could see us come together with some legislation on that?

Mr. WITT. Absolutely. I did have some serious concerns about the Natural Hazard Reduction Act because I don't think they are really telling you just like it should be told and what it would realistically do. I don't think it would have benefited the people in the Northridge earthquake as much as it should have if it had been in place. We are only talking about a 2 or 3 percent difference it would have made.

If we are going to have a Natural Hazard Reduction Act, an insurance program, that is going to benefit the homeowners and is going to benefit the taxpayers across the country, not just those living in high risk areas, I totally support that.

January 26th, I have a meeting with the major CEOs of every insurance corporation and also Frank Nutter with the Insurance Association, where we can all sit down and say, OK, what do we need to do to make a difference so people can buy insurance?

Mr. DREIER. I can't tell you how much I really appreciate that, because I have been working with those people for a number of years to try and bring about some kind of package. So I hope you will be able to do it.

Thank you very much.

Thanks, Mr. Chairman. I would like to welcome Tom Davis, Mr. Chairman, it is great to see somebody get out of that weather.

Mr. HORN. OK. Has the gentleman completed his questioning?

Mr. DREIER. Yes.

Mr. HORN. I now yield 5 minutes to the gentleman from California, Mr. Torres.

Mr. TORRES. Thank you, Mr. Chairman.

Let me also welcome Mr. Tom Davis to sunny California. He is actually my Congressman in Virginia. I live in his district and he has problems with snow and flooding out there at this moment.

Mr. HORN. All I can say to my distinguished colleague is, vote early and often, then. [Laughter.]

Mr. TORRES. Thank you again, Mr. Chairman.

Mr. Director, I thank you for your eloquent statement. I want to thank you personally, really. I know I speak for the California Delegation, we have talked a lot about this during those trying periods when we were feeling the impacts of the Loma Prieta earthquake and, of course, the L.A. riots and then the Northridge earthquake. Certainly, your coming to the forefront in a very decisive way was critical to our State and our surrounding area by being able to coordinate the various agencies, the Departments of Government, HUD, SBA, EPA, the Corps of Engineers, and others.

While this is all auditory and we really acknowledge your tremendous contribution and leadership here, some things fell through the cracks. There have been concerns raised that FEMA brought in temporary staff when local hires would have been much more cost effective to effect, and also better prepared and informed on regional impacts, the knowledge of codes and the area.

My question to you would be, what efforts has FEMA taken to ensure that the use of local hires is maximized to the fullest extent in the future if anything should happen?

Mr. WITT. What we have tried to do—and you are absolutely correct and we have made changes where that will not happen in the future as far as we are concerned by establishing these three teams, highly professional teams that could come in and be here maybe 2 to 3 weeks to set up the disaster field office and support the Federal coordinating officer and then phase in very quickly the local hires to come in and support that disaster field office.

We are moving in that direction because it is very important. We learned a very valuable lesson here.

Mr. TORRES. I am sure you have learned from that experience.

Mr. WITT. Yes.

Mr. TORRES. Also in the learning process, I was just recently this week up at Cal Tech, the seismic laboratories, and I was able to delve in depth at the important high-technology that is providing earthquake information, seismic information, to us. I was really impressed by the seismologists up there and the great work that is taking place.

I would tell Mr. Flannery, if he is still here, that they told me and I saw it on the computer that we have an average of 30 earthquakes a day taking place here in California. Very small magnitude, but they are taking place, 10,000 a year to be sure. We need to be able to in the future understand quickly, for everybody concerned, FEMA especially, a method of recovery, to deal with recovery and response.

I know that Cal Tech and the associated organizations, the Federal Government included, have requested FEMA to provide the necessary program levels that will bring forth this recovery re-

sponse information, something called TRINET. Perhaps you are familiar with this. Could you speak to that at all?

Mr. WITT. At the present time TRINET has a package in for funding. I believe it is somewhere around \$11 million. I believe it is something like that.

Mr. TORRES. I am not sure of the dollar figure.

Mr. WITT. I think it is somewhere around \$11 million and it is under review at this present time.

Mr. TORRES. It is under review?

Mr. WITT. Yes, sir.

Mr. TORRES. Thank you, Mr. Director. I hope that review meets with satisfaction at some point down the road, because it is critical, really, to the needs of the State. I thank you for your kind answers to the comments.

I yield back the balance of my time.

Mr. HORN. I yield now 5 minutes to the gentleman from California, Mr. McKeon.

Mr. MCKEON. Thank you, Mr. Chairman.

As you were talking about a policy manual, I was trying to remember back to those first few days when things were going in all different directions. I thought, a policy manual would be good to cover some things, but some things you just can't cover with that manual. Being on the site, do you remember when we opened that first disaster center and a lot more people showed up than we expected? I remember instead of going to Symar you jumped on the bus and went down and brought in more people.

So I think that on-the-spot response and leadership is very important and it would be good to have some things in a manual that you could cover, like who is eligible and those kinds of things, I think. I think that would be really good.

I remember at one point in one of the meetings that we sat in—in fact, I think it was back in Washington, I don't even think it was out here, I think it was a little later after the quick emergency response—I remember that there was a discussion about what the money was going to be used for. And I remember somebody asking for money that was coming for the earthquake that really would have been directed to fix other things.

Do you have pretty good controls on—this is a little different than what Congressman Dreier was asking—where we have some individuals, I think there was some concern early on that maybe people that weren't legal residents were getting help?

Mr. WITT. Right.

Mr. MCKEON. But I am talking about a different kind of specific—I can talk to you later about some specifics, but do you have controls set up so that the money that comes in is strictly fixing the damage that come from the earthquake, in this case, or from the floods or whatever, so that we are not using money to fix other things?

Mr. WITT. Congressman, I think we now have better controls than FEMA had in the past. By setting up the central processing and going that way, I think we will have better controls in the future, also putting in place this year our financial management system in the agency that will be tied into central processing, into the central processings in the country.

In the past, FEMA, every disaster, set up a processing center for each disaster. There was nothing tied in by computer linkage to the financial management of the agency in disaster dollars. That just cannot happen. In the disaster field office now that will all be tied in, where we will—where if you call me and say, James Lee, how many dollars do we have today, I can tell you. If it had been last year or the year before I could not have told you. I would have had to just do a guess or an estimate.

This is important and we have got to have this in place and we are moving to get that done now. We are spending \$1.6 million for the financial management in the agency.

Mr. MCKEON. I think one of the things that was remarkable was how quickly the roads were repaired. I know you worked together with the State on that. The Governor was involved and it moved very quickly and bonuses were paid. There was some talk about, well, we paid all this extra money for bonuses. My understanding is that by doing that we actually saved money. Do you have any comments on that?

Mr. WITT. Rodney Slater the Federal Highway Administrator just did a fantastic job. He was out here very quickly. He sat down with CalTran. They went through, they cut the red tape, they did some contracting very quickly, that first night, to get the debris cleaned out of the way so they could put them back and it was very successful. I think there is opportunities for all of us to look at what they did there and to work with States in the future to expedite the building of some critical facilities, particularly highways and bridges.

Mr. MCKEON. By moving quickly like that and saving money, I would like to put in a plug for C SUN.

Mr. WITT. Yes, absolutely.

Mr. MCKEON. You will probably hear a little later today, but I know they are negotiating. We have about \$139 million to finish up the job.

Mr. WITT. Yes.

Mr. MCKEON. If we could get that money quickly and in a lump sum we could save about \$60 million and I think that is very important and I hope we can encourage that to happen.

Also there is just one final question. What did you find in all of this were principal impediments to getting everything back together in a timely fashion?

Mr. WITT. Everything.

Mr. MCKEON. All of the above. [Laughter.]

Mr. WITT. I think probably it was more the bureaucratic system that we have than anything and trying to cut through that bureaucracy and trying to support what the State and local needs and trying to make that happen. Hopefully, by creating this and establishing some policies and having that available for the State and local communities and our people it will make a big difference.

The eligibility requirements and how it is approached and what is eligible and not, a lot of people don't understand that. You know, as a local official myself, it is very difficult to respond to a disaster in the way that you need to and spend those precious dollars that you have in the State and local budget and not understand what

is eligible and what is not eligible as you are spending dollars for the rest of the year during that first week.

It is very difficult. And if we can clarify those eligibility requirements, what is really needed to support that State and local government.

In short, that is some way that I think will make a difference and the timeframe of getting those dollars out there so they know they will have them in place to respond. That will make a big difference.

Mr. MCKEON. Thank you very much.

I see my time is up, Mr. Chairman. Thank you.

Mr. HORN. Now I yield 5 minutes to the gentleman from Virginia, Mr. Davis.

Mr. DAVIS. Thank you, Mr. Chairman.

Mr. Witt, to help citizens and communities recover from the effects of disastrous events, such as earthquakes, FEMA, I understand, provides financial and other assistance to individuals and families and financial assistance to States, local governments and certain private non-profit organizations for the repair, restoration and the reconstruction of infrastructure.

Now, for approved infrastructure projects FEMA typically grants money to the State which then distributes the funds to local governments or non-profit groups, as I understand it. Recognizing that recovery from an earthquake is typically lengthy and complicated, would you say that recovery from Northridge is taking longer than expected and if so, why?

If you had the opportunity, what would you do differently to accelerate recovery? What are the lessons learned?

Mr. WITT. I think some of the statements that were made earlier about improving in what we do working with the States, State and locals in eligibility, that was a tremendous problem and still is. If we can improve in how we handle mitigations, by doing mitigation and including it in our inspections, when we do our inspections of that damaged facility, we will hopefully expedite that by working with the State and making sure. Dick has done this very well, and prioritizing mitigation, that made a difference.

I think one of the biggest factors that we had, that individuals themselves, when we have a Presidential disaster declaration, they think the Federal Government is going to make them whole again. Making them aware that we are not making them whole, that is not the kind of programs we have, will help a great deal. We have to do that in conjunction with the State through public awareness.

Mr. DAVIS. That is just managing the expectations.

Mr. WITT. Yes, absolutely. That can make a big difference. That expectation is there in public assistance as well.

Mr. DAVIS. That is a problem throughout Government.

Mr. WITT. Yes.

Mr. DAVIS. Of course, an earthquake presents special challenges because the infrastructure damage it causes is often hidden and repairs are complex. To obtain assessments for this type of damage, FEMA may require architectural engineer studies, which include structural evaluations, preliminary cost estimates that are reviewed by FEMA inspectors.

In your opinion, are FEMA's information requirements for such studies reasonable; have the studies facilitated the repair or replacement of infrastructure; and do you have any suggestions for changes we might be able to make?

Mr. WITT. Mayor Riordan and I had this conversation in his office not too long ago. Any time we have architects and engineers, they do a fantastic job. We are very appreciative of the ones we have in California working for us here. But any time you have—you could take four engineers and have all four engineers to look at one individual building and you would have four recommendations.

What is important is that we do the architect's and engineer's study. I think that the State and that facility and FEMA can all agree on one firm doing the engineering study, say this is what it is going to cost, let's do it.

I mean, we have engineers and architects. The subgrantee has engineers and architects. The State has engineers and architects. By the time you get all of these details down and by the time you get everybody to the table and go through that process, it is long. It is tedious. It takes time and it is frustrating.

Mr. DAVIS. What would be worse would be all having their own lawyers, I think. [Laughter.]

Mr. WITT. They do that too.

So if we can improve that, then I think it will make a tremendous difference.

Mr. DAVIS. OK, thank you very much.

I yield back.

Mr. HORN. The gentleman from California, Mr. Dixon.

Mr. DIXON. Thank you very much, Mr. Chairman.

I have noted that the chairman hasn't asked any questions and, if you would like—

Mr. HORN. No, go right ahead.

Mr. DIXON. Director, I would like to talk about two aspects of this and just lay them out so you can take 4 of the minutes. I understand what you are talking about when you talk about a predisaster trust fund, but it suggests to me that States and local entities won't do anything without the encouragement or a pot of money available from the Federal Government, one.

Two, now, let's talk about the politics of disasters. We have the mayor of the city of Los Angeles, the Governor's office is represented here. What can be done to better coordinate efforts between States, local mayors and the Federal Government ahead of time?

What were the problems? Although a lot of things went well, there have been several hearings and we will hear testimony today. So if you could take those 3 or 4 minutes to talk about the need for the predisaster fund and the politics of disasters, because there is a clear politic in disasters.

I am not talking about Republican and Democrat, but clearly there are politics in disasters, probably driven by television. Nevertheless, if you could talk about those two issues, I would appreciate it.

Mr. WITT. Politic, any time you have Federal, State and local dollars into a disaster you will have politics. I mean, that is just the

case. I think it is more important to put politics aside, because if we don't put politics aside then the people that are going to suffer are the disaster victims and helping with the long-term recovery efforts. We have tried to make sure that everything we did was bipartisan.

Mr. DIXON. Assume for the moment that it will never be put aside.

Mr. WITT. I understand that. But I think it is important that whoever is at that disaster, whether it is the Federal coordinating officer, whether it is myself, that the State and the mayor and the local government has the lead in that response effort. We are there solely to support that effort.

We are not going to bring snowplows and bulldozers. We don't have snowplows or bulldozers. It is important that the State and local government take that lead and identify the resources that they need to support that response or that recovery and we can do that.

Many cases we find that we get the call—I am not saying in California, I am just saying in many disasters——

Mr. DIXON. I understand that. You are talking generally, you are talking perspective, and I think it is healthy.

Mr. WITT. We find that that State or that local entity expects FEMA to come in and do all things and do the recovery and that response. That is not our job. That is not what you mandate us to do.

Mr. DIXON. So we ought to do a better job of educating mayors and Governors ahead of time as to what the role of FEMA can be in a disaster.

Mr. WITT. Absolutely.

Mr. DIXON. Where, so, if another mayor gets elected 4 years from now in San Jose, we ought to be up there telling him ahead of time, if it hits, here is what we can do.

Mr. WITT. And here is what is eligible. It would make a big difference. The predisaster mitigation fund I was talking about, there are, I think, seven or eight States, I may be wrong, that have a disaster fund in place. In Arkansas we had a \$7 million disaster fund. We had many State-declared disasters that we funded without any Federal help. I think it is important if we can do a predisaster mitigation fund and we say, OK, to the State of California, if you have a mitigation trust fund set up that will help match this predisaster mitigation fund, then we will work with you on identifying mitigation projects.

Give them an incentive to set that fund up. Give Dick Andrews some leverage with his Governor and legislators, to say, if we establish this fund, then we have the opportunity to get this done. That would make a big difference.

Mr. DIXON. Well, if you could respond, the thing, from my perspective in California, we know almost to a moral certainty that there will be at some point in time another earthquake. Now, having said that, I think we have a responsibility to meet with the Governor and say, it may not occur on your watch, but here is the deal, State legislature, how much money have you set aside. Here is the deal, it is coming. Of course, you hope it doesn't come on your watch.

Then we let the public know that the State has not responded in the way they should and they will not be eligible for X number of dollars unless they do that. We have got to work together on this and not just hope it doesn't happen on our watch. Do you agree or disagree?

Mr. WITT. Absolutely. You know, you look back, and since I have been at FEMA, we have a responsibility by law to do our job and do it well. The State has a responsibility, the local government has a responsibility. But, Congressman, individuals have a responsibility, too. They have the responsibility to know what kind of home they are buying and where it is sited, is it in the flood plain or it is on an earthquake fault, is it retrofitted, is it built to code and standards to meet that risk. All of us have one.

Mr. DIXON. I guess, maybe another way to say it, Director Witt, is that I have had constituents contact our office and say, I had my house refinanced, but why do I have to buy flood insurance, I have never seen a flood on my street. I think we have to do a better job. FEMA has to do a better job of educating people about, ultimately, who is going to have to take responsibility.

If I didn't see a flood on my street, why should I pay for it? In Congress many Members take the attitude. We don't have earthquakes in our State, nor do we have hurricanes, so why should I be sympathetic to this? I think we need an educational job before these disasters hit. That is my whole point.

Mr. WITT. Absolutely. Public awareness can make a tremendous difference.

Mr. DIXON. Thank you.

Mr. WITT. The flood insurance program has never been publicized. People didn't even know we had a flood insurance program.

Mr. DIXON. Until they went to refinance their house.

Mr. WITT. That is right. So we are doing a marketing campaign which has made a tremendous difference in that program. Most people think homeowners covers flood insurance. A lot of people think their homeowners covers earthquake insurance. So we all have to do a better job in that.

Mr. DIXON. Thank you, Mr. Chairman.

Mr. HORN. I just want to followup on that a minute.

I think the gentleman has pinpointed one of the major problems we all face, and I think we all agree on, and it needs to be done. As you know we have a panel at the end of today's session on mitigation and what needs to be done there, which is basic education. I think, when we chatted last week, I mentioned the Agricultural Extension Service and the great job they have done to turn around agriculture in America over the last 100 years and consumer education and everything else, home economics. I feel we need to really get that tri-partite cooperation, local, State and Federal, on the emphasis on education.

I am reminded that when Earl Warren was Governor he created a rainy day fund. He was ahead of his time. He gathered the revenue during World War II to help solve a lot of California's explosion problems in population after World War II.

I would like to, at this point, mention the building code situation. The fact that you have had vast experience as to people building in certain areas, certainly below some minimal standards that

might have prevented them from a disaster and I wonder what your thinking is in this, as to whether we should have, say, a national Federal minimum standard in certain emergency areas?

Should we leave it to the States? Should we work for more uniform State codes? What is your thinking on it?

Mr. WITT. I would hate for us to be mandating building codes that the State and locals need to be in charge of and take care of, but I think it is important that that State or local community understands and has an incentive to make sure that they do adopt good building codes and have good building practices.

For example, the flood insurance program. If a community is in a flood prone area and they join the flood program, then that community has adopted better building standards for that community because they are in the program. That makes a difference.

I think we can work with the States and give them incentives to be better prepared in building codes and building standards and support them in that effort, but I think that is their call at the local level. But they need to know that if they don't have good building codes and standards that that Federal dollar for that disaster might not be there.

Just like in the 1994 flood bill where you wisely put in that flood bill, if you don't have flood insurance, you get hit one time, you don't buy it again, you will not get Federal assistance. That makes a difference. It will cut disaster costs.

Mr. HORN. I now yield to the gentleman from California, Mr. Torres.

Mr. TORRES. Thank you, Mr. Chairman. I will be brief.

I mentioned in my previous questions to you or statements Loma Prieta, that earthquake there, and the Los Angeles riots. I would like to ask you, has the Federal Government fulfilled its relief obligations to these two areas, or perhaps a larger question might be, what are our outstanding commitments in the State in general?

Mr. WITT. We have a lot of commitments, not only from Northridge, but we have from the floods that hit California, and even the fires we are still working with. I think most of the Loma Prieta issues now are resolved. I was astounded to find City Hall, Stanford University, Watsonville Hospital, and Moss Landing, and all of those issues still there 5 years later after the earthquake, and I think we have got most of those major ones resolved.

We may have one or two left to be resolved, but I do not want Northridge to turn into a Loma Prieta 5 years from now. I want to try to have it resolved. So we are trying to make sure we speed all that process up and get it out of the way so people can rebuild and get on with what they are doing in the communities.

I don't think there are a lot of outstanding issues left now, but we are addressing each one of them trying to get them out of the way.

Mr. TORRES. Thank you.

Mr. Chairman, I yield back my time.

Mr. HORN. Mr. Director, after the Loma Prieta earthquake, as I understand it, California's Office of Emergency Services stated that FEMA's formula for determining reimbursement for subgrantee's administrative costs was not adequate.

In the case of Northridge, challenges to FEMA's administrative overhead allowances have halted the processing of damage claims, specifically claims for CSU Northridge were delayed for 4 months due to a dispute over administrative costs. The California State University requested 20 percent overhead while FEMA recommended a 2 to 5 percent allowance.

To what extent have disputes over administrative cost allowances delayed the recovery from the Northridge earthquake and, in your opinion, are changes needed in the manner by which FEMA computes allowable administrative costs? What is your thinking on that?

Mr. WITT. I think that earlier when I stated that the administrative costs that we provide definitely needs to be looked at. I think it needs to be fair. And we are willing to look at it and provide you with the information that we would recommend on future administrative costs and disasters. I think we need to be very careful here.

As I said earlier, each of us has a responsibility, the State subgrantees and all of us. I don't want us to get in the position of having to reimburse subgrantees or State or local governments for budgets that they should normally have to be able to fund those costs anyway. But if we have a disaster of any magnitude, like with Northridge, then we definitely need to have something in place that will help them to administer those programs.

Mr. HORN. Another question that is sort of technical, but let's get it on the record, and we are going to submit a few and if you and your staff wouldn't mind responding, we will put them in the record at this point.

Mr. WITT. Be happy to, Mr. Chairman.

Mr. HORN. Damage survey reports, I take it you call it DSRs, are the basic documents FEMA uses for public assistance projects. Now, DSRs which are prepared by the teams of FEMA representatives and applicants, as I understand it, typically contain a description of structural damage and estimated repair/restoration costs. In past disasters, FEMA has been criticized regarding the timely preparation and approval of DSRs.

In addition, according to this July 1995 report which you have referred to several times by the Inspector General of FEMA on their audit of FEMA's disaster relief fund, DSRs were neither prepared nor reviewed in a consistent manner. The Inspector General also identified a lack of standards in training for Federal inspectors which contributed to disagreements between Federal and State officials regarding the eligibility of repair/restoration costs.

What actions have been or should be taken to help ensure consistent timely preparation and review of these DSRs?

Mr. WITT. I don't think it is the DSR application that is the question here. I think it is a good form, and I think there probably could be some improvements on it. But, I think the biggest problem we have with the DSRs is the process of after that DSR is written, and the process of moving it along and getting that money obligated so they can start rebuilding. That is the area that we need to improve in.

Mr. HORN. Very good. Any further questions on the majority side?

[No response.]

Mr. HORN. Any further questions from the minority?

Mr. DIXON. Just one.

Mr. HORN. Mr. Dixon.

Mr. DIXON. Director, I guess I may be overemphasizing this, but the point that Mr. Horn made about the administrative costs, that should be well established prior to any disaster that you are going to get 18 or 22 percent, because there is a tendency in the politics to try to negotiate something rather than resolve it, if you don't have the capacity to resolve it.

Mr. WITT. Absolutely.

Mr. DIXON. So you look for things to negotiate so that you can say, our administrative cost is 40 percent and things haven't moved because we are fighting with the Feds to do this. Those are the kinds of things that FEMA and Federal agencies and State agencies should be telling people maybe on a monthly basis. Reminder for this month, administrative costs have been fought out, and they are 20 percent, no exceptions; or 35 percent, no exceptions. So don't raise this when the disaster hits.

Mr. WITT. Right.

Mr. DIXON. The preplanning has got to start today for the thing that is going to hit maybe 7 years from now or 70 years from now so that the predecessor to the predecessor of Mayor Riordan knows it is going to be X number of dollars, it is going to be a certain percentage, don't come in here and start negotiating when the damn thing hits.

Mr. WITT. I agree. That is why good, clear policy that everybody understands, and put in place, will be good.

Mr. DIXON. I am sorry I am taking the time, but it has to be a good, clear policy ahead of time that everybody, including the citizen, understands.

Mr. WITT. Absolutely.

Mr. HORN. No. I agree with that.

Mr. WITT. That's why we are working on it.

Mr. HORN. I was only thinking, since you are so vigorous on this, I was going to move the vice chairman in here so he could take the wound.

But, anyhow, I think that has been an excellent dialog, and you and this committee are thinking along the same ways, what is the preventive route, what is the educational route, and it is a constant challenge, as every official here knows, because of the turnover in local, Federal, both professional and elected officials.

So we are going to have, Mr. Director, at the end of this session, an open mike where any citizen can speak for a minute or so, or file a document with us. We would appreciate it if we could refer some of those to your staff, and if we could have a factual response that might solve the problem in the case, or at least build a record so we don't have to go over these in the next disaster.

Mr. WITT. We will have someone here.

Mr. HORN. We thank you very much for coming out and escaping the snow of Washington and seeing sunny California and we wish you well in the future.

Mr. WITT. Thank you, Mr. Chairman, members of the committee. I really appreciate the opportunity, and may I make one last closing remark?

Mr. HORN. Certainly.

Mr. WITT. When we had the shutdown of the Federal Government, not because of the snow, budgetorial, budget reasons, it concerned me a great deal, because it hindered what we did in the disaster field office and what we do in this disaster field office in California, because we were shut down in Washington and they were shut down here for 2 weeks and activated again. They couldn't get anything processed because we were shut down in Washington. I think that looking at what we do and our role and responsibility as an emergency management agency that we literally look at FEMA's budget and that responsibility some time.

Mr. HORN. One of my colleagues noted it was too bad the President vetoed the budget, but I don't want to get into that. [Laughter.]

Mr. FLANAGAN. All right, then we won't. [Laughter.]

Mr. HORN. Go ahead.

Mr. FLANAGAN. There was a lot of laughter on this side, because the answer is, that is the answer. This is terribly important. There are a lot of people suffering because of this budget crisis, if you will, and God's snow shutdown of the Federal Government notwithstanding. The answer to these larger questions is beyond our scope, today, to take and your gratuitous remarks, Mr. Chairman would prefer we ignore them, but I think they require that we sit here and actually stand up and say that this budget crisis is the single greatest problem of our Nation right now and this is not something that needs to be shunned to the side spending our children and our grandchildren's money for the sake of current needs, however important that they may be.

Mr. WITT. I understand.

Mr. FLANAGAN. And without affixing blame on any side of how this is going, the long and the short of it is that the colossal fight that is going on now, over the most basic policy questions of federalism, the most basic policy questions of the role of the Federal Government, the propriety of our spending, where the funds will come from, how much more funding that will be and those questions are of greater importance than anything else happening right now.

And the product of having a Government shutdown is regrettable on all sides to be sure, but it is a portion of that debate, regretfully. So, consequently, I thank you for your remarks, but we will certainly make sure that FEMA is funded and that no one that needs disaster relief will go wanting.

Mr. WITT. I will share that with the President.

Mr. HORN. If you can give us a signature, we might tie the whole rest of the Government to FEMA.

We now have the very able mayor of the city of Los Angeles with us. If the mayor will come forward.

[Witness sworn.]

Mr. HORN. The clerk will note the mayor has affirmed.

And we are delighted to have you with us today. We know you have busy days and disasters make them even busier. So we are looking forward to your wisdom on what you went through and how we improve the situation.

STATEMENT OF RICHARD RIORDAN, MAYOR, CITY OF LOS ANGELES, CA

Mr. RIORDAN. Thank you very much, Chairman Horn, and thanks for your leadership in your present endeavor and the leadership you gave after the earthquake.

I see so many of my friends here, today, from the House who also gave great leadership.

I have a statement I was going to read, but I, hopefully, have cut about half of it out, so you can read it on your way back to Washington.

Mr. HORN. Generally, as I note, for all witnesses we do ask them to summarize, 5 to 10 minutes, and then we file the whole speech.

Mr. RIORDAN. OK. Well, then I have got to cut out more. [Laughter.]

OK. Well, let me just say quickly the obvious, I have a lot of details about the history. The Northridge earthquake, as we all know, is the biggest natural disaster in the history of our country and the fact that L.A. came back so quickly and so well is attributable to the leadership of many, many different people at all levels of Government, from the Federal, State, and local. I think it is particularly attributable to the people of Los Angeles who, instead of losing their confidence, confidently stood up and repaired their homes, helped their neighbors, repaired their businesses.

I would like to share with you one tiny little anecdote, because I think it describes very well why we did so well in city government. I was shook out of bed at 4:41 a.m. and stood up and my first thought was what is the mayor supposed to do. Nobody had told me and I looked beside my bed and I saw there the novice mayor's manual and realized for the first time it had been written by Congressman Sonny Bono, so I didn't think that was—but I headed downtown and got an emergency—

Mr. HORN. Did it come with a CD disc? [Laughter.]

Mr. RIORDAN. I hurried downtown to the Emergency Operations Center, which is over City Hall, and was there a few minutes after 5. This is a huge room that has carrel's for each department and then separate rooms for the police and fire. But a couple of minutes after me the head of transportation came in and I talked to him about detours on the Five Freeway and the Santa Monica Freeway. He explained that on the Santa Monica we had a real problem, because several of the intersections that we would use as a detour went through Culver City and that we wouldn't be able to get permission from them until probably 9:30 or 10 a.m. And that is when I told him my axiom, that in government it is much easier to get forgiveness than to get permission.

So we commandeered those four intersections about a half-hour later and I don't even think Culver City realizes it to this day, what we did. But I think it is an attitude that went through city workers, it just spread like wildfire, just do it and don't let rules and regulations get in the way of human life and making things get better.

In a few minutes, as you know, within hours after the earthquake, we had members of the Clinton administration on the ground in Los Angeles, Secretary Peña was out right away and, of

course, James Lee Witt, who was a constant help throughout the earthquake recovery. Henry Cisneros was here a number of times.

I should also just say, the State with Dick Andrews, whom you are going to talk to, and the Secretary of Transportation, Dean Dumphy, and of course Governor Wilson, were a major resource to us.

I remember one other anecdote which I will share with you. The morning after the earthquake Rod Slater, who is the Highway Administrator for the United States, and myself asked for a meeting of everybody involved in transportation on the different levels of Government and we had it over in the State office building.

Rod and myself and Dean Dumphy had, I think, a very historical meeting in a closet there, off the main conference room, where we had just listened to a lot of bureaucratic bull and we, in effect, pledged that we were going to end the bureaucracy, we were going to get engineers, architects out there that day to look at the damaged bridges and other roads. Also we talked about what I will talk about in a minute is about having merit pay for accomplishment and things like that. So that broke the bureaucratic logjam in that area and I think you saw the results.

I am going to skip around, because I have cut a lot of my remarks out. What happened after the earthquake, of course, is we had a lot of, what we call, ghost towns, which were areas, particularly retail areas, where buildings were so far damaged they were not habitable and these buildings attracted squatters, drug dealers and prostitution rings. A main emphasis by FEMA, SBA and others repairing these ghost towns which virtually all are back and viable.

Another area were the earthquake building permits. I mean, one of the main decisions we had to make is that if anybody wanted to repair something is to make it quick, don't have the usual city bureaucracy. We had tremendous help from FEMA and HUD on this.

We had also, by the way, help from other venues in southern California who sent experts down from their building and safety departments to help us get permits out virtually over the counter so that the repair could start very quickly.

Another thing that we had, with the help particularly of HUD, were business assistance centers, or what I call, one-stop shopping for businesses, homeowners and apartment owners who needed financing and other help quickly. This worked, I think, extremely well.

The results were, as of October 1995, we had over 2,990 loans approved and provided technical assistance to over 1,000 businesses, we had over 81 seminars or workshops with business.

Another area was emergency temporary housing. Immediately there were over 20,000 people who were rendered homeless. In some cases it was just fear, where they could literally go back, but they were afraid to go back to their apartments. We put together various task forces and teams and we had regular meetings at 7 every morning in my office of people on that team as to how we accommodate people. We were expecting rain any day, how to get tents out into the parks where people were.

One of the first things I found, I was out there the first night in one of the parks, was that they didn't have enough water. So I

called the head of one of the supermarket chains and we had water out there within an hour. They had also a lack of a lot of products like Pampers and things for young children. We also brought psychologists and clergy out to convince some of the homeowners or apartments dwellers, generally, that it was safe to go into their dwellings.

Another thing, which I am sure you will hear about from others, is we were able to get Section 8 housing subsidies for over 10,000 Angelenos who were essentially displaced from their, mostly, apartment dwelling for anywhere from a year to 2 years.

While everything was excellent, I would like to make a number of suggestions. I will try to cut this as short as I can. The Federal Government should look at allocating disaster relief funds to local governments, rather than to the SBA and FEMA. I am not saying this is black and white. I think it is something you should look at and we should negotiate, for want of a better word.

In particular, I am referring to the unique needs of multi-unit dwellings and businesses after the earthquake. Because each disaster is different, each recovery effort should include a real-time process for identifying problems and amending programs.

Second, the SBA and FEMA are not optimal in responding to disasters, as I mentioned, effecting multi-family housing. Federal machinery is quite often designed for rural, single family areas. There needs to be a Federal response vehicle in urban areas. The SBA loans did not work for multi-family apartments where the aggregate damage exceeds the SBA limit of \$1.5 million. Also, SBA underwriting and debt service load eliminated even moderately leveraged properties. Multi-family housing cash-flows are insufficient to service \$25,000 to \$40,000 per unit's worth of damage.

Next, SBA recourse lending criteria eliminated many loan applicants. There is a need for an SBA multi-family housing program for future urban areas. And I have in my written materials suggestions as to what should be in that program. The SBA should also look at distinguishing whether they were funding apartments or commercial buildings. This data is not readily available.

Next, FEMA should hire more temporary disaster response employees from the local areas. Many of the employees were from out of State. I also have a series of suggestions on using local architects, engineers and other temporary employees from the community.

From a city point-of-view, something that we are doing and I found out in preparing for the next disaster, is that we do not have centralized authority within the city and we are repairing that at this moment. We have, in effect, worked through a committee called the Emergency Operation Board, but this does not have the day-to-day power to make the various departments involved listen to them. So we are about to appoint a so-called "czar" for the city that will report directly to me.

Also on the State level, the county of Los Angeles is the conduit through whom State aid goes to the various cities in the county and this can be cumbersome. Fortunately, it worked very well in the Northridge earthquake, but it was potentially a problem and it was a problem for a short period of time until I called, directly,

Governor Wilson on it. But I think cities over a certain size, the State aid should work directly through the cities.

Next, is FEMA—well, I mentioned about hiring temporary employees before, I'll skip that. In addition to that, also, FEMA should provide low levels of reimbursement to homeowners seeking to secure homes in the event of another disaster. In other words, this is something you asked a lot of questions of Mr. Witt about.

In the city, by the way, the city council now is looking at a number of requirements to improve homes in the event of another earthquake. There is a delicate balance between the cost of doing this and the public safety involved and I think common sense answers have to be found.

I will give you one little anecdote. I was a director of Kauffman and Broad, a big homeowner, and we sent people back to Miami after Hurricane Andrew to see why, like, 90 roofs were blown away and we determined that almost all of these roofs could have been saved by putting 25 cent little blocks of wood in the joints at the roof. So I think there are a lot of commonsensical ideas like this that can be, I think, promulgated by FEMA to the rest of the country.

With respect to the SBA, loan guidelines, as I mentioned, should be revised and carefully looked at. I think, also, that if it is not already the case, that the Comptroller of the Currency should be part of an ongoing Federal task force.

Because fortunately I had a lot of investment banking experience in my prior life and it occurred to me about 2 or 3 days after the earthquake that we were going to have trouble, because of FDIC, Thrift and Loan and other regulations, getting private lenders to make loans, because if you restructure loans, the FDIC will still consider that a problem loan for reserve purposes.

Fortunately, with the help of Henry Cisneros and ultimately Gene Ludwig we were able to bypass a lot of those problems.

Next, and next to last, is, I would suggest that a book be written, prepared, by everybody involved, not just in this earthquake, on a readable level, not a detailed level, but a readable level, to show what kind of plans helped in this case, in the Northridge earthquake, provide anecdotes such as the one I gave you with Rod Slater and Dean Dumphy and myself, maybe even my one about Congressman Sonny Bono. I think that this would have helped me a lot and I think it can help others. I think you could also have ideas in the book about providing merit pay to get things done quickly and less expensively.

Another just little side note is, what we did, we talked to the mayor of Miami the morning of the earthquake and he suggested, and we did it immediately, that we put together a task force of top business leaders in the L.A. area who had influence on Washington, and Lew Wasserman of MCA chaired that task force, and that was very valuable.

So let me just close by reading what I have. It is one paragraph. The strong recovery of Los Angeles would not have been possible without the assistance of the Federal Government and the State Government which acted in a quick and thorough manner to aid our city following the biggest natural disaster in the history of our country. The city of Los Angeles is grateful for this assistance and

we hope our experiences will be helpful in improving Federal relief for other future disasters, none of which I hope are in Los Angeles.

As we move further from the crisis and urgency of the Northridge earthquake we must be careful not to let the bureaucratic nature of government stifle progress and recovery. This is a challenge that we face at all levels of government.

I thank you for letting me appear here today and I also thank you for having been a very key part of our recovery.

Thank you very much.

[The prepared statement of Mr. Riordan follows:]

**Testimony to Subcommittee on Government Management, Information and Technology.
Mayor Richard J. Riordan
January 19, 1996**

Thank you, Chairman Horn. We have worked well together in the past and I look forward to continuing the positive working relationship we have established.

The Northridge Earthquake of January 17, 1994 was the most serious natural disaster in United States history. The dimensions of the quake were staggering: magnitude 6.7; 60+ people killed and thousands injured; 40,000 people needing immediate shelter and food; 65,000 housing units destroyed or suffering major damage; the loss of electrical power, safe water, roads and freeways. In all, the Los Angeles region suffered more than an estimated \$20 billion in damage.

Two years later, Los Angeles is back -- and better than ever. We've shown the Angeleno spirit once and for all. In fact, the slogan we coined last year says it all: "You can shake L.A., but you can't break it!"

The federal government has played a vital role in our recovery efforts. Within the City of Los Angeles alone, an estimated \$4.8 billion in federal assistance has been provided to individuals, businesses and the city government. Further aid has been given to other jurisdictions, such as the Los Angeles Unified School District and the University of California.

In addition to the sheer number of dollars, the federal government provided a response that was rapid and all-encompassing. Within 24 hours, President Clinton declared a major disaster, and high-ranking officials arrived from Washington: James Lee Witt, Director of the Federal Emergency Management Agency; Henry Cisneros, Secretary of Housing and Urban Development; and Federico Pena, Secretary of Transportation.

Within 48 hours, the President arrived in Los Angeles. FEMA inspectors joined local and state officials in reviewing damage, and the National Guard began to erect tents to house those displaced by the earthquake. Secretary Pena joined in creating an Emergency Transportation Relief Task Force, and Secretary Cisneros activated the HUD Emergency Response Team.

Within one week, the federal government established Disaster Application Centers as one-stop locations for earthquake assistance information, and FEMA provided \$75 million in advance funds to the City of Los Angeles. Decisive leadership from the Federal Emergency Management Agency (FEMA) and quick opening of the Disaster Assistance Centers (DACs) inspired confidence.

The federal government put forth its most expedient disaster response ever and dispatched experienced, top-level officials. HUD provided temporary housing rapidly; Transportation

helped us repair our freeways far ahead of schedule; FEMA dispensed grants to both single-family homes and non-profit corporations, and referred rental homes and commercial businesses to the SBA. Eugene Ludwig, Comptroller of the Currency, gave lenders comfort that financing accommodations would be favorably received by regulators.

I'd like to detail a few of the major accomplishments made possible by federal government assistance:

Demolition and Debris Removal

The earthquake caused widespread damage to infrastructure, buildings and personal property. Thousands of buildings were declared unsafe. Many structures required demolition. Block walls, masonry chimneys and other debris lay in the streets after the earthquake. Aftershocks caused additional damage and further safety problems.

\$200 million in assistance from FEMA made it possible for the city to manage a successful demolition and debris removal program. Between January 17, 1994 and July 17, 1995, 2.4 million tons of debris was removed and more than 300 unsafe structures were demolished.

Ghost Towns

Groups of severely damaged and vacated apartment and condo complexes rapidly became pockets of blight. These buildings attracted vandals, squatters, drug dealers and prostitution rings. These sites became known as "Ghost Towns."

Undamaged housing complexes nearby began to lose tenants who feared for their safety, and local businesses were losing customers.

FEMA, HUD and the SBA cooperated with the city's Ghost Town Task Force to rebuild the vacant complexes and move tenants back in. With \$6 million from FEMA, the City boarded, fenced and provided private security guards for these properties until repair and reconstruction work could begin.

The SBA dedicated a special office to processing Ghost Town loan applications. If property owners' loan applications were turned down by the SBA, these owners were referred to the City's Housing Department. With \$200 million from HUD, the city's housing department was able to offer earthquake repair and reconstruction loans at generous terms. HUD's waiver of cumbersome rules and regulations allowed expedited access and use of \$324 million made available to the City.

As of December 31, 1995, 299 of the 301 vacant buildings had funds committed for repair and

rebuilding.

Earthquake Building Permits - Free of Charge to Applicants

Within 6 months after the earthquake, the city had identified 93,000 damaged structures. To aid property owners in repairing their buildings, the City instituted a streamlined plan check and permit issuance program. With FEMA and HUD covering the City's costs for plan checks and inspections, all earthquake repair and reconstruction permits have been provided free of charge. This program has provided a powerful incentive for property owners to repair earthquake damage in a timely manner. By December 31, 1995 approximately 55,000 earthquake repair permits had been issued by the City's Building & Safety Department.

Business Assistance Centers

Prior to the earthquake the City sponsored a network of business financial and technical assistance agencies. Immediately following the earthquake, HUD awarded additional funding to four of these agencies to function as earthquake Business Assistance Centers. These centers provided specialized technical assistance and loan packaging to owners of damaged businesses. The major emphasis of the program has been to assist businesses in securing SBA disaster loans or other financial assistance. As of October 1995, these centers had prepared 2,990 loan application packages, provided technical assistance to 1,040 businesses, and conducted 81 business assistance workshops.

Emergency Temporary Housing

The first emergency shelters for earthquake victims opened January 17 at high schools and park sites. Peak demand for shelter space exceeded 20,000 people. Within one week, the City had 44 shelters in operation. To avoid the crime problems experienced by Dade County, Florida after Hurricane Andrew, the City sought and received assistance from the National Guard in providing an around-the-clock security presence. By February 10, 1994, all of these shelters had closed without incident.

Recognizing the shortage of affordable housing and the number of families displaced by the earthquake, HUD provided Emergency Section 8 rental subsidy disaster certificates. Within 10 months after the disaster, City of Los Angeles "Section 8" recipients totaled 10,556.

As I mentioned earlier, the federal government has provided an estimated \$4.8 billion in financial assistance to individuals, businesses and the city government. The following funds have been provided:

\$2.8 billion for loans to individuals & businesses from the Small Business Administration;

\$1 billion in housing, individual & family assistance from FEMA;

\$550 million in assistance to city government from FEMA and Transportation;

\$350 million for housing rehabilitation from HUD;

\$100 million for economic recovery & business assistance from HUD and Commerce;

\$30 million for human services from HUD, Labor, and Health & Human Services.

We estimate that the insurance industry has paid out an additional \$10 billion within the City of Los Angeles.

While overall the federal response to the Northridge earthquake was excellent, let me suggest a few areas of improvement for the federal response. Many of these suggestions and observations are not a criticism of operational issues, but require legislative and regulatory changes for federal departments.

1. The Federal government should look at allocating disaster relief funds to local government rather than to SBA/FEMA in cases where disaster issues are particularly unique to a locality. In particular, I am referring to the unique needs of multi-unit dwellings and businesses after the Northridge earthquake. Because each disaster is different, each recovery effort should include a real time process for identifying problems and amending programs.

2. SBA and FEMA programs are not optimal in responding to disasters affecting multi-family housing: Federal machinery is designed for rural single family areas; there needs to be a Federal response vehicle in Urban areas.

- SBA loans did not work for multi-family where the aggregate damage exceeds the SBA limit of \$1.5 million.
- SBA's underwriting and debt service load eliminated even moderately leveraged properties; multi-family housing cash flows are insufficient to service \$25,000 to \$40,000 per unit worth of damage.
- Also SBA's recourse lending criteria eliminated many loan applicants.

There is a need for an SBA multi-family housing loan program for future urban disaster responses.

- The program should be project-based; establish fixed predictable terms; based on credit

worthiness of the property and the borrower's experience and capacity; and would not require personal guarantees of the borrower.

- There is a need for gap financing; subsidies are needed to protect low income families, property owners, and neighborhoods.
- Such a program should be augmented by a prior approved regulator disaster policy that provides clear, dependable regulatory relief essential to enable lenders to respond quickly.

SBA should look at distinguishing whether they were funding apartments or other commercial buildings. This data problem made it difficult to know how much they funded for apartments, thus complicating data assembly and analysis.

FEMA and SBA are designed primarily to assist single family homeowners and businesses. In the case of the Northridge Earthquake, the majority of the damage was to apartment buildings, which had less assistance available.

3. FEMA should hire more temporary disaster response employees from the local area. In responding to the Northridge Earthquake, FEMA brought in hundreds of temporary employees from out of state. We believe that FEMA's response would have been enhanced if it had recruited and hired more local talent from the Southern California area.

- Local engineers and building trades people are familiar with local building codes and with the damage caused by an earthquake. Many out-of-state FEMA employees were unfamiliar with California building codes and were accustomed to inspecting damage from floods and hurricanes rather than earthquakes;
- Temporary employees hired from the local community would be familiar with the geographic area. The City of Los Angeles is huge, encompassing more than 400 square miles;
- Hiring local temporary employees would save FEMA considerable amounts of money in housing and per diem expenses;
- FEMA's policies encourage the hiring of temporary disaster response employees from the local area. Such federal employment for out of work personnel from the local community can help ease the negative economic impacts of a disaster.

4. FEMA provided low levels of reimbursement to homeowners seeking to secure homes in the event of another disaster; we would recommend greater reimbursement for this type of preventive work. Retrofitting is a cost-effective way to save financial resources and avoid personal injuries.

5. With regard to the SBA, loan guidelines should be revised specifically for disasters. Currently, SBA applies the same lending criteria after a disaster as at other times. Consequently, individuals and businesses in Los Angeles experienced a high "turn down rate" after the Northridge Earthquake. More relaxed underwriting rules and longer repayment terms would help disaster victims.

6. Finally, let me reiterate my overall assessment:

The strong recovery of Los Angeles would not have been possible without the assistance of the federal government, which acted in a quick and thorough manner to aid our city following the Northridge Earthquake. The City of Los Angeles is grateful for this assistance, and we hope our experience will be helpful in improving federal relief for future disasters, wherever they may occur. As we move further from the crisis and urgency of the Northridge earthquake, we must be careful to not let the bureaucratic nature of government stifle progress and recovery. This is a challenge we must face at all levels of government. I thank you for letting me appear in front of this committee to share these thoughts.

Mr. HORN. We thank you, Mayor.

Let me open the questioning with this one. You perhaps were in the room when I asked Director Witt that question. Building codes, what did we learn from this experience, in terms of the city of Los Angeles' building codes and what do you suggest we do on either a city basis, a State-wide basis, a national basis?

I come from Long Beach and their 1933 earthquake did result in the toughest building standards in this State in terms of earthquakes and many cities adopted them, but some cities didn't adopt them.

Mr. RIORDAN. First of all, let me say that the trouble, you know, when you are in politics, there is a tendency to want to overdo things, because if you have an incredible disaster and one person is killed, you feel responsible, but I think as leaders we have to balance safety and the economic health of the economy of an area.

Let me also say that the city of L.A. has very tough building standards and we have had for about 20 years or longer against earthquakes, such as sheer walls, things like that. Very few new buildings were damaged, it was mostly a lot of the older buildings.

Now, we learned a lot about tilt ups, about how to anchor them down, such as the garages here at Cal State Northridge. I think we also learned a lot about mobile home parks, that with maybe \$300 or \$400 each you can simply put the foundation on blocks of wood where you have the mobile home attached to one large block of wood, or four, I mean four or five, and that on top of another block of wood so that they slide. Some people have that.

When I went out the day of the earthquake to a mobile home park that had been virtually destroyed, there were about 20 mobile homes that were hardly damaged at all and they had put this new, simple idea into their mobile homes. I think there is a lot to be— I think there is a lot of simple things that we—by the way this is in front of the city council now and has been for quite a while and hopefully they will be coming out soon with our suggestions on it. But simple things like tying in roofs on tilt up buildings and a variety of things like that.

The problems are that you have to be realistic. I use an example of automobiles, you can design an automobile that will save a lot of lives and will cost \$500,000, but you would be denying transportation to all but the very rich. So we have to use a little common sense.

Mr. HORN. Well, on the trailer park example, if it costs \$400—

Mr. RIORDAN. We should require it, obviously.

Mr. HORN. Yes. Is there a way to adjust those existing trailers that predate your code? If \$400 is what it takes, I realize that is tough for some people, but if it could be spread over time?

Mr. RIORDAN. That clearly makes good economic sense and safety sense, together, and it is something that is in front of the city council. It is something that should be required. When I talk about \$300 or \$400, you could do it on existing ones for that, too.

Mr. HORN. So it would be retroactive, in a certain extent, in some areas?

Mr. RIORDAN. Right. Yes.

Mr. HORN. Would you agree that if that is not done within a certain time period, emergency assistance for rebuilding should not be approved? How do you feel about that?

In other words, are we serious or aren't we?

Mr. RIORDAN. My father said, beware of immediate reactions to things. So your question sounds reasonable, Congressman, but I would want to think about all the ramifications.

Mr. HORN. Well, obviously some people aren't going to like it. They are going to say, hey, Federal Government, write me a check.

Mr. RIORDAN. Are you talking about an individual level?

Mr. HORN. I am talking on individual choices.

Mr. RIORDAN. I agree with you on an individual—

Mr. HORN. We face the same thing in L.A. in building in canyons, time and time again, when fires come down canyons.

Mr. RIORDAN. I agree with you, provided that we have ways to help people who are economically disadvantaged finance this type of—

Mr. HORN. Right, but that having been done, then, you agree that we ought to tie future possible benefits and give it to the responsible people, not the irresponsible people?

Mr. RIORDAN. I agree.

Mr. HORN. Mr. Riordan, I will yield to my colleague Mr. Dixon.

Mr. DIXON. Thank you Mr. Chairman.

Mayor Riordan, I noticed in your prepared statement, Item No. 5 on, I think, your summary, the last page, indicates, and I share your view, that there are probably some inequities as it relates to small business and in there you suggest that the guidelines should be revised specifically for disasters.

Congressman McKeon as well as Congressmen Berman and Beilenson and myself and others work hard for a pot of money for businesses that had been first turned down through SBA. There seem to be two classes of people that really get caught in the cracks here. One are businesses that perhaps aren't doing well at the moment and, therefore, an SBA loan cannot be justified.

Mr. RIORDAN. Right.

Mr. DIXON. The second appears to be, to me, to be those that are on a fixed income, a retired couple that just don't have the money to repair their home and then they are obviously in that group, an expanded group, are a group of people where, when they consider the mortgage and the SBA loan, assuming that they can get one, and they total it, it equals more than the value of the house and there is some walking away.

Do you have some ideas, specifically how we can liberalize the loan procedures, because it is an area that I think needs to be focused on?

Mr. RIORDAN. Certainly I think the SBA, I don't know in practice, but in theory now, they are making what you call working capital loans, because generally they have just been asset-based loans.

But I think, first of all, as alluded to, or talked to briefly in my prepared remarks, although they aren't written down there, I added them at the last minute, is to relax the banking rules so that loans can be restructured. If you have, let's say, a house with a \$1 million loan on it and in this case, let's say, because of the real es-

tate recession in Los Angeles, let's say that house was worth \$1 million a moment before the earthquake and after the earthquake with the damage, let's say it has \$300,000 of damage, there should be efficient ways to, in effect, restructure that loan, down to \$700,000 and then in return for that the SBA would lend the \$300,000 or the other lender would.

In a lot of cases the lender would lend the money to bring it back up. I think it is very complicated. This would be the subject of a 1 or 2-day conference as to how it makes it happen, but the Federal Reserve in the past said, if you have that \$1 million loan and it went down to \$700,000 that you would have to write off, against your reserves, \$1 million. And then the worst part was, if you went in and, in fact, lowered the loan to \$700,000 and lent another \$300,000, you would still have to reduce your reserve, which I think multiplies, what is it, by 15 times your ability to make other loans.

So I think that we need a lot more flexibility and I don't understand all the ramifications of it, but I know it is something that is very well worth delving into.

Mr. DIXON. I am glad to hear you say that, because I do think people get caught and fall between the cracks in that situation, wealthy as well as poor people.

Mr. RIORDAN. I will give you one other example, and I have mentioned this several times to Gene Ludwig and others. A lot of these mortgage companies package mortgages and then sell them to the public through Merrill Lynch or others, they will put \$1 billion of mortgages and in the trust indentures they are given the power to forestall interest for a certain time, but they are not generally given the power to restructure the loan at a lower rate. So that was a major problem. So you might think of Federal legislation in that area.

Mr. DIXON. Thank you, Mr. Mayor.

Mr. HORN. Thank you.

Now, I yield 5 minutes to the gentleman from Illinois, Mr. Flanagan.

Mr. FLANAGAN. Mayor, thank you for your testimony. It was very good.

Mr. RIORDAN. Thank you.

Mr. FLANAGAN. It is always important to not only see a local perspective, but an urban local perspective and I am from the city of Chicago and being in the Republican party makes me a true minority, because the party is not well represented in large cities in Congress. It takes a long time to have the majority understand many of the problems that you are talking about.

If I may pursue your regulatory questions that you took up so ably with Mr. Horn and Mr. Dixon with some unfunded mandates and the difficulties.

Mr. RIORDAN. My favorite topic.

Mr. FLANAGAN. Yes, you have identified articulately many regulatory difficulties that you have, the FDIC, the banking institutions, the SBA and other things where Federal regulations make it difficult for you to accomplish immediate need issues on something that you need done in an extraordinary way because of the extraordinariness of the circumstances.

In many of the unfunded mandates that you grapple with every day, you dexterously handle, as any large city mayor does, my own does certainly, Mayor Daley, but in an emergency situation they are particularly onerous and often they come in the form of holy cows from the left and from the right, whether it be Made in America rules or ADA, whether it is the Clean Air Act, trying to move debris or Davis-Bacon getting in the way of reconstruction. Could you expound on that for a few minutes?

Mr. RIORDAN. I would love to for about 2 hours.

Mr. FLANAGAN. I have only 5 minutes so I can give you that.

Mr. RIORDAN. Rich Daley and I were in Ireland together when the President was there and we cornered some of your Democrats—

Mr. FLANAGAN. Mayor Daley was in Ireland?

Mr. RIORDAN. We cornered some of your Democratic colleagues and Mayor Daley made a statement which shocked them, actually, he said, do me a favor, in exchange for not sending us any money at all, get rid of all mandates and we will be way ahead. And they listened.

I mean, it was because in L.A. alone, if we were to follow by the letter of the regulations and the mandates, we would have to spend about \$6 billion over the next 5 years. Something that I have used in the anecdote a lot of times, and it is true, is, it is illegal to take a glass of water out of the tap in your home and walk over the L.A. River and pour it into the L.A. River. The fish are supposed to get cleaner water than the human beings.

There is a lot of silliness, I think, on the ADA which is good in a lot of ways, but I think, again, this is going to cost us well over \$1 billion to totally comply with and I think that that is something that can be determined better at the local level.

Mr. FLANAGAN. Your Honor, apart from the general ranting on these issues and the unfunded mandates, which Mayor Daley and I have talked about at great length, and I think every Member of Congress has talked about with his local mayors about, whether big or small, I was more interested in how an otherwise good law, ADA or Clean Air Act or the Made in America laws or other things, have a particularly onerous impact in a disaster context?

Mr. RIORDAN. Well, I think the most obvious is, obviously, that they eat into our budget so much that it is virtually impossible to put anything aside for a rainy day. We are fighting now to overcome a projected deficit of over \$200 million in our next fiscal year. We will get there, but it is excruciating.

Mr. FLANAGAN. Thank you, Your Honor.

I have no further questions.

Mr. HORN. Mr. Davis.

Mr. DAVIS. Thank you.

I wonder if I could pick up where Mr. Flanagan left off. I was along with Ms. Burke, a county supervisor from here, chairman of the Unfunded Mandates Task Force, with the National Association of Counties, before I came to Congress and, along with Chairman Clinger of this committee, one of the sponsors for the Unfunded Mandates Reform Act which passed this year. Unfortunately, that act is not retrospective, it is prospective.

I wonder if I could just go along, following what Mr. Flanagan said on the unfunded mandate issues to the floor and maybe you can address them.

The ADA which would require new construction and alterations to meet the standards for access by the disabled, basically you are tearing up streets that were damaged in the earthquake that didn't meet those standards and having to lay down new streets that meet a higher standard. The highway, steel and manufactured products used are made in America, we have that act which can add to costs. The Davis-Bacon Act, which I am a co-sponsor of a bill to repeal that, which will require prevailing wages be given to potential bidders 10 days before bidding begins, but often my experience has been there is a 2-week delay between the Department of Labor issuing the rates and the States receiving them. And violations of the Clean Air Act, you noted debris removal and demolition and those kind of issues, were those real issues in this case?

Mr. RIORDAN. No, to us they really weren't. I suppose they—in some fairly not particularly material way they added to things, but certainly they added to things, but certainly we require in the city any new or reconstruction of anything that we comply with the ADA. Where the big money is going to cost us is going in and tearing out good sidewalk streets and a variety of things like that, that is what is going to cost us an awful lot.

But unfunded mandates come in a lot of disguised ways and I wonder if you can ever, Republican or Democrat, trust them not to come up with some ideas because they think they can do some things better than we can on the local level. It is like talking to—I am sorry to get off the subject.

Mr. DAVIS. That's fine.

Mr. RIORDAN. But Education Secretary Riley, who was in Ireland on bilingual education, and this has become a giant bureaucracy and bilingual education means 10 different things in 10 different localities, and what I tell them is, why don't you let the local—particularly let the schools decide. Hold them to some standard and let them decide rather than in some laboratory in Washington.

Mr. DAVIS. As Mr. Torres, knows, in our local school in Fairfax we have 50 native languages spoken. Can you imagine what bilingual education—we have an English as a Second Language program that we have gotten a waiver on. It makes it much less expensive and, frankly, it is a better program. We have 136 different languages just in one school, just in one school, which is my son's intermediate school.

The other question I want to ask is, following up on what Mr. Horn had noted, in terms of building code, do you feel your building code now is satisfactory to meet for future construction?

Mr. RIORDAN. I think it is very good, but it has to be improved. This is, you know, in carrying on to what Congressman Horn asked, I think that there are improvements and we have to not just say, OK, we are going to improve it once. We have to look at it all the time. We are not looking for the \$500 solution to the \$5 problem, but frankly when you are talking about dipping into the Federal Treasury for some of these items that might have been prevented with a stronger code, we have got to have a balance there.

I hope after each of these episodes you continue to take a look. It is a very tricky thing. It is like, you know, a sheer walling is—in effect, the old houses did not have cross pieces of wood to stop the walls from breaking when they shook sideways. Now, as I say, we have required that for a number of years, at least 20 years, maybe 30 years.

To require it in every old house would have been an incredible economic burden on particularly the economically disadvantaged.

Mr. DIXON. Thank you.

Mr. HORN. Now, I yield to the gentleman from California, Mr. Torres.

Mr. TORRES. Mr. Chairman, if I may, I would like to yield a minute to my colleague, Mr. Dixon.

Mr. DIXON. Thank you very much, Mr. Torres, because I wanted to ask the mayor something on unfunded mandates.

Mr. Mayor, I think I understand the philosophy that you have on unfunded mandates and, as a matter of fact, I voted for the part of the contract that dealt with unfunded mandates. But this hearing is dealing with, it is my understanding, disasters and what can be done in the future.

So I didn't want anyone to get the impression, unless that was the impression you intended to leave, that unfunded mandates are a substantial problem as it relates to disasters and what we should be doing in the future.

Mr. RIORDAN. You are correct, it is not.

Mr. DIXON. It is not?

Thank you.

Thank you Mr. Chairman.

Mr. RIORDAN. And I think—let me just comment on that one on the SBA—

Mr. DIXON. We kind of wandered off there when we got into this.

Mr. RIORDAN. I think that it is really not practical to think that we can gear up a lending institution like the SBA overnight in a disaster. So I think what we would like to see is improvements and more flexibility in what they do.

Mr. DIXON. You know, how things go. All of a sudden on the floor of the House of Congress it will be, Mayor Riordan said that unfunded mandates were a major issue in disaster relief, and I just wanted to make that clear.

Mr. DAVIS. Would my friend yield for 1 second?

Mr. DIXON. Yes.

Mr. DAVIS. I just note, I think he made it clear in my questions to him that they weren't a problem. In point of fact, they were a larger global one. But I had asked him some specifics and I think he made it clear that they were not really a part of the problem here.

Mr. TORRES. Mr. Chairman, reclaiming my time.

Mayor, I thank you for coming today. It is good to see you again, and to hear from you.

I was struck by your closing statement where, in the record, you thanked the Federal Government for its expeditious action and, while it is not in your statement, you said, verbally, that you also thanked the State as well.

As you know, President Clinton raised the Federal contribution to 90 percent from 75 percent on this very special occasion. Am I correct?

Mr. RIORDAN. That is correct, yes.

Mr. TORRES. That is correct, and then I understand that the State, which has to make up the matching portion, the 10 percent, was not able—at least as I understand this, the State was not able to come up with the 10 percent and the city of Los Angeles dipped into its budget and provided it from Federal housing funds in order to bail out the State, so to speak.

So in this kind of robbing Peter to pay Paul, how will you fulfil the Federal housing obligations which you took from the budget to help the State?

Mr. RIORDAN. Other people have a little more knowledge on that, but I know that we got significant new, additional Federal funding shortly after. I think somewhere in my prepared remarks we talked about \$200 million that we got from HUD for emergency housing funding and others and we have gotten other pockets from HUD and from the Federal Government over the last couple of years.

So we haven't—quite honestly, I think we have done, as of now, about as much as we can do with the Federal credits, the amount that we are allowed in L.A., and other funding, as we can put into operation, you know, to actually put the projects together and make it work.

We do have a real fear as to the future because with the sunsetting, possibly, of the Federal—the tax housing credits and also some cutback on Federal funding, we do have a worry as to the future.

Mr. TORRES. In your estimation, what additional impacts have the Northridge earthquake and other disasters had on your budget?

Mr. RIORDAN. I have to admit that they have not had a major impact on our budget. I think that is where I have to really thank the Federal Government for what they did for us, but we were able to, I think, get along without dipping deeply. We had to dip to some extent, but not enough to really notice. I think a lot of the efficiencies it forced us to do, by getting permits out quickly and others, made us more efficient.

Mr. TORRES. I asked Director Witt whether the Federal Government had fulfilled its obligations in the case of Loma Prieta and also mentioned the L.A. riots. Is that still affecting the city's budget?

Mr. RIORDAN. Well, I mean, obviously they are. I mean, right now, like Loma Prieta in San Francisco, but the riots are something that I consider in my own mind. The Federal funding is a thing of the past and it is our duty to clean up these areas and if you go down there you will see in the last year it has been cleaned up dramatically in the riot areas.

Now we have to do and we are working on doing a lot of major projects, particularly putting retail shopping into those areas.

Mr. TORRES. I thank the mayor for his responses to my questions and again, Mr. Mayor, thank you for being here today.

Mr. RIORDAN. Thank you, Congressman.

Mr. HORN. On the question Mr. Torres raised about the cost to the city of Los Angeles, are there any figures available, that we might put in the record at this point, as to what the expenditures were by the city of Los Angeles beyond normal governmental operations?

Mr. RIORDAN. I will get you that. I don't have it.

Mr. HORN. Great. Let's just file it in the record at this point.

Without objection, so ordered.

I yield to the gentleman from California, Mr. McKeon.

[The information referred to follows:]

The City incurred total expenses of \$1,054,000,000 for the earthquake and \$74,645,462 for the civil disturbance. A more detailed breakdown of these costs by city department can be provided if necessary. These figures were provided by the City Administrative Officer (CAO), who serves as the chief financial advisor to the Mayor and City Counsel.

Mr. MCKEON. Thank you, Mr. Chairman.

Good afternoon, Mr. Mayor. I also had the opportunity of being mayor, but of a much smaller city, Santa Clarita, and I also served for a while on the school board. And I had a lot of complaints about mandates that came down from above, both the Federal Government and Sacramento. I was really happy when we were able to pass that law this year that we would have no more Federal mandates without the funds to carry them out. I wish we could go back and get rid of some of the other ones.

Mr. RIORDAN. I do, too.

Mr. MCKEON. Maybe that is something we should look at. Maybe it is something that we can look at on an individual basis, if you can give us some specific things that we can target, we would be happy to do that.

I want to commend you for the leadership that you also provided through this. I love the idea that you seek forgiveness rather than permission, because there was a time that if you wanted to wait for permission nothing would have ever happened.

I happened to be out of town, in Denver, when the quake hit. I didn't get back until the early afternoon. I remember driving up and seeing all of the fire engines that were already in place, the plans had been made already by the fire department, the police department, the public safety department. The work that they had done was tremendous. I think that what you do, working with other cities, where people come together and help each other during these times is tremendous.

In your opinion, have there been disputes between the city and the State and/or FEMA or other Federal agencies, significantly, that affected the recovery and what types of disputes were typical, and what steps, if any, have been taken to resolve these disputes?

Mr. RIORDAN. To give you a lot of detail on that I would have to get somebody else in my administration, but obviously, when you are the recipient of the money you are trying to get as much as you can so you can get 100 percent financing. So we have had a variety of, I wouldn't even call them disputes, I would call them negotiations.

Mr. MCKEON. Disputes may be the wrong word because that sounds confrontational. I think we have tried to work harmoniously through all of this. So I am not looking for something to point fin-

gers. What I am looking for is things that we can avoid next time. So if you have anything like that, if you want to add with written testimony that would be no problem.

Mr. RIORDAN. I think it would be better to do it, but let me just say, I think that—my guess is, we won't have any suggestions that will help the next time, maybe we will ask you for some help right now in some of the negotiations we are having with FEMA. I think that overall they did a very, very good job. I think they are very much to be complimented.

Mr. MCKEON. Very good. Again, thank you.

And I yield back the balance of my time, Mr. Chairman.

Mr. HORN. Are there any more questions on this side?

[No response.]

Mr. HORN. Any more questions on this side?

[No response.]

Mr. HORN. If not, we thank you very much, Mr. Mayor, and appreciate you coming over here on a busy day. Every day for the mayor of the second largest city is a busy day.

Mr. RIORDAN. Thank you very much.

Mr. HORN. Thanks for coming.

We do have the open mic session for those that are new to the audience that will come up after the last panel and we will welcome your comments for a minute or so or the filing of a statement. If they concern the State or the Federal Government or the city, we will ask those officials to put a response in the record where your question has been put and we obviously will appreciate your reactions to that particular situation.

The third panel, three individuals, Dr. Richard Andrews, director of the Governor's Office of Emergency Services; and Ms. Constance Perett, the manager of Emergency Services for the county of Los Angeles; and Major General Robert J. Brandt, the Assistant Adjutant General and Commander of the California Army National Guard.

We have a tradition on this committee that we do swear witnesses. So if all three of you will stand and raise your right hand.

[Witnesses sworn.]

Mr. HORN. The clerk will note that all three witnesses have affirmed and we will begin with our first witness, Dr. Richard Andrews, the director of the Governor's Office of Emergency Services.

The Governor very much wished to be here. Unfortunately, he was tied up in northern California by a lot of precommitments and we appreciate the emergency efforts the Governor made on this situation, working with the director and the mayor and others involved and I hope Dr. Andrews will have a few examples of that because I think that is worth noting in other States.

I think it surprised practically every Californian that we could break some of these bureaucratic rules in an emergency and get things done. So I congratulate you and the Governor on getting those things done and we look forward to your testimony.

STATEMENTS OF RICHARD ANDREWS, DIRECTOR, GOVERNOR'S OFFICE OF EMERGENCY SERVICES, CALIFORNIA; CONSTANCE PERETT, MANAGER, EMERGENCY SERVICES, COUNTY OF LOS ANGELES, CA; AND MAJOR GENERAL ROBERT J. BRANDT, ASSISTANT ADJUTANT GENERAL AND COMMANDER, CALIFORNIA ARMY NATIONAL GUARD

Mr. ANDREWS. Thank you, Mr. Chairman, members of the committee. Thanks for the invitation to testify today and share our perspectives on the Northridge earthquake response and recovery efforts.

Mr. HORN. We are going to need to get that mic closer. You are talking to the table not the mic.

OK.

Mr. ANDREWS. Because of our many risks and history, California takes emergency management very seriously. We are proud of the fact that we are considered international leaders in seismic safety policy and practice. Virtually all of the Nation's modern experience in earthquake management results from events that have occurred in this State.

On behalf of Governor Pete Wilson and all of the residents of California, I want to thank the Members of Congress, especially the California Congressional Delegation for the rapid, unprecedented response to the needs created by the Northridge earthquake. Two separate congressional appropriations should provide ample funds to rebuild our damaged communities according to current State and local codes.

Since January 1994, our working relationship has been, on balance, very positive. Two years following the earthquake there remain, however, important recovery issues to be resolved. They are centered around fundamental differences over, first, technical assessments; second, appeals policies; and, third, inconsistent eligibility and reimbursement rulings.

I would like to review with you the series of events that bring us where we are today. On the morning of January 17, within minutes of the Northridge earthquake, we had launched the Statewide response to supplement the efforts of local governments. Within 2 hours of the quake, I personally spoke with James Lee Witt who placed very generously and immediately any needed Federal resources at our disposal.

On the flight from Sacramento to Los Angeles that morning, Governor Wilson began taking steps that led to the most dramatic early examples of how Government can act in times of crisis. Using his executive authority he approved initial contracts for demolishing sections of damaged freeways and, following a strategy initially used by California after the 1989 Loma Prieta earthquake, approved incentive contracts for freeway reconstruction that led to the roadways being opened in record time.

The overall response was extremely effective, particularly at the local level. City and county law and fire officials quickly identified the most serious situations and rapidly dispatched necessary resources. The response by local jurisdictions was so effective that most additional resources provided by the State's unique mutual aid systems were not needed. The response was essentially completed before Federal officials arrived in the State.

The primary responsibility for protection of public safety and property rests with local and State officials. The most effective emergency response will, in my view, always occur at the local and State level.

FEMA has, unquestionably, greatly improved its emergency response capability since 1992. Their recent responses during the 1995 hurricane season throughout the Eastern Seaboard was really exemplary and indicates that they have become a much more effective emergency response organization.

The appropriate role of the Federal Government during an emergency is to provide support to specific resource requests. It is particularly important that Federal emergency response efforts not be undertaken solely to showcase a presence for the media when State resource requests have not been made.

The Northridge recovery effort began concurrently with the emergency response. Seventy-two hours after the earthquake the first disaster application centers opened for business. As has been previously mentioned, the scale and pace in providing assistance to individuals was unprecedented and here FEMA demonstrated great flexibility. Twice as many people registered for assistance as in any previous disaster in this country. More people received assistance in the first 6 weeks after Northridge than in the first 6 months after Hurricane Andrew.

At FEMA's request, California was involved in every phase of this effort. For example, as Director Witt mentioned, FEMA used our earthquake modelling capability to identify areas that could receive the initial aid checks, getting assistance into the hands of disaster victims in record time. The administrative costs of these efforts were substantial.

Yet, over a year after the disaster, FEMA reversed approval of funds to the State by deobligating over \$13 million in administrative costs the State incurred in supporting this historic effort.

The Northridge earthquake has highlighted limitations in the current structure of Federal disaster assistance regulations and policies. I believe that Federal disaster assistance policies need to be reformed. Current programs are too costly to administer and too often applied inconsistently, sometimes placing FEMA in conflict with the authority of local and State governments.

Only recently has the FEMA personnel situation here been stabilized. Five Federal coordinating officers have been responsible for the recovery effort and the rulings of each have differed.

Over \$50 million in administrative and operational costs that various Federal coordinating officers have assured California are eligible for reimbursement have recently been ruled ineligible. California intends to pursue appeals of these rulings, though it is disconcerting that the appeals are to the same individuals who have made the judgments.

Earthquakes and the damage they cause are unlike any other natural disaster. Much of the damage is hidden, masked by seemingly sound structures. Assessing the damage and the appropriate repair solutions requires professional judgments that often result in differences of opinion. It is in part because of the unique nature of earthquake damage, as well as the history of California's seismic

safety programs and codes, that we find ourselves locking horns with FEMA over repair issues.

California has 60 years of experience in drafting and enforcing some of the world's strictest building codes. Our schools and hospitals are built to a higher standard than those of any other State. Yet, we find ourselves negotiating with FEMA over which standards are to be enforced and how repairs are to proceed.

For example, over a year of negotiation and debate has surrounded the issue of repairing some 20 hospitals. While we applaud FEMA's recent willingness to consider more flexible approaches to repairing these essential facilities, the need for these innovative strategies speaks to the inherent limitations in Federal regulations and current policies.

It is troublesome that a small number of FEMA staff, who are not licensed California structural engineers or architects, have become the principal arbiters of the level of damage and the strategy for repair of very complex structures. Suggestions of those who disagree with these judgments are motivated by a desire to inappropriately enhance Federal assistance have exacerbated tensions between the State and FEMA.

We recognize that there are legitimate grounds for disagreements over very complex technical assessments, but we believe that there should be prompt, independent, third-party reviews when such technical disputes arise. FEMA is not and should not try to be the national building code authority and design firm, that is a local and State role.

California has a worldwide reputation for seismic standards and should not be second guessed at every turn by an agency with little background in that field, most of which, ironically, has been learned here in California. We understand the need to keep tight controls on spending and we operate under those same restraints in the State.

We recognize that there are steps that we can and we must take at the State level and within my own agency to make our own processes more efficient. We recognize and fully support Congress' desire to limit disaster assistance costs whenever possible. We only seek eligible assistance under current Federal laws and regulations.

Since the enactment of the Field Act in 1933, which set standards for the construction of public schools in this State, California has enacted a broad range of mitigation measures. The Northridge earthquake demonstrated the need to reduce our earthquake risk even further. The Governor has made the retrofit freeway the highest priority for the State Department of Transportation. Propositions on the California ballot in March will ask the State's voters to approve \$3 billion in bonds to continue the seismic retrofit of the State's freeway system.

The Governor's recently announced budget includes proposals for over \$900 million in general obligation bonds for higher education infrastructure improvements, particularly seismic safety initiatives.

At the Governor's request, the State's Seismic Safety Commission has undertaken a thorough review of our building codes and standards in construction practices.

The Northridge Housings Mitigation Grant Program, that results from the Stafford Act, will include approximately \$650 in Federal funds. Together with task forces representing schools, hospitals and local governments, we have defined a set of priorities for the use of these funds to accelerate mitigation efforts in the Northridge disaster counties.

The first \$106 million from the Northridge fund is being committed to schools to replace lighting fixtures and false ceilings. Additional grants will be made to hospitals, local governments and State agencies to accomplish other prioritized measures.

California's local and State emergency management systems performed effectively at the time of the Northridge earthquake. Nevertheless, the seismic risk in this State is such that we need to continue to aggressively pursue preparedness and risk reduction initiatives.

The Federal Government has provided invaluable timely support to local and State efforts and the flexibility and the problem-solving approach of the current FEMA leadership represents a dramatic and important step forward over where we were in 1989.

We stand at a critical juncture in the recovery effort and I believe we can overcome the hurdles and resolve our problems. James Lee Witt and his staff have earned our thanks, our respect and our gratitude for the accomplishments to date.

Again, on behalf of Governor Wilson and all Californians, my thanks to Congress for their concern, commitment and support over the last 2 years. Thank you.

[The prepared statement of Mr. Andrews follows:]

Testimony Before the Congressional Committee on
Government Reform and Oversight,
Subcommittee on Government Management, Information & Technology

by
RICHARD ANDREWS
DIRECTOR

GOVERNOR'S OFFICE OF EMERGENCY SERVICES
STATE OF CALIFORNIA

California State University, Northridge
January 19, 1996

Thank you for the invitation to testify today and share our perspectives on the Northridge earthquake response and recovery effort. As Director of Emergency Services for Governor Pete Wilson, I have served as State Coordinating Officer in overseeing the response and recovery activities from the unprecedented series of emergencies that have occurred in California since 1991.

Because of our many risks and history, California takes emergency management very seriously. We're proud of the fact that we're considered international leaders in seismic safety policy and practice. Virtually all of the nation's modern experience in earthquake risk management results from events that have occurred in this state.

But let me assure you that we're not just recipients of disaster aid; in April of last year over 350 Californians, including four of our urban search and rescue teams, were part of the response to the tragic bombing in Oklahoma City. We're proud of the fact that the concept of the urban search & rescue teams was first developed here in California and then adopted by FEMA as a national model.

On behalf of Governor Pete Wilson, and all the residents of California, I want to thank the members of Congress, especially the California congressional delegation, for your rapid, unprecedented response to the needs created by the Northridge earthquake. The \$8.9 billion obligated by federal agencies thus far has been essential in expediting the rebuilding from what

may turn out to be the most expensive natural disaster in this nation's history. Our current estimate of total damages from Northridge is \$25 billion dollars, including a total of \$12.5 billion in insured losses. The funds allocated by Congress in two separate appropriations over the past two years should provide ample funds to rebuild our damaged communities according to current state and local codes.

Let me state clearly that since January 1994, our working relationship with FEMA has been, on balance, positive. James Lee Witt has demonstrated a refreshing and much appreciated understanding for the problems California has faced in the last five years -- a series of disasters that have caused losses totaling more than \$35 billion. We are grateful to him and the Congress for the extensive help offered to our state.

Two years following the earthquake there remain, however, important recovery issues to be resolved. They are centered around fundamental differences over: (1) technical assessments; (2) appeals policies and (3) inconsistent eligibility and reimbursement rulings.

I'd like to review with you the series of events that bring us to where we are today.

EMERGENCY RESPONSE

On the morning of January 17, 1994, within minutes of the Northridge earthquake, officials with the Governor's Office of Emergency Services (OES) had launched the statewide response to supplement the efforts of local governments. Governor Wilson declared a state of emergency immediately and directed me to make all the resources of state government available to assist communities in Los Angeles, Ventura, and Orange counties. Within two hours of the quake, I personally spoke with James Lee Witt who placed any needed federal resources at our disposal.

On the flight from Sacramento to Los Angeles the morning of January 17, Governor Wilson began taking steps that led to the most dramatic, early examples of how government can act in times of crises. Using his executive authority he approved the initial contracts for demolishing sections of damaged freeways and, following a strategy initially used by California after the 1989 Loma Prieta earthquake, approved incentive contracts for freeway reconstruction that led to the roadways being reopened in record time. Over the following weeks Governor Wilson took over a dozen specific actions that expedited the state's response, including making portable classrooms available to damaged school sites in record time, thereby setting a clear strategy of waiving

complex regulations to allow government agencies to be problem solvers, rather than merely regulators.

OES coordinated the response by all state agencies, including the collection, verification and dissemination of intelligence reports (a process that has been adopted by FEMA for its own use); the preparation of situation reports for the governor; coordination of all public information activities; and activation of the state's mutual aid response. As requests for help poured into OES from local governments and the regional operations centers, agency representatives quickly responded by deploying available resources and seeking additional help as needed.

OES dispatched fire, law enforcement, and medical mutual aid from jurisdictions close to the affected area. Six of the state's urban search and rescue task forces, created after the 1989 Loma Prieta earthquake by OES to detect and extract people from collapsed structures, were deployed after Northridge. Teams from Arizona and Washington, modeled after the ones in California, were also dispatched to Los Angeles but were not needed.

Response Effectiveness

The overall response was extremely effective, particularly at the local level. City and county law and fire officials quickly identified the most serious situations and immediately dispatched the necessary resources to those locations. The preparedness efforts of the past decade, financed by local, state, federal and private sector dollars, plus the experiences gained in the various disasters since 1989, proved their effectiveness.

Local jurisdictions quickly tackled the problems of people driven from their damaged homes. Within days, temporary housing had been arranged for more than 50,000 people.

The response by local jurisdictions was so effective that most additional resources provided by the mutual aid system were not needed. Additionally, the response by local and state resources was essentially completed before federal responders arrived in the state.

Federal Response Support

Let me emphasize that although we greatly appreciated FEMA's readiness to augment local response efforts, additional resources were not needed. The local and state-managed response was quick, timely, and thorough, and essential life saving and medical assistance efforts were brought under control in a few short hours, despite repeated aftershocks.

The primary responsibility for protection of public safety and property rests with local and state officials. The most effective emergency response will, in my view, always occur at the local and state level. It is clear that FEMA has greatly improved its emergency response capabilities since the unfortunate events that followed the devastation of Hurricane Andrew in August 1992. Recent responses during the 1995 hurricane season demonstrate that FEMA is now a much more effective emergency response organization.

Nevertheless, I must repeat my concern expressed in April of 1994 to a Disaster Recovery Field Hearing conducted by Senator Feinstein, when I cautioned against efforts to "nationalize" emergency management by promotion of the concept of a "Federal 911" operation. The role of the federal government during an emergency is to provide support to specific resource requests. It is particularly important that federal emergency response efforts not be undertaken solely to showcase a presence for the media when no critical resource needs are present and requests from states have not been made.

RECOVERY

The Northridge recovery effort began concurrently with the emergency response. OES and FEMA established a Disaster Field Office (DFO) in Pasadena immediately after the earthquake to coordinate disaster assistance. More than 2,000 local, state and federal employees were assigned to various DFO operations. California worked closely with FEMA to establish long-term relief and recovery operations. Aftershocks continued to shake the area, in some cases calling for response efforts after recovery operations had begun.

Despite the magnitude of the damage from the quake, responders shifted quickly from putting out fires to restoring roads; from pulling the dead and injured from collapsed structures to establishing shelters and providing meals; from issuing emergency information to providing housing and financial assistance. To smooth the recovery process, OES established an

Intergovernmental Liaison Council and other special task forces with affected local governments that included cabinet level officials from the Clinton Administration.

Seventy-two hours after the earthquake, the first 11 Disaster Application Centers (DACs) opened for business throughout the disaster area. Eventually 21 DACs served the earthquake victims. Mobile DACs traveled to 80 different locations to serve special populations, some of which were in isolated communities. This effort was coupled with an aggressive outreach program that included over 150 staff speaking 16 different languages to help guide people through the assistance process. Two years following the earthquake, more than 680,000 people have applied for disaster assistance, more than double the number in any previous single US disaster.

The scale and pace in providing assistance to individuals affected by the Northridge earthquake was unprecedented. More people received assistance in the first six weeks after Northridge than in the first six months after Hurricane Andrew. Twice as many people registered for assistance as in any previous disaster in this country.

At FEMA's request California was involved in every phase of this effort. FEMA used our earthquake modeling capability to identify areas that could receive the initial aid checks, getting assistance into the hands of disaster victims in record time. The administrative costs of these efforts were substantial. It has been particularly discouraging that, over a year after the disaster, FEMA reversed policy and approval of funds to the state by "deobligating" over \$13 million in administrative costs that the state incurred in supporting the operations in the disaster application and earthquake service centers that were the focal points of this historic effort.

To help people displaced when more than 6,000 mobile homes were jolted off their foundations, OES designed and FEMA authorized the repair and replacement of mobile units on seismically braced support systems as part of an innovative adaptation of the FEMA Minimal Housing Repair Program. The final phase of this successful, innovative program will end this month.

Complex Recovery Issues

Because of the inherent technical complexities of seismic damage, the Northridge earthquake has highlighted limitations in the current structure of federal disaster assistance regulations and policies. I believe that federal disaster assistance policies, particularly as they apply to damaged public structures, need to be reformed. Quite simply, current programs are too

costly to administer, too often applied in an inconsistent and arbitrary manner, placing FEMA in roles and decisions that sometime directly conflict with the authority of local and state governments.

Only recently has the FEMA personnel situation in support of the Northridge recovery effort been stabilized. Five Federal Coordinating Officers have been responsible for the Northridge recovery effort, and the policies of each have been different. Over fifty million dollars in administrative and operational costs that various federal coordinating officers have assured California are eligible for federal reimbursement have recently been deemed ineligible.

These inconsistencies in federal policy have had a dramatic impact. California intends to pursue appeals on each of these rulings, though it is disconcerting that the only course of appeal is to precisely the same individuals who have made these arbitrary judgments.

Building Codes and Standards

Earthquakes and the damage they cause are unlike any other natural disaster. Much of the damage inflicted by earthquakes is hidden, masked by seemingly sound structures. We have found cracks in steel beams, visible only by removing the building's skin to examine its weakened skeleton. Determining the overall level of damage, as well as the appropriate repair solutions, requires professional judgments and often results in differences of opinion.

It is in part because of the unique nature of earthquake damage, as well as the history of California seismic safety programs and codes, that we find ourselves locking horns with FEMA over repair issues. It is a state and local responsibility to insure that building codes and standards meet local needs and risks. California has 60 years of experience in drafting and enforcing some of the strictest building standards in the world. Our schools and hospitals are built to a higher standard than those of any other state. And yet we find ourselves negotiating with FEMA over which standards are to be enforced and how repairs are to proceed.

One indicator of the difficulty we face has been the issue of hospital repairs. We have had to craft new ways to deal with the extensive damage suffered by more than 20 hospitals in the LA areas. Because of the inherent complexity of the technical issues involved, FEMA and OBC are attempting to find a way to accomplish hospital repairs that we believe fall under the scope of current disaster assistance programs.

Over a year of negotiation and debate has surrounded the issue of hospital repairs. While we applaud FEMA's recent willingness to consider more flexible approaches to repairing these essential facilities, the need for these innovative strategies speaks to the inherent limitations in federal regulations and FEMA policies. It is, for example, questionable that a small number of FEMA staff, who are technically knowledgeable but not licensed as California structural engineers or architects, have become the principal arbiters of the level of damage and the strategy for repair of very complex structures. Suggestions that California engineering firms and state and local agencies that disagree with these judgments are motivated by a desire to inappropriately enhance federal assistance have exacerbated the tensions between the state and FEMA. We recognize that there are legitimate grounds for disagreements over very complex technical assessments, but we believe that there should be prompt, independent third party reviews when such technical disputes arise, rather than suggestions that only federal employees have the correct answers.

FEMA is not -- and should not try to be -- the national building code authority and design firm. That is a local and state role, and one in which California has long been a model for the nation and the world. California has a world-wide reputation for seismic standards and should not be second-guessed at every turn by an agency with little background in that field, most of which, ironically, has been learned here in California.

We understand the need to keep tight controls on federal spending. We operate under those same restraints in the state. In the past year we've had the FEMA Inspector General, the accounting firm of Price Waterhouse, and our own Bureau of State Audits review our costs and practices. We recognize that there are steps we can take to make our own processes more efficient. And we recognize and support Congress's desire to limit disaster assistance costs whenever possible. We only seek eligible assistance under current federal laws and regulations. These policies should be applied consistently, with commitments made by lead federal officials early in the disaster honored.

Hazard Mitigation

California leads the nation in seismic safety policies and hazard mitigation. Since the enactment of the Field Act in 1933, which set standards for the construction of public schools in the state, California has enacted a broad range of mitigation measures. The overall effectiveness of these mitigation efforts was evidenced when the Northridge Earthquake hit. Clearly the damage would have been far greater had it not been for the building codes, standards for schools and hospitals, retrofit measures, and emergency management systems that are unique to California.

The Northridge Earthquake, however, demonstrated the need to reduce earthquake risk even further. Governor Wilson has made the retrofit of the freeway system the highest priority for the state Department of Transportation. Propositions on the California ballot in March will ask the state's voters to approve over three billion dollars in bonds to continue the seismic retrofit of the state's freeway system. The Governor's recently announced budget includes proposals for over \$900 million in general obligation bonds for higher education infrastructure improvements, particularly seismic safety initiatives.

At Governor Wilson's request, the state Seismic Safety Commission undertook a thorough review of our building codes and standards and construction practices. The Commission's report contains a series of recommendations to reduce earthquake risk in California. Included are recommendations to improve design and construction, improve building codes, reduce nonstructural hazards, and reduce risks from existing buildings. The state Building Standards Commission is evaluating the possibility of making performance standards the foundation of the code system.

The Northridge Hazard Mitigation Grant Program that results from Stafford Act authority will include approximately \$650 million in federal funds. Together with task forces representing schools, hospitals and local governments, OES has defined a set of priorities for use of these funds that will enable the state to accelerate risk reduction efforts in the three counties declared part of the Northridge disaster area.

The first \$106 million from the Northridge hazard mitigation grant program is being committed to schools to replace lighting fixtures and false ceilings. It is clear that had school been in session at the time of the Northridge earthquake the hazard posed by these nonstructural elements in classrooms would have caused significant injuries to students. Additional grants will be made to hospitals and local governments to accomplish other risk reduction measures prioritized by the working groups established after Northridge.

CONCLUSION

California's local and state emergency management systems performed effectively at the time of the Northridge Earthquake. Nevertheless the seismic risk in this state is such that we need to continue to aggressively pursue preparedness and risk reduction initiatives. The federal government is an essential partner in this effort. While we share FEMA's desire to limit disaster recovery costs, it is important to remember that future earthquakes, perhaps much more severe than what we saw the morning of January 17, 1994 are inevitable.

The federal government has provided valuable, timely support to local and state efforts, and the flexibility and problem-solving approach of the current FEMA leadership represents an important step forward. Nonetheless, we are concerned when FEMA tries to micro-manage aspects of design and construction best left to the experts at the state and local level and engages in what we see as arbitrary policy reversals that have serious fiscal implications for state and local agencies.

We stand at a critical juncture in the recovery effort. I am convinced that we can overcome the hurdles and resolve our problems with FEMA. Again, let me emphasize that overall the cooperative effort between FEMA and the state has been outstanding. James Lee Witt and his staff have earned our thanks and gratitude for the accomplishments to date.

And again, my thanks on behalf of California for the concern and commitment expressed by Congress through the allocation of funding and federal resources.

I would be happy to answer any questions from members of the Committee.

Mr. HORN. We thank you.

Ordinarily we would not question one of the panel until we had heard all of the panel, but Representative Dixon has a prior commitment and I do want him to have the opportunity to question Dr. Andrews. So I am going to yield 5 minutes or more to Representative Dixon.

Mr. DIXON. Thank you. Thank you very much, Mr. Chairman.

Director Andrews, I have the greatest respect for your talents and abilities and I think that you are a fine officer of the State of California, being the director of the Office of Emergency Service. I have followed, not only in the newspaper, but in our personal conversations with you and with the dialog, the differences and I think a lot of those can be addressed by some pre-understandings.

Mr. ANDREWS. Absolutely.

Mr. DIXON. As you are certainly more aware than I am that when these disasters hit there is a tendency to try to show an expression of assistance by going overboard. As I understand it, upon review of some of the claims that have been made, even in the area that I represent, that a second look at them did not justify them. So there raises the question, should we go ahead and compound the mistake and be criticized or withdraw the approval of whatever moneys were to be spent?

That is a very difficult situation. In particular because in the climate that existed at the time and exists now that any moneys that were spent in California had to be offset by others. We didn't add it to the deficit.

So I do think a lot of what you said has a lot of validity and can be addressed and perhaps you will address it 1 day, because I think you are heir apparent in a Republican administration to James Lee Witt's job.

However, from my position, when California had to borrow \$125 million from the city, when the Federal Government provided 90 percent of the money and it is something like \$8.9 billion because one person got on TV 10 minutes more than another person and as far as the State resources are concerned, not manpower and abilities, you brought nothing to the table, so it seems a little bit ungrateful.

Yes, FEMA has taken the position and is negotiating with four or five hospitals as it relates to whether, in fact, these rules and regulations have been promulgated by a State agency or the State legislature, but these are things in good faith.

I am glad you set out in your statement some compliments, but sitting up here and knowing that there has been \$9 billion spent, that California was to come up with 10 percent, they borrowed it from the mayor and then you complain about somebody being on TV. Politics is never going to be taken out of this thing. The Governor of the State was on the TV about what a fine job was occurring under his leadership as much as he could. So was Witt, on behalf of the President, and so was the mayor taking credit.

For you to add some little small comment about someone being in front of the media when they should have been doing more for the Governor and the State of California, it seems like there is an attitude of not being—not grateful, but an attitude of not understanding where the State was in all of this. They were bare, finan-

cially. I mean, I didn't hear the Governor run around saying we don't have any money and in 2 or 3 weeks we are going to get some money from the city of Los Angeles.

So, you know, I have great respect for you, but for you to include those kinds of comments makes it very volatile. We can, in the future, work out these things. But I mean, it seems rather small to come here and make those kind of comments, when things have been going along relatively well, I mean as far as negotiating these things out. Everybody has been trying.

Mr. ANDREWS. I would agree. I would agree, Congressman. Let me just try to clarify my remarks.

First of all, the costs to the State of California from this disaster have been and will be substantial. The loan from the city of Los Angeles was, in fact, a strategy that was sort of suggested, initially, by President Clinton as a way to meet concerns and it is for short-term cash-flow issues. The State of California is in the process of repaying both that loan and another loan to cover individual assistance and we are doing it in, basically, record time.

Mr. DIXON. Now, just let me, and I may be wrong on this, I understand that the executive branch did suggest it, but it wasn't a gratuitous statement. It was, well, we don't have the 10 percent. It wasn't, well, why don't we give you the 90 percent and, hey, it is a great idea for the State to get this money from Los Angeles. It was, well, even if you come up with 90 percent, we don't have the 10. Well, let's see what we can do, L.A. has got some credits here. So when you say that, well, President Clinton suggested it.

Mr. ANDREWS. And we appreciated the suggestion and we appreciated the assistance that has been provided and, again, the costs to the State of California are, and will be, substantial. Our estimate is that the current costs to date are approximately \$280 to \$300 million and those costs are rising substantially.

Mr. DIXON. Right.

Mr. ANDREWS. The State agreed to undertake the balance of the 10 percent obligation. Again, that is not something that we necessarily had to do, but we agreed to do. The precedent for the 90/10 cost share was not something unique to the State of California. It was previously applied for Florida in the aftermath of Hurricane Andrew.

So, certainly, the intent is not at all in any way to diminish or denigrate the contributions or to suggest that there has been a battle or should be a battle or will be a battle for TV time. It is simply to suggest, with regard to emergency response, that the way to achieve, I believe, the objective of the Congress, which is to reduce Federal costs for disasters, is to emphasize local and State support.

It was very important in 1994 for FEMA to demonstrate, as they have in dramatic fashion, when James Lee Witt left California after being here for almost 7 weeks in a row, after the disaster, I said in a press conference with him that FEMA had exorcised the ghost of Hurricane Andrew quite effectively as a result of their performance in the Northridge earthquake.

It is simply important that we do these things, and particularly in the first hours and days, in response to legitimate requests, not simply to demonstrate a capability. Again, it was no more than that.

Mr. DIXON. In the first hours and days is where these errors of good faith are made. And so there is going to be some renegeing.

Mr. ANDREWS. My statements with regard to the whole issue of eligibility criteria, I think, are very similar to what Director Witt said in his testimony and, that is, the concern is not necessarily over the specific eligibility criteria, but the ambiguity surrounding those and the fact that the rules kind of changed during the course of the process and it puts everyone in an extremely difficult position.

Mr. DIXON. Well, as I said, Mr. Andrews, I sincerely have a great respect for you and I guess I also feel that James Lee Witt did the best he could do with what he had to work with, which is about \$9 billion. Then we kick him on the other side and we make other taxpayers and other communities and other States pay through the nose for something that didn't—through no fault of their own they are going to lose projects in their own communities. Then when you add those statements it kind of riles me up. But I have great respect for you. I look forward to, if I am in Congress in the future, I know that you are going to be in Washington and I look forward to working with you there.

Mr. ANDREWS. Thank you, Congressman.

Mr. HORN. Thank you very much.

We will now proceed with the second witness, Ms. Constance Perett.

Am I pronouncing that right?

Ms. PERETT. No, sir. You are not. It is Perett.

Mr. HORN. Perett.

Ms. PERETT. Thank you.

Mr. HORN. Manager of the Emergency Services, county of Los Angeles. Please proceed. And I think maybe some of you weren't in the room, the usual process is to sort of summarize the statement in 5 to 10 minutes. We file your full statement immediately after the introduction.

Ms. PERETT. Correct. I have summarized and will move along swiftly.

Mr. Chairman, honorable committee members, first of all, thank you for giving me the privilege of presenting testimony on behalf of Los Angeles County. We sincerely appreciate your continued interest and your desire to take the lessons that we have all learned and apply them to future disasters.

Before I begin, I would like to mention one thing, the Office Of Emergency Management doesn't deal directly very often with the Federal Government or with FEMA, we work with OES. So from a purely response perspective, our knowledge of FEMA's response is somewhat limited. However, we are able to address some of the programs that FEMA brought into place during the recovery effort and I would like to focus my remarks on that. In doing so, and in putting the testimony together, I did contact a number of our county departments and their input is reflected in the testimony that you have.

First of all, let me say that the Federal agencies deserve the highest praise for their immediate and caring response to the disaster. We would particularly like to express our appreciation to

FEMA Director, James Lee Witt, for his leadership. FEMA responded to the Northridge event in record time.

We are also extremely grateful to HUD Secretary Henry Cisneros for his leadership and personal commitment to the residents of Los Angeles County. FEMA, HUD and the many other Federal agencies that responded demonstrated a high level of national commitment to our needs.

I would be remiss if I did not also thank Dr. Andrews, who is sitting right next to me, for the exemplary response that we received from the State Office of Emergency Services.

I would like to begin with some observations about the emergency Section 8 housing vouchers. Because of HUD's desire to provide immediate housing assistance, they made approximately 12,000 Section 8 certificates available to disaster victims who had been forced to move from damaged homes. This action was designed to address immediate housing needs. However, there is a downside to this approach which should be thoughtfully considered before similar action is taken in the future.

First, there is a downside of taking a significant pool of Section 8 certificates out of the existing program with nothing to replace them. On a daily basis there are more than 100,000 people on a Section 8 waiting list in Los Angeles County alone. These applicants, who have the lowest incomes of all residents, must sometimes wait for as long as 6 years before they can expect to be issued certificates. To them it seemed highly unfair that thousands of people instantaneously received certificates because of the earthquake.

An additional problem is the realization that once the Section 8 certificates expire, these disaster victims may potentially be homeless again. A new crisis could be in the making as they all try to find affordable housing at the same time. Affordable housing is one of our greatest needs in Los Angeles County during normal times. It can only be exasperated by the influx of this new group of homeless people.

Because the Section 8 housing certificate holders only pay 30 percent of their rent and the balance is subsidized, many were able to move into substantially better housing. When the vouchers expire and the families must pay the full rent without subsidy, the only option for many will be to return to living in overcrowded, substandard housing.

We believe the problems associated with this well-meaning housing assistance could have been avoided if there had been better coordination among the Federal agencies immediately following the disaster.

Before the next earthquake, we would respectfully request the State and Federal Government to formally review and revise their housing and temporary shelter programs and policies. One way to encourage a more equitable distribution of recovery funds would be to channel all Federal and State housing assistance through local government, rather than aiding building owners directly.

There are 88 cities in the county and we have the means to coordinate effectively with them. Therefore, we are suggesting that consideration be given to assigning housing block grants to the county to be distributed in an equitable way to all cities and resi-

dents based on need. This would allow flexibility to target areas and in some cases to combine various funding sources to meet specific problems.

I would like to turn your attention to FEMA's crisis counselling, assistance and training grants. The county's Department of Mental Health cited experiences after three recent disasters which suggests regulations should be changed to improve FEMA's crisis counselling assistance and training grant programs. Essential mental health services could be more quickly provided to disaster victims by making some changes to the regulations governing these grant programs. I will just highlight a couple of those areas.

The immediate services grant application is currently required to be filed within 2 weeks of a disaster. This deadline is difficult to meet, considering the need to also respond to the disaster, assess the needs and prepare an application.

A 4-week deadline would be more realistic. The award is only for the first 60 days after the declaration of disaster. A 60-day award period is inadequate, since, for all practical purposes, the first 2 weeks are spent assessing needs and preparing the application. A 90 to 100-day application period would be more practical.

Moving on to the elderly and disabled populations, the Los Angeles County Area on Aging estimates that over 50,000 Los Angeles County senior households, including 5,600 mobile homes, were damaged or destroyed by the quake and it is important to note that these figures don't even include the senior citizens within the city of Los Angeles.

Within hours of the quake the County Area on Aging took bigger steps to reach out into the communities to locate and provide immediate crisis intervention services to those in need. Their primary target group consisted of isolated, frail elderly who might otherwise fall through the cracks.

The vast majority of senior citizens wanted to know how to obtain FEMA's services through its network DACs. They needed rent vouchers, loans and other assistance to repair damaged homes or to find other housing. Although some applied for assistance through the FEMA teleregistration number, they were not able to obtain all of the other services typically housed in DACs. FEMA and other governmental programs should be made available on a mobile basis, perhaps by means of mobile vans or specially designated staff who can respond to homebound victims.

It would also be useful if applications could be made available through agencies such as senior multi-purpose centers and independent living centers. DACs and other public service locations should be fully accessible to the disabled. Accessibility services should include deaf interpreters, wheelchair access, and assistance in moving disabled and frail persons forward in long lines.

FEMA should work with local disabled and elderly advocate groups in establishing accessible programs to achieve this aim.

FEMA did a good job of accommodating the needs of the disabled in the San Fernando Valley DACs. We believe what they did in the San Fernando Valley can serve as a model for other stricken areas in future disasters.

The county suffered enormous damage to its public buildings as a result of the Northridge earthquake. The estimated damage to

our Government facilities is in the neighborhood of \$2.4 billion, and at least half of that amount can be attributed to damage in destroyed hospitals and other medical facilities.

In order to expedite this in light of the time constraints, I am going to really defer to the report that Dr. Andrews made, the issues and concerns that he expressed having to do with building codes and the Office of Statewide Health Planning and Development (OSHPAD) standards are the same concerns that we have in the county. I think that he said it eloquently and I certainly couldn't do a better job, so I will move on and eliminate those remarks.

I would just like to mention for a moment, and I believe it was Mayor Riordan who said this—the issue of force account labor.

Currently debris removal and emergency work done by county employees is not reimbursed by FEMA. However, if the same work is done under a contract with noncounty employees, it is fully reimbursable, even though the contracted cost exceeds the cost of using county employees.

We recommend that the ruling on reimbursement of emergency work be rolled back to the pre-1993 eligibility criteria when such work was fully funded by FEMA. We firmly believe that Federal, State, and local government will ultimately save time, money and effort if the county is reimbursed for its employees who respond using regular time to perform emergency work.

Although my remarks have focused on concerns, FEMA and the many other Federal agencies that responded to Northridge are to be commended for the outstanding support they have provided to local government. We are extremely grateful to them.

I think the key to Government's future success will largely depend on greater coordination and cooperation between all levels of Government, community-based organizations, and the private sector. We did a good job this time, but I think we can do an even better job next time.

Thank you again for providing me with this opportunity to share some of the county's concerns.

Mr. HORN. I notice you skipped the section in your summary on the Small Business Administration. Do you want to make that point orally for the record?

Ms. PERETT. I will be glad to do that.

Mr. HORN. It's on page 5.

Ms. PERETT. I had eliminated it—

Mr. HORN. I realize you were being very good and listening to me on summarizing and all that, but you have some important points there, and they are critical points, and just so the rest who aren't able to read all the statements, why you might want to mention them and then we'll go on to Major General Brandt.

Ms. PERETT. Mr. Chairman, thank you for your graciousness and as soon as I find that note, I will do just that.

Mr. HORN. Page 5. Small Business Administration.

Ms. PERETT. Thank you very, very much.

The Small Business Administration provides low-interest loans for rebuilding damaged residential properties. SBA has approved almost 90,000 loans for \$2.7 billion in repairs related to the Northridge earthquake. However, there are some problems with the SBA program. Narrowly defined loan criteria can exclude even qualified borrowers—for example, a home that has twisted may not qualify if it has no

cripple wall damage. SBA's cap of \$1.5 million is not sufficient to repair large apartment buildings. Loans approved can take months and loan proceeds often arrive up to 7 months later. SBA loans are based on a project's credit worthiness. Financially marginal housing, which is most likely to be damaged, is less likely to qualify for a loan. We are not suggesting that SBA should change criteria to fund sure-losers, but we are pointing this problem out as avoiding providing needed assistance. SBA did not release the names of people denied assistance, although the information was needed by other agencies in order to fill gaps.

[The prepared statement of Ms. Perett follows:]

**CONSTANCE PERETT
MANAGER, OFFICE OF EMERGENCY MANAGEMENT
COUNTY OF LOS ANGELES**

INTRODUCTION

Mr. Chairman, Honorable Committee Members:

Thank you for giving me the privilege of providing testimony today on behalf of the County of Los Angeles. My name is Constance Perett and I am the manager of the County's Office of Emergency Management.

We are grateful to your Committee for scheduling this hearing. The Northridge Earthquake was the most devastating natural disaster to ever strike our area and it will be many years before County government and the communities we serve will have fully recovered. We appreciate your continued interest and desire to apply the lessons we have all learned to the disasters we can all expect in the future.

It is my understanding that your primary objective today is to assess whether the federal government's response was timely and effective. With that in mind, I will focus my remarks on the response and very early recovery issues that fall within the realm of response activities.

INITIAL RESPONSE

Let me first of all say that federal agencies deserve the highest praise for their immediate and caring response to the disaster. We would like to particularly express our appreciation to FEMA Director, James Lee Witt, for his leadership. FEMA responded in record time. In fact, they moved so quickly that they actually began opening Disaster Application Centers (DACs) within the first week. The County was so focused on the immediate response that we could barely keep up with FEMA and had a difficult time simultaneously coordinating with them on DAC-related issues.

We are also extremely grateful to HUD Secretary Henry Cisneros for his leadership and personal commitment to the residents of Los Angeles County. We believe that FEMA, HUD and the many other federal agencies that responded to the earthquake demonstrated a high level of national commitment to our response and recovery efforts.

U.S. Department of Housing and Urban Development (HUD)

HUD's traditional response to disasters has been through a supplemental allocation of Community Development Block Grant (CDBG) and HOME funds. The Los Angeles area received \$400 million in supplemental CDBG and \$100 million in HOME funds following the Northridge Earthquake. All CDBG funds must benefit low-and moderate income persons, aid in the prevention of slums and blight, or address other community development needs that pose a serious and immediate threat to the health or welfare of the community. HOME funds are used for rehabilitation of housing.

U.S. Department of Housing and Urban Development (HUD) (con't.)

Because the 1994 earthquake affected more multi-family units than single family dwellings, HUD allocated an additional \$100 million from the President's discretionary funds to the City of Los Angeles for flexible subsidy loans to assist owners of apartment complexes.

In addition, HUD also moved quickly in a different direction, thanks to HUD Secretary Cisneros' desire to provide immediate housing assistance. Approximately 12,000 Section 8 certificates were made available for persons who had to move from damaged residences. Although resources were being provided by FEMA and the American Red Cross, this was a creative and unique way to meet an immediate housing need. This action was designed to address immediate housing needs; however, there is a "downside" to this approach which should be thoughtfully considered before a similar action is taken in the future.

First, there is the downside of taking this significant pool of Section 8 certificates out of the existing program with nothing to replace these diminished resources. On a daily basis there are more than 100,000 people on the Section 8 waiting list in Los Angeles County alone. These applicants, who have the lowest incomes of all residents, must wait for as long as six years before they can expect to be issued certificates. To them it seemed highly unfair that thousands of people instantaneously received certificates because of the earthquake.

Further, once the certificates are no longer renewed there will be a crisis in the making as many of these people all start looking for affordable housing at the same time. Affordable housing is one of the greatest needs in Los Angeles County during normal times. It will only be exacerbated by the influx of this new group of homeless people.

In many cases, the Section 8 earthquake certificates holders were able to move into units far nicer than their original residences because the Section 8 owner is paid market-rate rent, whereas the certificate-holder has to pay only 30% of his/her adjusted income for the rent. The emergency Section 8 vouchers gave many renters the opportunity to live in decent housing for the first time. When the vouchers expire and the families must pay for rent without subsidy, the only option for many may be to return to living in overcrowded, substandard housing.

We believe the problems associated with this well-meaning housing assistance could have been avoided if there had been better coordination among the federal agencies immediately following the disaster. As a matter of fact, in HUD's well-written research report, "Preparing for the "Big One": Saving Lives through Earthquake Mitigation in Los Angeles, California", one of the concerns cited is "insufficient coordination among the agencies to shape a unified, coherent program" for the National Earthquake Hazards Reduction Program.

U.S. Department of Housing (HUD) and Urban Development (con't)

Before the next earthquake, state and federal agencies should formally review and revise their programs and policies on housing and the provision of temporary shelter so that all victims have some access to assistance. One way to encourage a more equitable distribution of recovery funds would be to channel all federal and state housing assistance through local government rather than aiding building owners directly. We suggest that this could more equitably be done with the County having the lead role since there are 88 cities within the County of Los Angeles. Distribution of resources could be handled in an equitable way to all cities and residents based upon need. This would give the flexibility to target areas and/or to combine various funding sources to meet specific problems.

FEMA'S Crisis Counseling Assistance and Training Grants

The County's Department of Mental Health cites experiences after three recent disasters which suggest regulations should be changed to improve FEMA's Crisis Counseling Assistance and Training Grant programs. By making some changes to the regulations governing Crisis Counseling Grant programs, essential mental health services could be more quickly provided to disaster victims. Following are areas that we respectfully request be reviewed:

- * The Immediate Services Grant (ISG) application must be filed within two weeks of a disaster; this deadline is difficult to meet considering the need to respond to the disaster, assess the needs, and prepare an application. A four-week deadline would be more realistic.
- * The ISG award is for only the first 60 days after the declaration of the disaster. The period covered by this award is inadequate, since for all practical purposes the first two weeks are spent assessing needs and preparing the application. A 90-120 day award period would be more practical.
- * Depending upon the severity of the disaster, the County may apply for a continuation grant which runs subsequent to the ISG and must be filed within 60 days of the disaster declaration. This 60 day deadline should also be changed to conform with revised deadlines recommended for ISG. Doing so would be more realistic in terms of: 1) assessing needs, 2) preparing an adequate application and, 3) assessing the amount of funds that are needed and can be spent within the prescribed time.

FEMA'S Crisis Counseling Assistance and Training Grants (con't.)

- * FEMA regulations permit the nine-month grant to include provision of services for a consecutive nine-month period. Circumstances could dictate a shorter time period, or a cessation of a period of time, such as for a school vacation, with resumption of activities later. These regulations should be more flexible.
- * Crisis counseling regulations should permit treatment (e.g. medication) services that are culturally appropriate, and expanded emergency services during the ISG period.

Elderly and Disabled Populations

The Los Angeles County Area on Aging estimates that over 50,000 Los Angeles County senior households, including 5,600 mobile homes, were damaged or destroyed by the quake. Please note: These figures do not include senior citizens within the City of Los Angeles. Within hours of the quake, the Los Angeles County Area Agency on Aging took vigorous steps to reach out into the communities to locate and provide immediate crisis intervention services to those in need. Their primary target group consisted of isolated, frail elderly who might otherwise fall through the cracks.

The vast majority of calls they received were about how to obtain FEMA services through its network of DACs (DACs). Seniors needed rent vouchers, loans and other assistance to repair damaged homes or find other housing.

While the overall response to the Northridge Earthquake has been successful in many ways, there is a need for greater acceleration in receiving federal disaster recovery/response funds. To maximize the effectiveness of such funds, there needs to be an established "presumption of need" so that when disasters of pre-identified magnitude occur, emergency funds will become available immediately without the need for an elaborate grant proposal and a lengthy negotiation process in the Congress.

Although some victims were able to apply by telephone, they were not able to obtain all of the other services typically housed in DACs. FEMA and other governmental programs need to be made available on a mobile basis, perhaps by means of a mobile van or specially designated staff who can respond to homebound/bed-bound victims for whom traveling to a DAC is an overwhelming task. It would also be useful if applications could be made available through agencies such as Senior Multipurpose Centers and Independent Living Centers.

Elderly and Disabled Populations (con't.)

DACs and other public service locations should be fully accessible to the disabled. Accessibility services should include deaf interpreters, wheel chair access, and assistance in moving disabled and feeble persons forward in long lines. FEMA should work with local disabled and elderly advocate groups in establishing accessible programs.

FEMA did a good job of accommodating the needs of the disabled in the San Fernando Valley DACs, which should serve as a model for other areas in future disasters.

Small Business Administration

The Small Business Administration (SBA) provides low-interest loans for rebuilding damaged residential properties. SBA has approved almost 90,000 loans for \$2.7 billion in repairs related to the Northridge Earthquake.

However, there are some problems with the SBA program:

- * Narrowly defined loan criteria can exclude even qualified borrowers. For example, a home that has twisted may not qualify if it has no cripple-wall damage.
- * SBA's cap of \$1.5 million is not sufficient to repair large apartment buildings.
- * Loan approvals can take months, and loan proceeds often arrive up to seven months later.
- * SBA loans are based on a project's credit worthiness. Financially marginal housing, which is most likely to be damaged, is less likely to qualify for a loan. We are not suggesting that SBA should change criteria to fund sure-losers, but we are pointing this problem out as a void in providing needed assistance.
- * SBA did not release the names of people denied assistance, although the information was needed by other agencies in order to fill gaps.

EARLY RECOVERY

FEMA Reimbursement

The County suffered enormous damage to its public buildings as a result of the Northridge Earthquake. The estimated damage to our government facilities is in the neighborhood of \$2.4 billion, with at least half of that amount concentrated on hospitals and other medical facilities.

FEMA Reimbursement (con't.)

Much of the damage was not immediately apparent. Consequently, two years later we are still in the process of trying to get our Damage Survey Reports (DSRs) approved and processed by FEMA. That process is frustrating, has been more time-consuming than predicted, and the delays have worked a hardship on the County's recovery efforts. Two important issues are described below:

- * The Office of Statewide Health Planning and Development (OSHPD) sets the standards for construction of hospitals. OSHPD approval is contingent upon facility compliance with the California Building Code. FEMA's unwillingness to accept OSHPD's standards has resulted in seven appeals, all of which have already delayed the restoration of essential County buildings for more than two years. FEMA's personnel have substituted the engineer of record method of repair with their own, which is based on FEMA's interpretation of State and County codes. We are very concerned about this issue because it could delay the restoration of the more than 240 damaged County buildings indefinitely. We suggest that a panel of building code experts research the code interpretation and application and find a solution acceptable to all parties.
- * Debris removal and emergency work done by County employees is not reimbursed by FEMA. However, if the same work is done by contract with non-County employees the cost is fully reimbursable even though the contracted cost exceeds the cost of using County employees. We recommend that the ruling on reimbursement of emergency work done by applicants' force account labor be changed back to pre-1993 eligibility criteria when such work was fully funded by FEMA. We believe reimbursement for County employees using regular time to perform emergency work will ultimately save time, money and effort for Federal, State and local government.

In recognition of the protracted approval process, we would like to congratulate Mr. Witt and his team for developing an alternate approach of using mitigation money in place of the traditional damage reimbursement funds in order to expedite our hospital claims.

Mr. Witt places a high priority on hazard mitigation and this approach recognizes that it is cost effective to restore damaged buildings to current design and code after each disaster, as the Stafford Act mandates. In the long run it makes financial sense to seismically retrofit earthquake-damaged buildings which house essential public services, such as jails, hospitals, and schools during restoration so that they can withstand a future major magnitude earthquake. In our view, this approach should be expanded and used for all public buildings.

FEMA Reimbursement (cont.)

We believe that the negative press that FEMA has received in the past is undeserved, particularly given the frequency of disasters throughout this country and enormous burdens placed upon very limited staff. After the Northridge Earthquake, Mr. Witt and all of the FEMA officials made every effort to meet the needs of our earthquake victims as quickly as possible. We are extremely grateful to all of them.

Coordination

The County Board of Supervisors recognized the need for a coordinated approach to recovery following the Northridge Earthquake and created the County Office of Recovery (COR). COR consisted of representatives from the County departments and agencies experienced in facilities issues, finance and social recovery. These representatives were assigned on a full-time basis to work in one centralized location on nothing but earthquake recovery issues. COR operated during the first nine months following the earthquake and was very successful in initiating and expediting some of the critically needed early recovery operations and programs.

We firmly believe that greater coordination and cooperation is needed among all levels of government, community-based organizations and the private sector. Community-based organizations and local, state and federal agencies all did a good job in responding to the Northridge Earthquake. In the future, we will even do better.

Thank you again for providing me with this opportunity to share some of the County's concerns.

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Mr. HORN. Thank you. Now it is my pleasure to introduce Major General Brandt. Major General Robert J. Brandt is the Assistant Adjutant General and the Commander of the California Army National Guard. Welcome.

Major General BRANDT. Mr. Chairman, I am extremely happy to have the opportunity today to appear before you and this body to explain the California National Guard's part in the recovery from the January 17th earthquake.

First, I would like to point out for clarification that the National Guard has three missions. We look at it as three missions in California.

We have our Federal mission. Our Federal mission, of course, is to protect and defend the United States. Our State mission is, pure and simple, public safety, and we in the California National Guard are involved in public safety throughout the year with respect to earthquakes, snow removal, fires, wildfires, whatever. Our primary California mission is public safety and assisting the citizens of California.

Then we have a third mission that we have been involved in throughout our history, and that's community support and youth programs in those communities where the National Guard is based.

With respect to military support to civil authorities, a point often confused is that we hear comments that, well, maybe we ought to organize the National Guard to support their State missions.

In actual fact, a close look at the situation points out that it is just the opposite. What makes the California National Guard efficient and readily available in emergencies such as the earthquake is the equipment, the organizations, the units, the staffs that we have in the California National Guard, and the National Guard of the United States for our Federal mission, because it is our Federal mission that provides us with the trucks, with the communications systems, with the medical equipment, supplies, medical personnel, aircraft.

These are all provided to the State of California and to the citizens of the United States at a very nominal cost and that preparation for the Federal mission allows us to respond adequately for these State missions.

It is not organize the Guard for State missions. It is the Guard should be organized for the national defense mission, and that quite adequately has provided the citizens of California with a professional response.

I would like to also point out that the California National Guard has responded on an average of a little over 33 percent to all MSEA mission support in the United States. In 1994, we responded to over 51 percent.

We have a great deal of expertise in various areas, working under the direction of the State governmental agencies that we work with to support them. As you know, we work with and for the Governor through Dr. Andrews, and the Office of Emergency Services.

We have an excellent relationship and an excellent communications system that allows us to operate and activate our organizations in a very short period of time. As a matter of fact, on the morning of January 17th, we received a call at our headquarters,

our staff duty officer, within 1 hour of the earthquake. Within 2 hours, our emergency operations center was in operation in Sacramento, and at the same time, within that 2 hours, the 40th Infantry Division headquarters in their emergency operations center had been activated at Los Alamitos Armed Forces Reserve Center, which is also southern California's disaster support area, and has performed in that capacity during the L.A. riots as well as the Olympics and other emergencies.

The requirements that we received based on the needs of the communities through the Office of Emergency Services required us to activate about 2,600 Air and Army National Guard personnel, and they were activated basically—I think most of them—within that first few hours.

We were prepared and we were fully prepared to follow on with considerably larger forces and a considerable amount of equipment that fortunately was not required.

The California National Guard in the Northridge earthquake had sufficient supplies, equipment, personnel available to meet the needs.

Challenges to our operation are basically on the taxable level and that is a matter of merely activating our personnel, getting our key liaison officers and personnel to the various county, city emergency operations centers and establishing our communications system and then linking that with the civilian communications system.

One problem that we do run into is the integration of Federal and State forces during emergencies. It was a major problem during the L.A. riot. It was a minor problem during the Northridge earthquake.

I just mention that because what happens is if the Federal Government comes in and if the National Guard is Federalized and brought into Federal service, immediately the advantages we have as under the control of the State are reduced considerably.

For instance, in the L.A. riot, our 10 primary missions that we could form in a State active duty status were reduced to 1 when the Federal Government took over when we were Federalized.

Mr. HORN. Would you explain what those specific missions were?

Major General BRANDT. Well, yes. When we were in State status and we had 11,000 plus National Guardsmen deployed on the streets of L.A., working in conjunction with the L.A. County Sheriff's Department and Los Angeles Police Department, under their direction and control, we were able to secure large areas and allow the police and the Sheriff's Department to better utilize their resources in other areas, but once we were Federalized, we were restricted to protecting Federal property and there were other restrictions placed on us where we had to contract the size of the areas that we could secure.

[The prepared statement of Mr. Brandt follows:]

1994 Northridge Earthquake

Mr. Chairman and members, it is a pleasure to appear before you to discuss the California National Guard's emergency response to the Northridge Earthquake and some alarming trends that may impact our ability to provide essential resources during future state emergencies.

This report is divided into three parts.

PART I. Military Support to Civil Authority

PART II. Response to Northridge Earthquake

PART III. Resource Trends

Part I

Military Support to Civil Authority

The National Guard is a unique organization and the only military service with three missions; National Defense, State Public Safety, and Community Support. The National Guard is organized and equipped for national defense as part of the Departments of the Army and Air Force. Army and Air National Guard units are a vital part of the Total Force and have served in every major national security mission in this century.

Training for our primary mission of National Defense prepares us for our secondary mission, State Public Safety. Each year the California National Guard is called to help civil authorities protect life and property during state emergencies. California averages 33 percent of our nation's military support to civil authority missions. In 1994, year of the Northridge Earthquake, the California National Guard responded to 51 percent of the nation's military support to civil authority missions. A chart comparing California's response with other states is provided below.

Our third mission is Community Support. Youth Programs and community service projects are the principle focus of our Community mission. Our programs target inner-city youth, providing education and training in various formats that build self-esteem, discipline, and leadership skills. National Guard units also support recreation activities and public service events that benefit all members of the community.

The personnel and equipment required for our national security mission also supports community based programs throughout California and provide essential resources to the State for public safety.

Part II

Response to the Northridge Earthquake

On January 17, 1994, Northridge, California experienced a magnitude 6.7 earthquake at 4:31 AM (Pacific Standard Time). The epicenter was about one mile south of Northridge and shaking lasted more than 30 seconds. The intense ground shaking caused in excess of \$25 billion in damages, 57 fatalities, and 8,716 serious injuries. More than 50,000 people were left homeless.

Within one hour of the earthquake, the Governor's Office of Emergency Services contacted the California National Guard and we activated our Crisis Action Center in Sacramento. In less than two hours, the 40th Infantry Division Emergency Operations Center was activated at Los Alamitos Armed Forces Reserve Center and subordinate National Guard units were placed on alert. Liaison officers were sent to critical civil authority operation centers to coordinate military support and provide damage assessment. Two hours after the earthquake a command and control and planning staff were fully operational in Northern and Southern California to receive missions from the Office of Emergency Services. Over 2,600 members of the California National Guard were activated to ensure public safety, distribute food and water, assess damage, house victims and provide air transportation to damaged areas.

The California National Guard had sufficient resources to provide timely support to civil authorities. The missions performed are described below.

- Airborne command and control for State, Federal, and Local Government Agencies.

- Soldier deployment for public safety, and security missions
- Urban area search and rescue support.
- Area Damage assessment
- Air transportation support for medical supplies, deployment of law enforcement officers, government officials and military support equipment.
- Ground transportation of personnel and equipment (military and civilian).
- Setup and security of temporary mass care and tent shelter complexes.
- Armories used for temporary shelters for quake victims.
- Air ambulance medical evacuation support.
- Logistical and Linguist support to disaster assistance centers
- Potable water supply and distribution services

NOTE: The charts on pages 4 and 5 identify the key California National Guard commands involved in the emergency response and a brief description of the mission request process

Challenges

A challenge that we faced at the unit level in responding to this disaster was the lack of tactical communications interoperability with local law enforcement and fire response agencies. The military communications equipment available to National Guard units is not compatible with civilian radios. We overcame this hurdle during the earthquake response by dispatching liaison officers to local Emergency Operations Centers. We must, however, develop and acquire technological solutions to allow National Guard units in the field to communicate directly with the local agencies that they support. Inter-agency planning and training must also be resourced to maintain an effective statewide emergency response team.

Part III

Resource Trends

The resources the California National Guard had in 1994 were adequate to meet the needs of civil authorities in responding to the Northridge Earthquake. Each year since the quake, however, the California National Guard has experienced significant resource cuts. The continuation of this trend could impact our ability to respond to future large scale emergencies. As the enclosed chart indicates, the California National Guard has experienced reductions in money for training, full time technician personnel, medium lift helicopters, and transport aircraft. In the next three years, these resource reductions will be accompanied by the elimination of several key units from the National Guard's force structure. Our emergency response capabilities will be impacted by the loss or reduction of transportation, medical, military police, air traffic control, and engineer units. The units we will lose are of the type that we historically have relied heavily upon during emergencies. These force structure changes will degrade our response time and will challenge our ability to fully respond to the needs of civil authorities during a major disaster.

In addition to the loss of key support units, the Department of the Army is considering a proposal to eliminate or restructure National Guard Combat Divisions. Elimination or restructuring of California's largest unit, the 40th Infantry Division, will have a devastating impact upon the availability of critical Guard equipment and personnel.

The 40th Infantry Division forms the core of the California Guard's emergency response capability. This organization's warfighting structure provides aviation, transportation, engineer, mass care and shelter, riot control, and command and control elements that are essential emergency response entities. All of California's plans for response to massive emergencies rely on the units of the 40th Division. Soldiers from the 40th Division have been the backbone of the Guard's response to every major disaster in the state, including the Watts Riots, the Loma Prieta Earthquake, the 1992 Los Angeles Riots, and the Northridge Earthquake.

We are asking your assistance in retaining and fully resourcing the California National Guard's force structure, with emphasis on retaining California's 40th Infantry Division.

NOTE: The charts on page 6 provide information regarding the reductions affecting the California National Guard.

Army National Guard Units Activated
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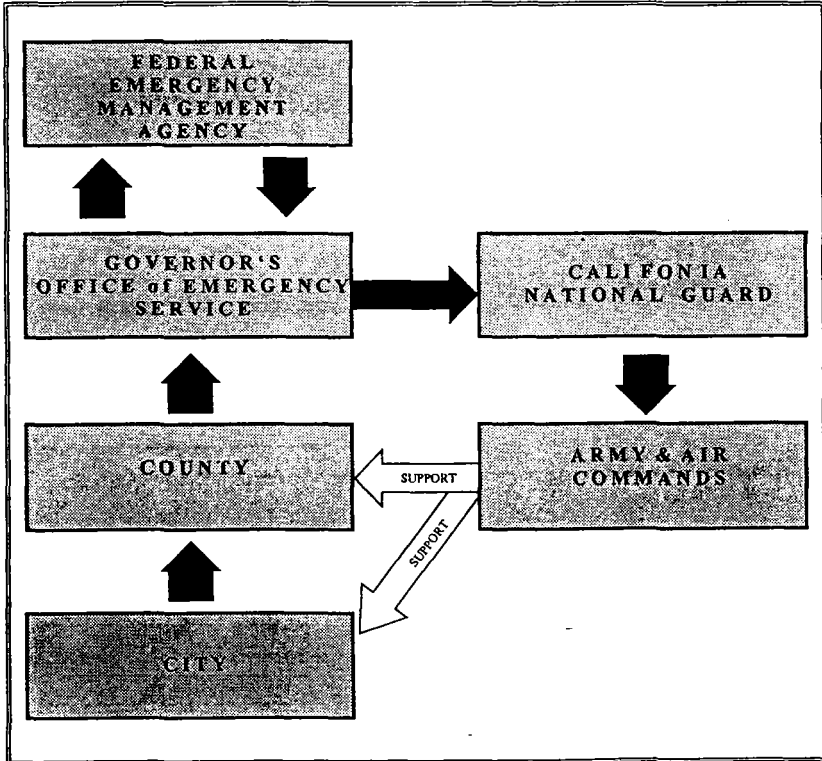
<u>Army National Guard Units</u>	<u>MISSIONS</u>
Southern California Disaster Support Area - Los Alamitos Armed Forces Reserve Center	Maintenance Support
40th Infantry Division	Quick Response Forces Emergency Tent Shelters Security Forces Damage Assessment Logistics Support
100th Troop Command	Tents & Supplies Linguists
175th Medical Brigade	Medical Supplies / Support Transportation / Medical Evacuation
G-140th Aviation	Medical Evacuation Law Enforcement Transportation
69th Public Affairs Detachment	Media Coverage

Air National Guard Units Activated

<u>Air National Guard Units</u>	<u>MISSIONS</u>
144th Fighter Wing	Transportation Tent Shelters
146th Airlift Wing	Transportation Tent Shelters
163rd Air Refueling Wing	Tent Shelters/ Command and Control Transportation Urban Search and Rescue Team Transport
162nd Combat Communications Group	Command and Control Communications Support

MISSION REQUEST PROCESS

The National Guard receives emergency missions directly from the Governor's Office of Emergency Services. Requests for assistance from local government officials are processed through county or regional offices of emergency services to the state for approval. Missions appropriate for military support are referred to the California National Guard for action.



Resource Trends

Funding Reductions Dollar figures are not indexed for inflation.

	% Lost	1994	1995	1996
Training Funds	77.8%	\$4,972,800	\$3,763,600	\$1,100,000
Equipment Repair Parts	19.0%	\$4,304,000	\$5,445,700	\$4,410,000

Personnel Reductions

	% Lost	1994	1995	1996
Air National Guard Personnel Strength	9.7%	5,734	5,440	5,179
Army National Guard Full Time Technician Personnel	17.9%	1,340	1,150	1,110

Aircraft Reductions

Type Aircraft	% Lost	1994	1995	1996
Medium Lift Helicopters	50%	16	8	8
C-130 Aircraft	20%	20	16	16

Mr. HORN. Who restricted you simply to cover Federal property?
 Major General BRANDT. Under Federal law and as members of the active Army we could not protect personal private property in the same way we can in under State status.

Mr. DAVIS. Mr. Chairman, can I just ask a followup on that?

Mr. HORN. Sure.

Mr. DAVIS. Talk about pay during that time. You had 2,600 personnel called up. If the State calls them up, does the State pay?

Major General BRANDT. Well, we—it depends.

Mr. DAVIS. I was an 8-year member of the Virginia National Guard and I never knew who paid me. I just—

Major General BRANDT. Well, that was a serious problem for our soldiers during the L.A. riot, because we went on State active duty. When we were Federalized we had to go into a different pay system and it did create problems.

Additionally, our enlisted personnel below the Privates, Corporals, the bulk of our Army basically, under State pay we pay them a minimum of Sergeant E-5 pay.

Mr. HORN. Even E-3s and E-4s?

Major General BRANDT. Right—to help defray the cost of their not being at their normal jobs.

Mr. HORN. Right.

Major General BRANDT. Once we were Federalized, in essence they had a pay cut when they went back there.

Mr. DAVIS. I see. Then they are paid their regular U.S.—

Major General BRANDT. That's right.

Mr. DAVIS. But who pays? The Federal Government pays if it is Federalized, the State government finds money otherwise?

Major General BRANDT. Yes. We routinely conduct emergency operations throughout the year that are conducted in State active duty status and it's State pay.

Mr. DAVIS. Let me just ask—this is kind of an aside.

Mr. HORN. Get this in the record at this point. That's an excellent question. Could you file for the record the differentiation on pay between those two situations, as to what did the State of California put up and what did the Federal Government put up?

Since you are such an expert on this, I am going to step out a minute and let you get hold of the question.

[The information referred to follows:]

ATTACHMENT A

NORTHRIDGE EARTHQUAKE COST AND GRANT APPROVAL SUMMARY							
AS OF NOVEMBER 25, 1996							
P.A.#	Department	Departmental Est. Total Costs	FEMA ESTIMATE DSRs Pending	FEMA Cost Share of Approved DSRs	STATE Cost Share of Approved DSRs	FEMA Ineligible Costs	Possible Funding Gap
037-91075	Building & Safety	\$ 59,424,582.00	\$ -	\$ 36,758,646.00	\$ 20,790,873.00	\$ 2,200.00	\$ 1,872,863.00
037-91077	Fire Department	\$ 3,153,236.00	\$ -	\$ 969,336.00	\$ 154,190.00	\$ 2,029,710.00	\$ -
037-91078	Harbor	\$ 2,017,716.00	\$ -	\$ 1,066,038.00	\$ 205,273.00	\$ 46,483.00	\$ 699,922.00
037-91079	DWP-Power	\$ 160,700,000.00	\$ 7,562,150.00	\$ 98,036,332.00	\$ 25,560,206.00	\$ 15,500,000.00	\$ 14,041,312.00
037-91080	Public Works	\$ 681,158,217.00	\$ 4,471,982.00	\$ 611,324,639.00	\$ 56,194,785.00	\$ 626,272.00	\$ -
037-91081	Rec & Parks	\$ 28,700,000.00	\$ 164,829.00	\$ 5,780,932.00	\$ 1,113,607.00	\$ 1,900,000.00	\$ 19,740,632.00
037-91082	DWP/Water	\$ 46,600,000.00	\$ 383,830.00	\$ 10,742,663.00	\$ 2,338,102.00	\$ 32,170.00	\$ 33,103,235.00
037-91083	Police Dept.	\$ 34,129,320.00	\$ -	\$ 12,734,207.00	\$ 2,832,997.00	\$ 18,400,000.00	\$ 162,116.00
037-91085	General Services	\$ 10,887,100.00	\$ 53,059.00	\$ 2,214,935.00	\$ 107,501.00	\$ -	\$ 8,511,605.00
037-91086	CRA	\$ 6,506,400.00	\$ -	\$ 161,463.00	\$ 37,664.00	\$ 3,029,783.00	\$ 3,277,490.00
037-91087	Airports	\$ 4,667,043.00	\$ -	\$ 460,477.00	\$ 54,757.00	\$ -	\$ 4,151,809.00
037-91088	Housing Authority	\$ 5,000,000.00	\$ 349,426.00	\$ 1,519,615.00	\$ 123,252.00	\$ 159,750.00	\$ 2,847,957.00
037-44000	General Applicat.	\$ 10,450,042.00	\$ 830,585.00	\$ 4,244,301.00	\$ 1,828,942.00	\$ 97,537.00	\$ 3,448,677.00
	Grand Totals	\$ 1,053,383,656.00	\$ 13,816,861.00	\$ 786,013,584.00	\$ 111,342,148.00	\$ 41,873,805.00	\$ 91,857,618.00

94

CITY OF LOS ANGELES
INTER-DEPARTMENTAL CORRESPONDENCE

1000-00042-0000

Date: *Report to be Released. 12-11-96*

To: The Ad Hoc Committee on Earthquake Recovery

From: Keith Comrie, City Administrative Officer

Subject: **NORTHRIDGE EARTHQUAKE FINANCIAL STATUS REPORT AND INFORMATION UPDATE**

FINANCIAL STATUS REPORT

Estimated City Government costs for the Northridge Earthquake response and recovery now total approximately \$1.05 billion.

To date the Federal Emergency Management Agency (FEMA) and the Governor's Office of Emergency Services (OES) have approved \$897.4 million in disaster assistance grants for the City of Los Angeles. FEMA records show an additional \$13.8 million in process and pending approval. As of November 25, 1996 the City has received cash payments of approximately \$439 million in combined FEMA and OES funds.

STATUS OF CITY FACILITIES REPAIR PROJECTS

City Hall: All federal approvals for the \$140 million earthquake repair and seismic rehabilitation grant for City Hall have been received. The FEMA share is \$126 million; the ten percent OES match amounts to \$14 million. The City Engineer is now involved in obtaining the required historic review clearances and FEMA/OES review of construction documents.

Bridges: Construction on the four FEMA-eligible bridge projects has been completed.

Street Projects: Construction is complete on 19 of the 20 FEMA-funded street projects. The last FEMA-funded project, involving crack sealing, will be going to bid shortly.

Sewers: The Bureau of Engineering estimates that about 300 projects (1,834 Damage Survey Reports (DSRs)) will be FEMA-eligible, at a total reconstruction cost exceeding \$260 million. To date, FEMA has approved \$192 million in funding for sewer repairs. Construction is complete on 91 projects; 22 projects are in progress.

Tillman Water Reclamation Plant: Construction on the plant-wide repair project is now 100-percent complete. The Bureau of Contract Administration is preparing the Acceptance Report.

Minor Cosmetic Repair Program: This program includes minor patch and paint work for City facilities, including fire and police stations. A total of 141 projects were combined into thirteen groups and advertised and bid in blocks to increase efficiency. Construction has been completed on this group of 141 projects. Approximately 25 additional projects will be assembled and prepared for bid in the near future.

Architectural and Engineering Studies: Of the 26 projects (including City Hall) requiring architectural and engineering reports, 17 projects now have received approval for construction funding (seven additional projects since our last report). Construction has been completed on six projects: the Foothill Police Parking structure, the Granada Hills and the Vermont Square Libraries and the three Getty House projects. Eight projects are still in the FEMA/OES review and approval process. The Bureau of Engineering is preparing to contract out for the design of these projects. Attachment B shows the status of the projects.

Recreation and Parks facilities: A total of 173 DSRs have been submitted to OES and FEMA with an estimated repair cost of \$21.3 million. The facilities repair status is as follows:

- 105 projects completed/closed out
- 34 projects in progress
- 11 projects pending funded construction DSRs
- 3 projects under appeal
- 2 projects pending change of scope
- 3 projects reassigned new numbers
- 15 projects where no damage was found and a "0" dollar DSR was issued.

Department of Water and Power/Water System: DSRs totaling \$46.6 million have been submitted to FEMA and OES. Funding in the amount of \$12.8 million has been approved to date (no change since our last report of July 1996). Cash payments of \$5.5 million have been made to the Water System.

An additional \$33 million in Architectural and Engineering Reports and Hazard Mitigation applications are still pending (no change since the July 1996 CAO report)

Major Project Status:

Under Construction:

- Maclay Reservoir

Construction completed:

- Citywide Main Lines/Services Repairs 04/94
- Citywide Trunk Line Repair 05/94
- Lower San Fernando Dam 10/95
- Lower San Fernando Drain Line Repair 06/95
- Solano Reservoir Lining 12/96

Architectural and Engineering Studies Awaiting Approval:

- ✓ Beverly Glen Tank Permanent Repairs
- ✓ Coldwater Canyon Tank Permanent Repairs
- ✓ Granada Trunk Line Relocation
- ✓ Mulholland Drive Pipe Replacement
- ✓ San Fernando Valley Generating Plant Building

Projects Awaiting Approval:

- Terminal Hill (Hazard Mitigation Project)
- Retrofit DWP Drinking Water Storage Tank (Hazard Mitigation Project)

Department of Water and Power - Power System: DSRs at an estimated repair cost of \$160.7 million (no change since July 1996 report) have been submitted to FEMA and OES. Funding in the amount of \$105.1 million has been approved to date (an increase of \$1.5 million since the July 1996 report). Cash payments in the amount of \$69.1 have been made to the Power System.

Major Project Status:

Project	Estimated Completion Schedule
✓ Sylmar Converter Station	6/99
✓ Power Distribution Div. Project	2/97
✓ Rinaldi Receiving Station	6/98
✓ Receiving Station E	9/98
✓ Receiving Station U	10/97
✓ Receiving Station D	11/97
✓ Receiving Station J	4/98
✓ Olive Switching Station	4/97
✓ Anthony Office Building (phase I)	Completed 5/96
✓ Anthony Office Building (phase II)	9/97

Recommendation

Note and file

Fiscal Impact Statement

No General Fund fiscal impact. Northridge Earthquake repair costs will be funded with federal and state disaster grant funds.

KC:MHB:jl
Attachments
29791b44

A&E REPORTS

ATTACHMENT B

PROJECT TITLE	Const. DSR (1)	PROJECT(S) TYPE	# OF DSR'S FOR THE PROJECT	PAID AMOUNT	COUNCIL DISTRICT	CONST % COMP	A&E STATUS
CITY HALL	77431	A&E	2	\$140,000,000 **	5		
D.S.T. CENTER FOR LIFE DEVELOPMENT	65123	A&E	2	\$29,170 **	10		
EAST VALLEY COLLECTION YARD	67746	A&E	7	\$269,516 **	7		
EL SERENO ACTION GRO-UP	7101	A&E	1	\$1,969 **	16		IN FEMAOES REVIEW
FIRESTATION (47)	48021	A&E	2	\$22,620 **	14		
FIRESTATION (71)	78691	A&E	2	\$13,712 **	5		
FIRESTATION (76)	65435	A&E	1	\$66,000 **	13		TEMP FACILITY APPROVED, PERMENANT FACILITY IN FEMAOES REVIEW
FIRESTATION #99	1181	A&E	2	\$49,833 **	5		
FOOTBALL POLICE PARKING STRUCTURE	6354	A&E	1	\$26,070 **	7	100%	IN FEMAOES REVIEW
GRANADA HILLS LIBRARY	2609	A&E	2	\$322,417 **	12	100%	
HELICOPTER SERVICE BUILDING	2409	A&E	2	\$46,107 **	2		
J. PAUL GETTY HOUSE (MAYORS) GARAGE/GARDENE	53891	A&E	1	\$900 **	4	100%	IN FEMAOES REVIEW
J. PAUL GETTY HOUSE (MAYORS) MARK SHELTER	54000	A&E	2	\$46,415 **	4	100%	
J. PAUL GETTY HOUSE (MAYORS) TENNIS SHELTER	53996	A&E	2	\$3,087 **	4	100%	
JUNIOR ARTS CENTER	68016	A&E	2	\$52,895 **	13		
LOS ANGELES THEATER CENTER	6734	A&E	2	\$6,936 **	9		
LOT 801 VAN NUYS PARKING STRUCTURE	63246	A&E	1	\$9,666 **	11		IN FEMAOES REVIEW
OLD FIRE STATION NO. 27	4314	A&E	1	\$14,445 **	13		IN FEMAOES REVIEW
OLD JUANPERO SERRA LIBRARY	12343	A&E	1	\$16,205 **	8		IN FEMAOES REVIEW
OLD UNION CHURCH	65131	A&E	7	\$68,410 **	8		
THE VILLAGE DRUG TREATMENT CENTER	63822	A&E	1	\$6,270 **	14		IN FEMAOES REVIEW
VALLEY POLICE HEADQUARTERS	67763	A&E	2	\$164,565 **	11		
VAN NUYS MUNICIPAL BUILDING	77424	A&E	2	\$216,879 **	11		
VERMONT SQUARE LIBRARY	53627	A&E	1	\$7,364 **	9	100%	IN FEMAOES REVIEW
WEST VALLEY COLLECTION YARD	67725	A&E	2	\$33,794 **	12		
W. GRANT STILL ART CENTER	48064	A&E	2	\$1,102 **	10		
TOTALS			44	\$142,026,611			

* IF BOTH AN A&E DSR AND A CONSTRUCTION DSR HAVE BEEN WRITTEN AND APPROVED THE CONSTRUCTION DSR IS LISTED

** ALL A&E DSR LISTED HAVE AN DSR WRITTEN FOR THE A&E REPORT, THE AMOUNTS LISTED HERE REPRESENTS ALL DSR AMOUNTS INCLUDING CONSTRUCTION DSR'S

98

10/1

Mr. DAVIS. I've got the question for everybody, sir. But let me ask you just another question on it. What about summer camp counting toward leave and all of that being State versus Federalized, in terms of retirement.

Is there a difference?

Major General BRANDT. In State active duty there is no pay or retirement earned for Federal retirement.

Mr. DAVIS. You don't get any credit?

Major General BRANDT. No.

Mr. DAVIS. It's not paid but you don't get the credit when you are called up at the State level?

Major General BRANDT. No.

Mr. DAVIS. Do you get to replace the summer camp and maybe do away with that, which is, I think, Federal?

Major General BRANDT. No. We try to keep them separate and one thing I want to make perfectly clear is that we—in the California National Guard—our policy is we lean forward and we work with Dr. Andrews and his people very, very closely, so when we get word that there has been an earthquake or some problem is developing, we activate our key personnel immediately and we are ready to expand beyond that as necessary.

If we receive no tasking from the Office of Emergency Services, then we very quickly just crank that down and in some cases we have had brought soldiers in on a drill status, a Federal drill status, and they will conduct their drill but they are ready to respond.

Mr. DAVIS. Thank you.

Mr. HORN. I didn't mean to interrupt you if you had more to say in your formal remarks.

Major General BRANDT. No, I—

Mr. HORN. Did you want to conclude or had you already concluded?

Major General BRANDT. The only other thing I would like to say in my formal remarks is that the real problem we have now is the downsizing of the military, which is having a tremendous impact on the California National Guard in particular and the entire California delegation has been working very hard to mitigate the downsizing to a certain degree but what this means is that basically our training funds for the California National Guard, Army National Guard, have been cut just shy of 78 percent this year.

So between the maintenance cuts of dollars for maintenance of about 19 percent, what that all equates to is in losses of equipment and the threatened loss of the 40th Infantry Division in California means that in the future the California National Guard, even though we may have the equipment and may have the soldiers, they won't be trained to the standard that they should be and the equipment will not be—we will not be meeting the operational readiness standards because we simply don't have the money.

I would like to add on that that—this is an advertisement while I have got the chance—the National Guard of the United States, Army National Guard, is 5 percent of the Army's budget and one active Army Division can pay for eight Divisions in the National Guard.

The thing that has saved California time and time again, and this Nation because the 40th Infantry Division fought in World

War I, World War II, and Korea, and on the streets of L.A.—it's been there time and time again, and the thing that has allowed them to do that is the fact that we have the support, the equipment, and the organization to meet the needs of California. Thank you.

Mr. FLANAGAN [presiding]. A crisis has developed. Your vice chairman is in charge. Be afraid. Be very afraid. [Laughter.]

I have two questions for Mr. Andrews.

I have read your testimony and it was very interesting in and of itself, but if I could ask you to expound further, it is my understanding that \$600 million were allocated by the Federal Government to the State of California; \$100 million have been implemented.

Can you give us some idea of when the additional funds will be forthcoming or how they are allocated?

Mr. ANDREWS. This is for the hazard mitigation grant program?

Mr. FLANAGAN. Yes.

Mr. ANDREWS. The total amount of Federal money that is in the pool is basically 15 percent of the amount of other Federal funds that are provided for the disaster assistance, so the current estimate of FEMA is about \$650 million.

We anticipate—we received approximately 550 applications from school districts, local governments, State agencies, hospitals for various projects, totally about \$1.8 billion. It is a competitive grant program process. We would anticipate that within the next 5½ months all of the grants according to the current estimate will be awarded against a 75–25 cost share arrangement.

Mr. FLANAGAN. There is a timeliness question which I am sure you are very sensitive to, but these are questions that need to be asked because there are folks in need waiting—

Mr. ANDREWS. Exactly.

Mr. FLANAGAN [continuing]. For the disbursements.

Mr. ANDREWS. Right.

Mr. FLANAGAN. Two other questions of a near-perfunctory fashion, but such are the nature of hearings. You indicated that one of the keys to California's successful response to the earthquake was that Governor Wilson waived many of the State regulations.

In your opinion, and please be as frank and candid as you please, are States, California particularly, hindered by Federal regulations during times of emergencies?

We explored some of these questions with Mayor Riordan, but is it possible to—one hesitates to use the term martial law, but to alleviate many of the regulatory difficulties outside of a police nature or a military nature, to have a better and more adequate response in the very close and defined confines of an emergency?

Mr. ANDREWS. I think the one area that we have encountered the most conflict with some of the initial emergency response demands and some of the initial public safety demands and the regulatory environments has been in the area of environmental regulations.

In some cases, and this has not just been in earthquakes. It's been in some of the flooding situations and in some of the wildfires that we have encountered where the objective of the regulatory requirements seemed to conflict with the needs of public safety—whether this is over protection of endangered species in the wild

land or clearing flood channels or designation of areas that were clearly intended to be flood channels for which various kinds of habitat areas might have just occurred over time—those have been real areas of conflict and we think, as the Governor attempted after the flooding that we had earlier in 1995, there needs to be a period of time when there can be a waiver for those in order to accomplish public safety objectives.

Mr. FLANAGAN. It is a difficult process to even wrestle with conceptually because among less noble people than those before us today, it would seem like a golden opportunity to accomplish that which the law would not otherwise permit.

I know that in my own State, I assume the same here, wetlands are both necessary and wonderful and terrific to preserve, but are also a great economic burden in a specific way on specific people, and to turn a locality loose, exempting them from all of those laws would be problematic.

Perhaps you could provide us, if you are able, a written dissertation of what you believe a happy medium may be to accomplish that.

Mr. ANDREWS. I'd be happy to do that.

Mr. FLANAGAN. To accomplish the goal of helping people in desperate need and at the same time not using some sort of relief from the law as a way to circumvent what you—to accomplish what you otherwise could not accomplish.

Mr. ANDREWS. We'll be happy to do that, sir.

Mr. FLANAGAN. Terrific. Also in your testimony, it indicated that some \$12.5 billion in losses were sustained that were covered by insurance.

Just from your point of view, how responsive have the insurance companies been in responding to individual claims?

Mr. ANDREWS. I think they have been very responsive in responding to individual claims.

Their initial estimate of the losses were approximately \$2.5 billion, so they have expended far above what they thought they initially would. What happened here in California is analogous to what happened in Florida after Hurricane Andrew and Hawaii after Hurricane Iniki.

It's caused a real crisis in the insurance industry and that is why we are very interested in the various proposals for a national natural disaster insurance. We think we need to find a way to use the insurance mechanism and the market mechanisms of the insurance to both prefund losses, as well as provide incentives for people for risk reduction measures and that we really need to take a look at the question of repetitive losses.

Again I say this as the Director of Emergency Services in California, where we have repetitive disasters. We think we need to be very tight on the question of repetitive losses and there is no reason either for local government or State government or the Federal Government to have to continue to subsidize risk-taking behavior when there are other alternatives available.

Mr. FLANAGAN. That is a nice way of putting it, but it would be put more bluntly where I come from—you got bit by the dog once and you get bit again and expect to be recompensed constantly for it, and I don't think the Federal taxpayer—Americans are wonder-

ful, generous, loving, giving people, and we don't like to see anyone in pain, and we work very hard to make sure no one is, but if it is a repetitive loss, as you have termed it, again and again, you have built a house where there are floods and mud slides and your house keeps falling down and the Federal taxpayer grows weary in a hurry of putting your house back up, particularly where you have not provided for your own insurance or take measures to protect yourself.

That is very insightful. I am glad to see that the State government has a similar attitude.

I have nothing further. Mr. Davis.

Mr. DAVIS. Thank you. Let me try to get a question for each of you.

General Brandt, it's a pleasure to see you here. I was in the Guard for 8 years. The closest I usually got to the officer was on Saturday afternoon. We used to cut the grass at the officers' quarters.

As you pointed out in your testimony, the California National Guard has felt the effects of the downsizing of the U.S. military. Further downsizing and restructuring appears likely and if the 40th Infantry Division were disestablished, for example, this would result in much of the Guard's support capabilities, and if that were to occur, what organization or organizations are there that could perform the missions that have been performed in the past by Guard and your Division?

Major General BRANDT. There are active Army and the active military, you know. There are other reserve components. There are civilian agencies that might be able to help, but primarily that has been our role throughout history.

Mr. DAVIS. Let me ask a question if I can, Dr. Andrews. The GAO report in June, I think it was of 1994, that the California Office of Emergency Services stated that FEMA's requirement to issue fixed price contracts wasn't always appropriate because at times the scope of the work was so broad and the cost determination so difficult that contractors were reluctant to bid on a fixed price contract. They didn't know what they might get stuck with.

Do you know if FEMA is continuing that or are they showing greater flexibility of these prices or not?

Mr. ANDREWS. I am not familiar, but will get back to you with an answer on that specific question.

Mr. DAVIS. OK. I meant to ask the FEMA representative on that.

Following that, and I will ask both of you, Ms. Perett and Dr. Andrews, it seems to me that FEMA has developed a criteria for providing assistance in most disasters, but following mega-disasters like the Northridge earthquake, wouldn't a different criteria, perhaps a waiver of some of the other criterias, be more practical when you get into a mega-disaster?

Mr. ANDREWS. I think clearly large scale catastrophic disasters, if you will, do place special requirements on local, State as well as on the Federal Government.

I think the fundamental problem that we have faced is just the inherent technical complexity that results from earthquake disasters. You know, fire, floods, other kinds of disasters, it is fairly easy to determine the damage, but there is a great deal of latitude and

room for professional judgment with regard to earthquakes, and I think we need to find a way to quickly involve independent third party review.

We spend far too much money at every level including the Federal level simply administrating these protracted programs that go on for years and years and years after the disaster.

Again, FEMA has done a lot to try to shorten it, but it is still a problem. Whether some kind of initial grant to the States to administer these programs with audits to follow—I think again if we cut the administrative costs, we are going to be a long way ahead.

Mr. DAVIS. You are saying cut the red tape and the bureaucracy and the procurement rules which—I mean you have to have most of the time, but when you get into these mega-emergencies where the magnitude is so great and you have got to get results in a hurry, basically these processes slow down the kind of result we all want to get—is that what I hear?

Mr. ANDREWS. Exactly. Exactly. And again, there may be a relaxing of rules in the first days and weeks, but again we are 2 years after the disaster and we still have a long way to go, and the tendency is for all those rules to begin to creep back, and I think many of the things that the city did, the State did, that FEMA did in those first days we need to do that on a consistent basis, again with absolute fiscal accountability for how those dollars are being spent.

Mr. DAVIS. The rules are important but we spend so much of our time, it seems to me, passing rules and procurement regulations to make sure somebody doesn't give a contract to their brother-in-law that sometimes you prevent that, but you prevent doing anything else either in a timely manner.

In mega-emergencies I think you have got to have adequate waiver provisions.

It's not FEMA's fault. Maybe that is our fault for not dealing with them a little differently, but I just had wanted to get your reaction.

Ms. Perett, any comment?

Ms. PERETT. Thank you. I agree that you do need to be able to act swiftly following a mega-disaster.

Being the ones who are the victims or are at the end of the chain, if you will, we naturally want to be able to have a fast response and see anything that would be characterized as red tape be done away with as quickly as possible.

One of the things that is really important, I believe, is because there are a myriad of Federal programs, sometimes one program will actually have regulations that are in conflict with another and it ends up stymie-ing us and we can't use the service or the benefit that was intended.

Excuse me, my voice is going. It would be so helpful if Federal Government could take a look at ways to coordinate some of those regulations and make sure that even if something is being waived in an emergency, they have talked to their counterparts and their other agencies to make sure that it will be productive for all concerned.

Mr. DAVIS. You know, I think everybody did work well together from what I gather.

I was sitting in Virginia but coming back here and talking, reading the backup material, but this is an honest time for us before, heaven knows, another disaster like this happens, that we be prepared in a proactive way to deal with it and can honestly assess what worked and what we can improve on.

I think we are hearing that from all sides today—not trying to pit one group against another and pointing fingers, as some Members might have thought—so I think this is helpful in that regard and hopefully we can go back to Washington to make appropriate changes, working with FEMA and the people who really want these things to work better.

That's all my questions and thank you all very much.

Mr. FLANAGAN. General Brandt, I have one last question for you, I have been asked by counsel. There are always at any given hearing, I don't know if you know this or not, there are a laundry list of questions that must be asked, so they kind of get passed around amongst the Members to ask them, apart from the stuff that interests us, and I have one such question here for you.

Will the integration of the Army Reserve Medical and Logistic Units, which have obligations only to the Federal Government, enhance your readiness, the Guard's readiness and the ability to deal with future disasters?

I put you in a hard spot there because you have to divorce yourself from it but—

Major General BRANDT. Actually, I don't think it is a hard spot, because I think going back to what Dr. Andrews has pointed out right at the outset was that, you know, the local people and the local responsible authorities are the best ones to deal with the problem, and as it expands out there is an appropriate time for other agencies and organizations to be included in and to match the requirement that we are faced with once we understand the full dimension of it.

I think in most emergencies we have in California, the system we have works very well. We work it every day. We expand to that requirement.

When we run into a larger requirement and specifically with medical units because the National Guard here in California we have lost two hospitals that were formerly part of the California National Guard. The Army Reserve has some hospitals that are located in California.

There would be an appropriate time where those organizations could come in under the supervision and control of the State or the county or city that is really trying to manage the problem.

There is room for everybody but the issue is, from my perspective, is when they come in and how they come in, because it can be very disruptive and confuse the issue if the response is self-generated, as we have had in some cases in the past.

Now everybody wants to help. We all understand that right upfront. But California, due to our uniqueness and the fact that we have the four seasons—fires, floods, earthquakes, and riots—you know, we get involved in this all the time and we do have a system, a very good system for handling this.

Mr. FLANAGAN. So can the Army Reserve and the active Army and Air Force and other agencies come in?

Major General BRANDT. Yes, they can. It's when they come in and how the command and control system is set up at the time which will facilitate or retard the progress on restoring—

Mr. FLANAGAN. I think you have actually put your finger on the button. I was a field artillery officer for 5 years and I happen to know that Presidents are loath to hand active duty Federal troops, for whatever good reason, to a Governor. In fact, more times than not, you have the reverse happening, where the National Guard is Federalized or activated for Federal service, and so consequently your command and control problems of who is in charge today, as these units come in to help, can be extremely difficult.

It is a difficult problem to wrestle with, to be sure.

Major General BRANDT. I would like to add one comment. During the L.A. riot, a serious command and control problem took place between the way when the Federal forces came in and activating the Guard created a serious problem.

That was corrected during Hurricane Andrew and the Florida National Guard basically stayed in a State status and the active Army and the Guard worked very well together.

My recommendation is any time there is an emergency that the local responsible authorities and the National Guard be—the National Guard be kept in that State status where they can have the full range of responsibility and authority to work with the agencies that they are used to working with.

Mr. FLANAGAN. I doubt that there can be any argument with the validity of that, but to hand the Guard Federal units that would be under your command and control is a difficult situation insofar—

Major General BRANDT. Well, it would be difficult for them, but it is not difficult for us.

Mr. FLANAGAN. That's what I mean. That is what I am talking about—and there are way more of them than there are of you, unfortunately, so that is the difficulty with that.

It is unfortunate. The reason these questions are generated—because, well, even after the close of Fort Ord there are enormous numbers of active troops in California which seem to be a resource that could be used on this very limited emergency basis, but because command and control is in the way, that is retarded, and it is regrettable and there ought to be a way to fix that, perhaps with defined tasks in different spheres—one could do one and the other could do the other.

Integrating them is just so difficult unless you are Federalized and you have identified all the problems with doing that and extracting you from the chains—not chains of command but with the relationships you have with the agencies and consequently making it extremely hard to do that. It is a difficult problem to wrestle with.

Major General BRANDT. I think one of the real problems that you are faced with is it is the same as the city of Fresno has a serious fire and the fire department from Monterey responds. Well, they are all trained firemen. They have the equipment. They have standardized equipment, but they are in a community that they don't know—the radio communications, the police—all those things

have to be established and the time to establish those is definitely not during an emergency. It has to be before.

The other thing is I think the active Army coming in and the National Guard—there are command relationships that can work very well to allow them to do their things and us to do ours in a concerted, concentrated, coordinated manner.

Mr. FLANAGAN. Tremendous. Mr. Davis, do you have questions?

Mr. DAVIS. No questions.

Mr. FLANAGAN. We have nothing further. I thank the panel. Your testimony has been most enlightening.

We have the last panel today—fourth panel, I'm sorry—next-to-last panel.

We have Mr. Donald W. Jones—how are you, Mr. Jones—is the vice president for disaster services of the American Red Cross. We have Mr. James T. Haigwood. Mr. Haigwood is the CEO of the Los Angeles chapter of the American Red Cross. We have Ms. Terri Jones, director of special projects for the California Community Foundation; and Mr. John Suggs, the director of public policy and government affairs for the United Way of Greater Los Angeles.

If I could ask you to all stand and take the oath.

[Witnesses sworn.]

Mr. FLANAGAN. Having been sworn, we will start with Mr. Jones and work across and take your prepared statements.

If you can keep them within 5 minutes, that would be very helpful.

Mr. JONES. We will definitely keep it within 5 minutes, Mr. Chairman.

Mr. FLANAGAN. Apiece.

Mr. JONES. As a fellow field artillery officer for 35 years, I wouldn't dare do that.

Mr. FLANAGAN. I saw those red legs a mile away.

Mr. JONES. Time on target—which you are very familiar with.

Mr. FLANAGAN. Steel on target. That's it.

Mr. JONES. I never thought I would travel 2,300 miles up here before my own Representative, Mr. Davis, from Fairfax County, but I am delighted to see him here.

STATEMENTS OF DONALD W. JONES, VICE PRESIDENT FOR DISASTER SERVICES, AMERICAN RED CROSS; JAMES T. HAIGWOOD, CEO, LOS ANGELES CHAPTER, AMERICAN RED CROSS; TERRI JONES, DIRECTOR, SPECIAL PROJECTS, CALIFORNIA COMMUNITY FOUNDATION; AND JOHN SUGGS, DIRECTOR, PUBLIC POLICY AND GOVERNMENT AFFAIRS, THE UNITED WAY OF GREATER LOS ANGELES

Mr. JONES. You mentioned I am the vice president of disaster services for the American Red Cross and Mr. Gene Dyson, the acting president, asked me to come in. I thank the panel conducting this hearing and for giving the American Red Cross the opportunity to appear and report out.

On the second anniversary of the Northridge earthquake, the American Red Cross again expresses its heartfelt sympathies to those victims who were affected by this disaster and we hope that what we learned in doing the operational reviews—and what we have heard this morning, the things that have been accomplished—

we can take lessons from those to preclude future suffering that took place in this specific one.

I will provide my full statement, but what I will do this morning is to highlight some of the key points.

First of all, we are very proud of the fact that the American Red Cross's response to the Northridge earthquake and the role it played. Joining me this morning is Mr. Jim Haigwood, as you mentioned, the CEO of the Los Angeles area. The way the structure of the American Red Cross is set up, the local chapters play a very vital role, and Mr. Haigwood has a major chapter in our organization and also serves as a lead chapter for disaster in the State of California and coordinates all activities for the Red Cross throughout the State. He will report on some of the actions of the chapters involved in the response.

Now the American Red Cross is a non-profit organization and our funds for our program come from individual donations and from corporate America.

We are very proud of the fact that 92 cents of every \$1 that comes in to the Red Cross goes to assist victims. The reason that we are able to do this, that when we respond to disasters, 85 percent of those responders are volunteers and so we are very proud of that fact.

During the Northridge earthquake we had over 14,000 volunteers that responded to the earthquake here.

The American Red Cross is also a signatory to the Federal Response Plan which FEMA produces. Under that mission, we are given responsibilities for emergency support function six, which is mass care. It's food, it's shelter, it's distribution of bulk goods. It can be clothing. It can be disaster welfare inquiries where families from throughout the country call to see if their families are safe and secure.

We also have responsibilities under the Federal Response Plan for coordinating the activities of other charitable organizations. We do this through a group called Voluntary Organizations Active in Disaster—VOAD is what we refer to in the State. We do think that worked extremely well during the Northridge earthquake.

Now immediately following the earthquake within just a matter of minutes the shelters were opened by the local chapters, but over the next few days the American Red Cross opened 47 shelters and we had over 22,000 people, different people, that stayed in our shelters during those times—some for up to as much as 6 weeks, so we had several hundred thousand shelter nights in those 47 shelters.

We provided over 1.7 million meals to not only the victims but to many workers, State and Federal workers, who were here restoring infrastructure, getting utilities turned back on. That is one of the missions that we have assumed also.

We deployed 128 emergency response vehicles to do mobile feeding operations because victims often couldn't get to a fixed feeding site, so we use this to try to take the food products to the victims—if they can't leave their house, if they are fearful that something will happen to their belongings, if they can't secure it—then we can take it to them.

We had 46 fixed feeding sites that we were supporting these mobile operations from as well as feeding people in all of those.

We treated over 1,100 people for injuries that were sustained in the earthquake and our Disaster Mental Health line of service counselled 40,000—a little over 40,000 victims. You heard Mayor Riordan talk a little bit about that this morning. There were a lot of what I refer to as fright victims out here and we did some very unique things, I think, to try to accommodate those needs.

One of the things that Mayor Riordan and we did in cooperation with the city was to set up reassurance teams. These were teams that were comprised of American Red Cross Disaster Mental Health workers, clergy, building inspectors that would go into the parks and talk to the people who were living in cars, under plastic during those rainy situations out there, and tried to convince them that their homes were safe for re-entry.

Again, we had over 15,000 people here during the period of time that we are responding—14,000 volunteers and 1,000 paid staff members.

Now approximately 1 week after the earthquake we opened what we referred to as service centers. These are facilities when victims come in. They tell us this is what we lost and this is what we need. We had a needs-based system. At that point in time, we would provide what we referred to as a disbursing order, a piece of paper that they could take to a vendor. It may be food. It may be shelter, clothing. It may be rent. It may be some utilities money. It may be assistance in medical bills. It could go for various things.

We did things such as replace household items, limited home repairs, paid some medical bills, replaced prescriptions, hearing aids, dentures, things of that nature—anything that the victim needs at that point in time we try to assist them in meeting those needs.

When we have completed that phase of the operation, there may be groups of people out there that are kind of hanging out that there are no Federal, State or local facilities or resources to assist them. If needs are still there, we have one more phase of assistance called “additional” assistance. That is kind of a safety net. They have no savings. They have no insurance. There are still needs there and then we step in and do that.

But as you would imagine, all disasters are very, very expensive and certainly the Northridge earthquake was no exception. In fact, the cost of this disaster to the American Red Cross was the third largest in our 113-year history. We spent a little over \$38 million in service to people. That does not include any value placed on the in-kind services that we provide to the people, nor does it include any value for those 14,000 volunteers who came out and worked.

But I talked about those complex efforts and unique needs that we tried to deal with. I talked about the reassurance teams. We did do something else. Because many people here were fearful of aftershocks we had excess space in dry shelters, but because of the fear of aftershocks, they would not go in those, so because the weather was bad we were able to set up tents and we housed several hundred people until the bad weather had passed.

But I think one of the strengths of the American Red Cross is that we are in the area. Mr. Haigwood and his chapters here are in the area. We stay after the mishaps. We form these community

groups to try to meet needs of victims, not just immediate needs, but bring people together to meet those needs over the long term.

If I ask myself were we successful, certainly we could have done better in all areas. We learned a lot of lessons. We do a lot of operational reviews in what we do, but I do believe that we were successful.

We had a quick response team out here the day of the event to do damage assessment and needs assessment, working with Mr. Haigwood and his people. We established liaison with the Federal Emergency Management Agency, with Mayor Riordan's office, with the State Emergency Management Office as well as the voluntary agencies.

But we were not without challenges. The damage on the roads caused delays in getting people and supplies to the areas where we needed them most. Access to those areas, again due to the heavy traffic—the backlogs of traffic to those roads—limited or slowed down our process in doing the damage assessment and doing the needs assessment.

I think the relationships that we had with the organizations, Federal Government, State government, local agencies, was very good. We do outreach teams. If there are people who cannot get to a center to get our services, we have teams rotating through the community trying to see are there clusters of victims that we have not reached yet, and we are continuing to do that.

Certainly the organizations, the volunteer organizations, we had team meetings. We shared information. We attempted to keep from duplicating effort, but still meeting the needs of people and trying to provide service in the most cost-effective and responsive means possible.

One of the things that I would like to make one comment on that was brought up earlier this morning by one of the previous members, that we have a very active program in community disaster education and in mitigation, we really do try to make the community aware of what the threats are. We have a course that we teach, "Living on a Fault Line," for volunteers. We have the same thing for floods and other types of things, so I do think I would like to reinforce the comment this morning that that is extremely important.

But I would be remiss if I didn't take a moment and to thank all the organizations and the agencies that did provide support to us. We are very appreciative of that and without their help, we would be unable to provide that service, so thank you very much, Mr. Chairman.

[The prepared statement of Mr. Jones follows:]

Donald W. Jones
Vice President, Disaster Services
American Red Cross
Washington, D.C.

MISTER CHAIRMAN, MEMBERS OF THE SUBCOMMITTEE I AM DON JONES, VICE PRESIDENT OF DISASTER SERVICES FOR THE AMERICAN RED CROSS. MISTER GENE DYSON, ACTING PRESIDENT OF THE AMERICAN RED CROSS, ASKED ME TO COMMEND YOU FOR CONVENING THIS IMPORTANT HEARING AND TO THANK YOU FOR THE OPPORTUNITY FOR RED CROSS TO PARTICIPATE.

ON THIS SECOND ANNIVERSARY OF THE NORTHRIDGE EARTHQUAKE, THE RED CROSS AGAIN EXPRESSES HEARTFELT SYMPATHY TO THOSE AFFECTED BY THE DISASTER AND EXPRESSES THE HOPE THAT ALL WHO COULD BE AFFECTED BY ANY FUTURE DISASTER, HEED THE LESSONS LEARNED FROM THIS AND OTHER DISASTERS.

THE RED CROSS IS VERY PROUD OF ITS RESPONSE DURING THE NORTHRIDGE EARTHQUAKE AND THE ROLE IT PLAYED IN ASSISTING THOSE AFFECTED BY THIS DEVASTATING DISASTER. JOINING ME TODAY IS MR. JAMES T. HAIGWOOD, CHIEF EXECUTIVE OFFICER OF OUR LOS ANGELES CHAPTER WHICH IS ALSO THE COORDINATING CHAPTER AND THE LEAD CHAPTER FOR DISASTER SERVICES OF THE RED CROSS IN THE STATE OF CALIFORNIA. IN THIS DUAL ROLE, MR. HAIGWOOD COORDINATES ALL RED CROSS ACTIVITIES FOR DISASTER PLANNING, PREPAREDNESS AND RESPONSE WITHIN THE STATE.

I WILL BEGIN MY REMARKS BY GIVING AN OVERVIEW OF THE AMERICAN RED CROSS, ITS SOURCE OF AUTHORITY, RESPONSIBILITIES ASSIGNED BY THE FEDERAL RESPONSE PLAN, HOW IT IS FUNDED, AND ACTION IT TOOK TO ASSIST THOSE AFFECTED BY THE NORTHRIDGE EARTHQUAKE. I WILL THEN MAKE SOME SPECIFIC REMARKS CONCERNING THE EFFECTIVENESS AND TIMELINESS OF OUR EFFORTS, AS WELL AS RELATIONSHIPS WITH FEDERAL, STATE AND LOCAL GOVERNMENTS, AND OTHER CHARITABLE ORGANIZATIONS.

THE AMERICAN RED CROSS WAS CHARTERED BY CONGRESS IN 1905. IN THAT CHARTER, WE WERE GIVEN TWO SPECIFIC MISSIONS. THE FIRST MISSION IS TO ESTABLISH AND CARRY ON A SYSTEM OF NATIONAL AND INTERNATIONAL RELIEF IN TIME OF PEACE AND APPLY THE SAME IN MITIGATING THE SUFFERING CAUSED BY PESTILENCE, FAMINE, FIRE, FLOODS AND OTHER GREAT CALAMITIES, AND TO DEVISE AND CARRY ON MEASURES FOR PREVENTING THE SAME. THE SECOND MISSION IN OUR CHARTER IS TO PROVIDE A MEDIUM OF COMMUNICATION BETWEEN THE PEOPLE OF THE UNITED STATES OF AMERICA AND THE ARMED FORCES. ALL OF OUR OTHER PROGRAMS SUCH AS BLOOD-TISSUE, HEALTH AND SAFETY SERVICES, HIV/AIDS EDUCATION, AND AQUATICS HAVE BEEN ADDED SINCE RECEIVING THIS CHARTER.

THE AMERICAN RED CROSS IS A NON-PROFIT ORGANIZATION. FUNDS FOR OUR PROGRAMS COME FROM DONATIONS OF THE AMERICAN PEOPLE, AS WELL AS CONTRIBUTIONS FROM THE CORPORATE COMMUNITY. WE ARE VERY PROUD OF THE FACT THAT 92 CENTS OF EVERY DONATED DOLLAR GOES TO SERVICE DELIVERY. WE ARE ABLE TO ACHIEVE THIS EXCEPTIONAL STANDARD, IN LARGE PART, BECAUSE OF THE FACT THAT 85 PERCENT OF OUR DISASTER RESPONDERS ARE VOLUNTEERS.

THE AMERICAN RED CROSS IS A SIGNATORY TO THE FEDERAL RESPONSE PLAN. OF THE 28 AGENCIES THAT ARE SIGNATORY MEMBERS, THE AMERICAN RED CROSS IS THE ONLY NON-GOVERNMENT ORGANIZATION. WE ARE NOT REIMBURSED FOR OUR PROGRAM SUPPORT AS ARE THE OTHER 27 AGENCIES WE CAN, HOWEVER, RECEIVE REIMBURSEMENT FOR PERFORMING FUNCTIONS OUTSIDE OF OUR NORMAL DISASTER PROTOCOLS UNDER THE FEDERAL RESPONSE PLAN. THE AMERICAN RED CROSS IS ASSIGNED THE RESPONSIBILITY FOR EMERGENCY SUPPORT FUNCTION #6, MASS CARE. UNDER THIS TASKING, WE COORDINATE THE PROVISION OF FOOD, SHELTER, EMERGENCY FIRST AID, THE DISTRIBUTION OF BULK EMERGENCY RELIEF SUPPLIES, AND DISASTER WELFARE INFORMATION--CHECKING ON THE WELFARE OF FAMILY MEMBERS IN THE AREA AFFECTED BY DISASTER. WE ALSO WORK WITH OTHER CHARITABLE ORGANIZATIONS AND SOMETIMES ARE ASKED TO COORDINATE THEIR ACTIVITIES. WE GENERALLY DO THIS THROUGH A GROUP CALLED THE VOLUNTARY ORGANIZATIONS ACTIVE IN DISASTER (VOADs) AND OTHER AGENCIES WITH WHICH RED CROSS HAS STATEMENTS OF UNDERSTANDING. THE VOADs ARE ESTABLISHED BOTH AT THE LOCAL AND STATE LEVELS.

IMMEDIATELY FOLLOWING THE NORTHRIDGE EARTHQUAKE, THE AMERICAN RED CROSS OPENED 47 SHELTERS AND HOUSED MORE THAN 22 THOUSAND PEOPLE. SOME CLIENTS STAYED IN THESE SHELTERS FOR UP TO SIX WEEKS. WE PROVIDED MORE THAN 1.7 MILLION MEALS FOR THOSE AFFECTED BY THE

DISASTER AND FOR WORKERS WHO WERE REPAIRING THE INFRASTRUCTURE OR RESTORING UTILITIES. ONE HUNDRED AND TWENTY-EIGHT EMERGENCY RESPONSE VEHICLES WERE USED TO DISTRIBUTE THESE MEALS. WE ALSO HAD 46 FIXED SITES SUPPORTING THE OVERALL FEEDING EFFORT. DURING THIS SAME PERIOD OUR PHYSICAL HEALTH SERVICES STAFF TREATED APPROXIMATELY 1,100 PERSONNEL FOR INJURIES, AND OUR MENTAL HEALTH SERVICES STAFF PROVIDED COUNSEL TO ABOUT 40,000 CLIENTS. DURING THE COURSE OF OUR RELIEF EFFORTS, WE RECEIVED AND SUCCESSFULLY CLOSED MORE THAN 16,000 INQUIRIES ABOUT PEOPLE AFFECTED BY THE DISASTER. MORE THAN 15,000 PAID AND VOLUNTEER STAFF RESPONDED TO THE DISASTER.

FOLLOWING THE ASSISTANCE PROVIDED DURING THE INITIAL RESPONSE, THE RED CROSS CONCENTRATES ITS EFFORTS ON THE NEXT PHASE OF SUPPORT WHICH IS REFERRED TO AS FAMILY ASSISTANCE. DURING THIS PERIOD, WE OPEN SERVICE CENTERS WHERE THOSE AFFECTED BY THE DISASTER MEET WITH TRAINED, EXPERIENCED CASE WORKERS FOR ASSISTANCE FOR DISASTER-CAUSED BASIC NEEDS.

APPROXIMATELY ONE WEEK AFTER THE NORTHRIDGE EARTHQUAKE, WE OPENED 18 SERVICE CENTERS, GEOGRAPHICALLY DISPERSED, TO BETTER SERVE THOSE AFFECTED BY THE DISASTER. APPROXIMATELY 34,000 CASES WERE OPENED TO MEET THE DISASTER-CAUSED NEEDS OF INDIVIDUALS AND FAMILIES. CLIENTS WERE PROVIDED DISBURSING ORDERS FOR FOOD, CLOTHING, TEMPORARY HOUSING, HOUSEHOLD ITEMS, TOOLS FOR WORK, LIMITED HOME REPAIRS, MEDICAL BILLS AND OTHER NECESSITIES SUCH AS PHARMACEUTICAL PRESCRIPTIONS, DENTURES, GLASSES AND HEARING AIDS. RED CROSS CASE WORKERS ALSO ARE TRAINED TO SERVE AS COUNSELLORS AND TO BECOME ADVOCATES FOR COORDINATING OTHER ASSISTANCE, WHEN NECESSARY.

FOLLOWING OUR INDIVIDUAL AND FAMILY ASSISTANCE, OUR RELIEF EFFORT IS REFERRED TO AS ADDITIONAL ASSISTANCE. WHEN THOSE AFFECTED BY THE DISASTER HAVE NEEDS THAT CANNOT BE PROVIDED BY THE ESTABLISHED PROGRAMS OF THE FEDERAL GOVERNMENT, STATE OR LOCAL AGENCIES, THEN THE RED CROSS SERVES AS A KIND OF SAFETY NET. WE PROVIDE ASSISTANCE, FOR EXAMPLE, WITH MEDICAL BILLS, FUNERALS, AND BUILDING AND REPAIR OF PRIVATE RESIDENCES -- AND WE CONTINUE TO PROVIDE ADVICE AND COUNSEL AS TO WHERE OTHER FORMS OF HELP MAY BE AVAILABLE.

BUT WE ALL KNOW VERY WELL THAT DISASTERS ARE EXPENSIVE... AND THE NORTHRIDGE EARTHQUAKE WAS NOT EXCEPTION. IN FACT THE COSTS TO THE RED CROSS FOR ASSISTANCE IN RESPONSE TO THIS DISASTER WAS THE THIRD MOST EXPENSIVE IN OUR HISTORY. DURING THE RESPONSE TO THE NORTHRIDGE EARTHQUAKE, WE SPENT MORE THAN 38 MILLION DOLLARS IN PROVIDING SUPPORT TO THOSE AFFECTED BY THE EARTHQUAKE. THIS DOES NOT INCLUDE CASES IN WHICH WE PROVIDED SERVICES THAT DID NOT INCLUDE MONETARY ASSISTANCE. NEITHER DOES IT INCLUDE ANY VALUE FOR THE TIME DONATED BY THE SEVERAL THOUSANDS OF VOLUNTEERS.

THROUGHOUT THIS ENTIRE EFFORT, WE DEALT WITH SOME VERY COMPLEX REQUIREMENTS AND UNIQUE NEEDS OF THOSE AFFECTED BY THE DISASTER. FOR EXAMPLE, WE HAD EXCESS SHELTER SPACE AVAILABLE. BUT MANY CLIENTS WOULD NOT ENTER THE DESIGNATED SHELTERS DUE TO FEAR OF DAMAGE FROM AFTERSHOCKS. THERE ALSO WERE PERIODS OF UNSEASONAL STORMS WITH HEAVY RAINS; CONSEQUENTLY, TENTS WERE ERECTED IN PROXIMITY OF THE FIXED SHELTERS. AND WE WERE ABLE TO GET THE FRIGHTENED PEOPLE INTO A DRY, WARM ENVIRONMENT. TO ASSIST IN THIS EFFORT, WE ESTABLISHED REASSURANCE TEAMS COMPRISED OF AMERICAN RED CROSS MENTAL HEALTH WORKERS, CLERGY, AND BUILDING INSPECTORS TO CONVINCED PEOPLE LIVING IN PARKS OR IN AUTOMOBILES THAT THEIR HOMES WERE SAFE TO REENTER. THESE PROVED TO BE VERY SUCCESSFUL ACTIVITIES.

ONE OF THE STRENGTHS OF THE AMERICAN RED CROSS IS THAT WE REMAIN IN THE AREA TO ASSIST THOSE AFFECTED BY THE DISASTER. LONG AFTER MANY OTHER AGENCIES HAVE DEPARTED, THIS WAS THE CASE AFTER THE NORTHRIDGE DISASTER. WITH THE HELP OF SEVERAL OTHER CHARITABLE ORGANIZATIONS, WE FORMED RESOURCE COORDINATION CENTERS TO FIND GOODS AND SERVICES FOR THOSE WITH UNRESOLVED PROBLEMS. THROUGH THIS PROCESS WE WERE ABLE TO FIND SEVERAL MILLION DOLLARS WORTH OF ASSISTANCE FOR THOSE WHO HAD UNMET NEEDS. OUR LOCAL RED CROSS CHAPTERS COORDINATED THIS EFFORT.

WERE WE SUCCESSFUL AND TIMELY IN OUR RESPONSE TO THE NEEDS OF THOSE AFFECTED BY THE DISASTER? IN MY OPINION WE WERE IN EVERY RESPECT -- THANKS TO CONCERTED EFFORTS THROUGHOUT THE ORGANIZATION, DURING THE PAST THREE YEARS OR SO, TO REVITALIZE DISASTER SERVICES AND BETTER POSTURE THE RED CROSS TO MORE EFFECTIVELY RESPOND TO DISASTERS SUCH AS THE NORTHRIDGE EARTHQUAKE THROUGH IMPROVED DISASTER PLANNING, PREPAREDNESS, COMMUNITY DISASTER EDUCATION, AND RESPONSE ACTIVITIES. THE RED CROSS CHAPTERS IN THE AREA RESPONDED IN A MATTER OF MINUTES TO THE DISASTER (MR. HAIGWOOD WILL REPORT ON THAT). THE NATIONAL HEADQUARTERS QUICK RESPONSE TEAM BEGAN ARRIVING IN THE AREA WITHIN A MATTER OF HOURS TO ASSESS THE DAMAGE AND CONDUCT A NEEDS ASSESSMENT. WE IMMEDIATELY ESTABLISHED LIAISON WITH THE FEDERAL GOVERNMENT, LOS ANGELES CITY AND COUNTY GOVERNMENTS, OTHER AFFECTED GOVERNMENTS, AND VOLUNTARY AGENCIES. WE PLACED A LIAISON TEAM AT THE STATE EMERGENCY OPERATIONS CENTER AND PROVIDED A SIX-PERSON TEAM TO THE FEDERAL DISASTER FIELD OFFICE. THROUGHOUT THE PERIOD, WE HAD EXTREMELY GOOD RELATIONS WITH THESE AGENCIES.

ALTHOUGH WE WERE SUCCESSFUL IN OUR RESPONSE, WE WERE NOT WITHOUT CHALLENGES. THE DAMAGE TO THE ROADS CAUSED DELAYS IN GETTING OUR PEOPLE AND SUPPLIES TO THE AREAS WHERE MOST NEEDED. ACCESS TO THE AREA TO CONDUCT DAMAGE ASSESSMENT AND MOBILE FEEDING OPERATIONS OFTEN WAS DELAYED DUE TO HEAVY TRAFFIC. HOWEVER, WE DID MAINTAIN CLOSE CONTACT WITH FEMA AND OTHER GOVERNMENT AGENCIES. DIRECTOR WITT AND I HAD NUMEROUS TELEPHONE CONVERSATIONS AND MEETINGS, AS WELL AS MEETINGS WITH THE STATE EMERGENCY MANAGEMENT PERSONNEL. DAILY MEETINGS ALSO WERE HELD WITH CITY AND COUNTY GOVERNMENTS. A COMPETENT NETWORK OF VOLUNTARY AGENCIES WAS ESTABLISHED, AND THE RESOURCES OF ALL AGENCIES WERE USED EFFECTIVELY. HUD ASSISTED BY PROVIDING A LIST OF AVAILABLE HOUSING FOR USE BY CLIENTS WHOSE HOMES WERE DAMAGED TO THE DEGREE THAT THEY REQUIRED MAJOR REPAIRS. IN THE NORMAL COURSE OF ACTION, WE HAVE LIMITED INTERACTION WITH THE SMALL BUSINESS ADMINISTRATION, ALTHOUGH OUR CASE WORKERS WILL MAKE CLIENTS AWARE OF THE FACT THAT ASSISTANCE MAY BE AVAILABLE THROUGH THIS SOURCE.

THROUGH THE NATIONAL VOLUNTARY ORGANIZATIONS ACTIVE IN DISASTER, WE ESTABLISHED GOOD RELATIONSHIPS WITH ALL CHARITABLE ORGANIZATIONS PARTICIPATING IN THE RELIEF EFFORT. MEETINGS WERE SCHEDULED AND CONDUCTED, AND INFORMATION WAS SHARED EFFECTIVELY. THE AMERICAN RED CROSS HAS EXISTING MEMORANDUMS OF AGREEMENT OR STATEMENTS OF UNDERSTANDING WITH MOST OF THESE AGENCIES. CONSEQUENTLY, ALL WE NEED TO DO IS TO IMPLEMENT THESE AGREEMENTS, AS WE DID IN THIS INSTANCE.

THE AMERICAN RED CROSS HAS EXTENSIVE EXPERIENCE IN RESPONDING TO DISASTERS. WE STILL HAVE SOME AREAS IN WHICH ASSISTANCE IS NEEDED TO ENSURE THE SUCCESS OF OUR FUTURE RELIEF EFFORTS. WE HAVE BEEN ATTEMPTING TO GET THE FEDERAL COMMUNICATIONS COMMISSION TO ASSIGN SOME FREQUENCIES IN THE 220 MEGAHERTZ RANGE TO THE RED CROSS FOR USE IN BOTH TRAINING AND DISASTER RESPONSE. THIS EFFORT HAS BEEN ONGOING FOR ALMOST FIVE YEARS. WE HAVE FOLLOWED GUIDANCE GIVEN TO US BY THE FCC, BUT WE HAVE BEEN UNABLE TO GET FINAL ACTION FROM THEM. RECENTLY CONGRESSMAN JACK FIELDS FROM TEXAS WROTE A LETTER TO THE COMMISSION ASKING THEM TO RESPOND TO OUR REQUEST. IF YOU CAN ASSIST IN ANY WAY IN GETTING THIS MOVING, IT WOULD BE GREATLY APPRECIATED AND CERTAINLY FACILITATE THE AMERICAN RED CROSS ACTIVITIES IN RESPONSE TO FUTURE DISASTERS.

LET ME TAKE THIS OPPORTUNITY TO PRAISE THE THOUSANDS OF VOLUNTEERS WHO TIRELESSLY PROVIDED RELIEF TO THE VICTIMS OF THE NORTHRIDGE EARTHQUAKE AS WELL AS THOSE WHO RESPOND ON A DAILY BASIS IN CITIES AND TOWNS EVERYWHERE. THE AMERICAN PEOPLE AND BUSINESS COMMUNITY ALSO ARE TO BE COMMENDED FOR THEIR FINANCIAL AND IN-KIND DONATIONS THAT CONTRIBUTE TO THE RELIEF OF DISASTER VICTIMS THROUGH THE EVER-READY RED CROSS NETWORK OF PAID AND VOLUNTEER STAFF THROUGHOUT OUR GREAT NATION. THE SUCCESS OF THE RED CROSS IN MEETING THE DISASTER-CAUSED NEEDS OF ITS CLIENTS IS DEPENDENT ON THE SUPPORT OF THESE PEOPLE AND COMMUNITIES -- FOR WHICH WE ARE GRATEFUL.

THIS CONCLUDES MY REMARKS, AND I NOW ASK MR. HAIGWOOD TO PROVIDE HIS REMARKS ON WHAT THE CHAPTERS AND THE STATE DID TO ASSIST IN MEETING THE NEEDS OF DISASTER VICTIMS. AFTER HE CONCLUDES HIS REMARKS, WE WILL BE PLEASED TO ANSWER ANY QUESTIONS YOU MAY HAVE

Mr. FLANAGAN. Before Mr. Haigwood begins, I have one very quick, very brief question.

You said 92 percent of the moneys that is disbursed by the American Red Cross go to victims?

Mr. JONES. That is correct.

Mr. FLANAGAN. Are those national figures?

Mr. JONES. That is national, throughout the organization. Since we are chartered by Congress, we are audited by the Army audit agency every year.

Mr. FLANAGAN. That is not a localized number, that is a national figure?

Mr. JONES. That is a national average, yes.

Mr. FLANAGAN. Thank you. Mr. Haigwood.

Mr. HAIGWOOD. Thank you. Mr. Chairman, we are pleased to be here to have an opportunity to address the committee.

As Mr. Jones pointed out, some of the major assets of the American Red Cross are the fact that we are indeed a community-based organization and we rely heavily on volunteers to do our work.

Because we are a community-based organization, our relief volunteers were able to respond quickly to Red Cross chapter locations throughout the affected area. Staff from our San Fernando Valley location were on the scene within minutes after the shaking to assist in the recovery efforts in a building that had virtually all of its windows blown out and broken by the earthquake, but once we cleaned up that damage, we were in operation.

That became a focal point for our disaster response in the initial days to follow.

The relief efforts by the Red Cross were accomplished by a large number of volunteers who were indeed victims themselves—the people who in many cases responded to our Van Nuys location and other areas of heavy impact—had suffered damage in their own homes. Once they had assessed the situation, secured their homes and made arrangements for their families, they responded immediately.

The relief efforts were started independently by many chapters based on their own local needs, but through our State Disaster Response Plan, which had been recently developed prior to the earthquake, these individualized efforts became part of a coordinated plan very early on in the operation.

Don mentioned the number of shelters that we opened and the speed at which that was accomplished. One of the things that certainly occurred in this disaster which is unusual for us as it relates to most disaster operations is the shelter population changed in location and in size. Many buildings were perceived by those who resided in them to be safe, but once the local governmental agencies were able to get out and really take a look at the facility, and tag it as either needing some major repair or needing to be demolished and reconstructed, that added to our shelter population.

Don addressed the other issues, which was the one where being in an area where we have many new arrivals from countries where the building codes are considerably different than they are here in California, there is great concern about being inside after a major earthquake has occurred. In those cases, we were able to work with other agencies, Government, and non-profits to go out into the

areas where people were staying to visit with them and even to identify where they lived and to go with them, with the building inspector, with mental health workers, with others, and look at their specific place of residence and encourage them to go back, which did help decrease our shelter population over time.

One of the problems that I think all of us face in earthquakes is the difficulty of damage assessment. Because of the nature of the disaster and magnitude of the disaster, we had a problem that is different than we might experience in other types of disasters. We do work closely with all Governmental agencies and shared information as we were identifying it on damage, as did the State, local and Federal agencies as they were identifying damage information. This sharing was very helpful to us in developing our plan to provide disaster relief.

The State plan that I addressed earlier worked extremely well for us. We had a tremendous number of disaster staff, both volunteer and paid, responding throughout the State of California to the southern California area.

Most of those responded within the first 12 hours of the operation, and so we were able to have several hundreds of Red Cross staff on scene within the first 12 hours. Those individuals were supplemented over the days and weeks to come with, as Don pointed out, 14,000 volunteers and a thousand staff from other parts of the country.

We learned many lessons after the disaster. Those lessons have been put into place in the form of revisions to our training, revisions to our planning, and we are in the process of developing new procedures based on the lessons from the Northridge earthquake of 1994 and expect that we will be in even a better position to respond to future disasters, not only here in California but nationally.

[The prepared statement of Mr. Haigwood follows:]

LOS ANGELES CHAPTER

(213) 739-5201

DATE: January 18, 1996

FROM: James T. Haigwood
CEO, Los Angeles Chapter
American Red Cross

SUBJECT: Statement to the House Committee on Government Reform and Oversight, Subcommittee on Government Management, Information and Technology

January 19, 1996

I would like to preface my remarks with a statement about the nature of the Red Cross response, that the Red Cross relief effort is a partnership between volunteer and paid staff. Often, those working on a relief operation are referred to as "staff". Staff refers to both volunteer and paid personnel. Leadership positions during the relief effort were filled with a variety of volunteer and paid staff from the Los Angeles and other California Chapters as well as staff brought in from across the county.

Items to be addressed include the following topics:

- ◆ Relief workers responded quickly to Red Cross Chapter locations through out the affected area. Staff in the Van Nuys office were on scene within minutes of the shaking organizing assistance efforts from a building that had virtually all it's exterior windows broken.
- ◆ Relief efforts were being accomplished largely by workers who were themselves disaster victims. Many workers left homes (and families) heavily damaged by the quake; they secured the immediate safety of their households and went to help others.
- ◆ Relief efforts were started independently by many Red Cross Chapters, based on their local needs, but those efforts quickly became part of a coordinated effort to better meet the demands imposed by the quake throughout the affected areas.
- ◆ More than 15 shelters were opened the first day, but the peak numbers of shelters opened wasn't reached until six days later when about 35 shelters were operating. (Shelters remained opened until February 19th.)

- ◆ A shelter was opened and operated in response to victim needs in Las Vegas, about one tank-full of gas away from Los Angeles.
- ◆ Shelter populations (and the need for shelters) changed as apartments were red-tagged by inspectors creating an immediate need for shelter for yet another group of victims.
- ◆ Typical Red Cross damage assessment activities weren't possible based on scope of the damage. This event focused attention on the need for agencies to exchange basic information in a timely manner so that all responding agencies have the best information regarding specific damage.
- ◆ As Don Jones pointed out, 18 service centers were opened to provide Red Cross assistance. In what I consider to be a very remarkable organizational effort, those service centers opened in a variety of locations including several in large tents. (Tents became a necessity when no buildings could be located in those areas most heavily damaged by the quake to house service center activities.)
- ◆ Red Cross is comprised of a network of Chapters that can provide mutual-aid to affected areas. Response by trained and experienced Red Cross relief workers from California to assist in Northridge was indeed extraordinary. A majority of California workers in the Red Cross system responded at some time during the relief operation.
- ◆ Planning and preparedness efforts continue in the wake of Northridge. Planning efforts to mount large scale operations continue on a state-wide basis; efforts center our need to feed and house tens of thousands of individuals made homeless by such a disaster.

Mr. FLANAGAN. Wonderful. Thank you, Mr. Haigwood.

Ms. Jones.

Ms. JONES. Mr. Chairman, members of the committee, my name is Terri Jones and I am director of special projects for the California Community Foundation. On behalf of the community and its Board of Governors, thank you for your invitation to offer our thoughts and experience on the needs and conditions of non-profit organizations in the aftermath of a community-wide disaster like the Northridge earthquake.

We in the private funding community are well-accustomed to viewing non-profits as the senior partners in any effort that we make to address human needs. Increasingly and appropriately, non-profits have also come to be recognized as a key ingredient in community disaster response and recovery.

I would say that there is a greater role and more recognition of the role that non-profits have played in each successive emergency in southern California, from the civil disturbances in 1992, to the fire storms that followed in 1993, to 3 months later the Northridge quake. In some ways I would like to observe that we have the luxury of suggesting improvements in those relationships and ways of working together because we have come such a long distance in recognizing that non-profit organizations are an integral part of community response and recovery.

It is good that the non-profit community has really shown up on the radar screen at this point.

After the Northridge earthquake, the California Community Foundation's Board of Governors took the unprecedented step of invading principal on our endowment for the first time in our 80 year history in order to establish the Los Angeles Earthquake Recovery Fund, through which grants could be made to help non-profits recover and in turn provide relief and recovery services in neighborhoods devastated by the quake.

With \$800,000 thus raised directly from our own coffers and \$900,000 more raised through the generosity of our donor advisors, other foundations and corporations, and the general public, we were ultimately able to distribute \$1.7 million in grants and loans for earthquake response to 111 non-profit agencies. Most of those dollars were disbursed within the first 3 months after the quake and I would add that the first dollars were out of the door within the first week.

You have got an attachment to the copy of the testimony that has been distributed to you of all of those grants and loans, and I won't belabor them now.

The grantmaking process, however, and the community needs assessment that preceded it, revealed certain broad themes that we believe have implications for the Federal disaster response planning in the future.

They may specifically have some bearing on determining what kinds of non-profit services and agencies should be declared eligible for disaster relief before a disaster hits—in the way you were discussing this morning.

Generally, the points I would like to mention today fit into two broad categories—what we can call case load and service issues that confronted non-profits in the aftermath of the quake, and

what we can call direct and indirect impacts of a disaster and the relief efforts on the non-profits themselves.

To summarize some key points, starting with the case load issues, community clinics and counseling agencies needed help to deliver primary medical and mental health services prior to the execution of Federal reimbursement contracts with the county, maybe rather than execution, a better word would be activation of those contracts, and the county's corresponding execution of service agreements with those agencies.

Clinics and other agencies that have suffered damage themselves needed high priority emergency assistance within the first few hours of the earthquake to affect running repairs and return to operational status. Others saw short-term increases in client load because they were the most accessible service providers. People couldn't get to the local emergency room—that kind of thing.

Those clinics in some cases found themselves scrambling for basic supplies to meet the volume of clients.

Problems were predictably worse and at a much longer duration in neighborhoods with high percentages of uninsured residents.

Very high demands were placed on any agency whose primary clients were older adults—and I might add, people with disabilities—who tended to suffer higher degrees of disorientation, isolation, frustration with bureaucratic processes, and transportation and mobility problems. Those agencies, rather hard-hit, were among those who came to us asking for private assistance to help them meet their client needs.

Child care services were both critically needed and significantly disrupted in a couple of significantly different ways. Extended day services were essential, especially in communities like the Santa Clarita Valley where transportation systems and commuting patterns were disrupted, and agencies had to extend hours significantly longer than they would otherwise be providing care.

Also, there was a dearth of service available in neighborhoods where damage to housing stock displaced significant numbers of home-based child care workers. This last group was particularly isolated and in need of assistance, often even more than the families that relied upon them for child care because they had really been hit twice. Their homes were damaged and their way of earning a living was also disrupted.

Those people, I would note, are a little harder to reach through non-profit mechanisms than many of the other disaster relief victims we dealt with.

Regional food banks found themselves in the delivery business to an unprecedented degree. Transportation system disruptions meant that client agencies were often unable, at least in the first weeks after the quake, to follow their normal pattern, which was to go to the food banks to pick up food that they could then distribute in neighborhoods and communities, so the food banks needed assistance with transportation.

Similar patterns were seen in agencies where clients, often developmentally disabled folk or children with special needs or accustomed to being delivered to them for full-day services—those delivery patterns were disrupted as well.

Moving to direct impacts on non-profits, and let me just state the obvious. Emergency case loads displaced ongoing client services and sometimes regular income streams for non-profit agencies, and not in all cases was that reimbursable.

Forgive me, gentlemen. I am fighting a cold. I usually sing soprano, and today I could do tenor really easily.

Non-profits housed at low or no cost in facilities like churches or in one or two cases public schools found themselves indefinitely displaced when those facilities suffered serious damage, which meant that the tenant non-profits suddenly needed money to rent space elsewhere, and sometimes the host agencies, particularly in the case of churches, couldn't qualify for rebuilding loans very easily at all.

I can remember a couple of very specific cases, one in the San Fernando Valley and one in Santa Monica, where we were providing rental assistance or the hire of temporary portable buildings for the non-profits to be able to continue their services.

Even agencies that were FEMA-eligible had to find front money to begin structural repairs, since the nature of the Federal process is to reimburse expenses.

Non-profits historically have a hard time obtaining funds from commercial lending institutions and few of them have adequate cash reserves. The California Community Foundation made no-interest loans to 12 agencies, mostly to help them with that rebuilding process and it's useful to note that 2 years later only 5 of them have progressed far enough to pay us back.

Non-profits had a hard time understanding when they were eligible for public assistance or even reimbursement for the provision of emergency services, which simply echoes something that you have heard several times during the course of the day.

We made several grants to legal services and other kinds of advocacy organizations to prepare materials, coordinate pro bono services, and provide direct assistance to non-profits who were having a hard time dealing with the maze of Government procedures and the ambiguities of the regulations.

Community clinics and other smaller non-profits have found themselves carrying for months or years what they hope will be receivables in the form of Government reimbursements for services, but their cash-flow and operating reserves is seriously strained in the meantime. Generally speaking, the smaller the agency, the more burdensome the wait.

Memoranda of Understandings, or some other kind of contractual mechanisms, need to be put in place for those kinds of non-profits ahead of time so that they can receive timely payment for basic disaster relief services they render when there is an emergency.

Even in nondisaster situations in southern California, we lack adequate forces of bilingual health and human services personnel to assist clients in all the primary languages that are spoken here. After the earthquake, some culturally specific non-profit agencies whose missions have little to do with basic social services divert significant resources to translation and other disaster-relief work and had little or no success in recovering their costs.

Generally, in light of our experience, it would help if we could codify a broader definition of what may, given the particular disas-

ter, constitute essential reimbursable relief services so as to reduce the need for time-consuming local interpretation when an emergency strikes.

Mr. Chairman, it's been fairly noted by more than one commentator that Los Angeles functions best as a community in genuine crisis situations.

In the interests of time I have not spoken about the considerable efforts made by private funders, the United Way, local government, other non-profits to coordinate our response and our planning to meet future emergencies. That activity has been enhanced by our greater understanding of how State and Federal disaster response works and by relationships we have developed with key agency leadership over the course of multiple calamities.

We hope that this experience, which we really wouldn't have chosen to acquire, will be valuable in helping to realize the potential and address the limitations of our disaster response mechanisms, particularly as they involve or they rely upon the non-profit community.

I will be happy to answer any questions that you may have. Once again, thank you for the opportunity to be heard.

[The prepared statement of Ms. Jones follows.]



CALIFORNIA COMMUNITY FOUNDATION

STATEMENT FOR THE RECORD

**Submitted to the House Committee on Government Reform and Oversight
Subcommittee on Government Management, Information and Technology**

by Terri Jones, Director of Special Projects, California Community Foundation

Friday, January 19, 1996

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Mr. Chairman, Members of the Committee, and of the Southern California Congressional delegation: my name is Terri Jones, and I am Director of Special Projects for the California Community Foundation. On behalf of the foundation and its Board of Governors, thank you for your invitation to offer our thoughts and experience on the needs and conditions of nonprofit organizations in the aftermath of a community wide disaster like the Northridge earthquake. Nonprofit organizations are the senior partners in any foundation's efforts to address human needs, and increasingly and appropriately they have come to be recognized as a key ingredient in community disaster response and recovery. Less appreciated, however, are the particular problems that can afflict nonprofit agencies even as they attempt to provide disaster relief. In the worst cases, these difficulties can threaten the long-term stability of nonprofits and the services they provide.

For the record, the California Community Foundation is now celebrating its 80th year of activity in Los Angeles County. With assets that now exceed \$170 million, we manage, invest, and administer well over 500 charitable funds established by donors who wished to contribute to a perpetual endowment fund for the benefit of this region. Last year, we awarded \$3.5 million in discretionary grants and distributed an additional \$9.6 million in donor-advised gifts and distributions to charitable beneficiaries.

After the Northridge earthquake the California Community Foundation's Board of Governors took the unprecedented step of invading principal in order to establish the Los Angeles Earthquake Recovery Fund, through which grants would be made to help nonprofits recover--and in turn, provide relief and recovery services--in neighborhoods devastated by the quake. With \$800,000 thus raised directly from the foundation's coffers, and \$900,000 more raised through the generosity of our donor advisors, other foundations and corporations, and the general public, we were ultimately able to distribute \$1.7 million in grants and loans for earthquake response to 111 nonprofit agencies. Most of those dollars were disbursed within the first three months after the quake. (Please see Attachment A for a list of earthquake grants and loans.)

SERVING THE COMMUNITIES OF GREATER LOS ANGELES
606 S. Olive Street, Suite 2400, Los Angeles, California 90014-1526
TEL: (213) 341-3100 FAX: (213) 341-3000

California Community Foundation Testimony
January 19, 1996
Page 2

The grantmaking process, and the community needs assessment that preceded it, revealed certain broad themes that, we believe, have implications for Federal disaster response planning in the future. Generally they fit into two categories: what we can call **caseload and service issues** that confronted nonprofits, and **direct and indirect impacts of the disaster and relief efforts** on nonprofits themselves. To summarize some key points:

Caseload issues:

- Community clinics and counseling agencies needed help to deliver primary medical and mental health services prior to the execution of Federal reimbursement contracts with the county, and the county's corresponding execution of service agreements with these agencies. Clinics and other agencies that had suffered damage themselves needed high priority emergency assistance within the first few hours of the earthquake to effect running repairs and return to operational status; others saw short-term increases in client load because they were the most accessible service providers, and had to scramble for basic supplies to meet the volume of clients. Problems were predictably worse and of longer duration in neighborhoods with high percentages of uninsured residents.
- Very high demands were placed on any agency whose primary clients were older adults, who tended to suffer higher degrees of disorientation, isolation, frustration with bureaucratic processes, and transportation and mobility problems.
- Child care services were both critically needed and significantly disrupted. Extended day services were essential, especially in communities where transportation systems and commuting patterns were disrupted; there was a dearth of service available in neighborhoods where damage to housing stock displaced significant numbers of home-based child care workers. This last group was particularly isolated and in need of assistance, often even more than the families that relied upon them for child care, and they are hard to reach through nonprofit mechanisms.
- Regional foodbanks found themselves in the delivery business to an unprecedented degree; transportation system disruptions meant client agencies were often unable, at least in the first weeks after the quake, to pick up commodities for distribution in the hardest-hit communities. The same principle applied to agencies like sheltered workshops, whose clients ordinarily traveled to them each day, often across significant distances.

Direct impacts on non-profits:

California Community Foundation Testimony

January 19, 1996

Page 3

- Emergency caseloads displaced ongoing client services--and sometimes, regular income streams--in nonprofit agencies.
- Nonprofits housed at low or no cost in facilities like churches--or in one or two cases, public schools--found themselves indefinitely displaced when those facilities suffered serious damage. The tenants suddenly needed money to rent space elsewhere, and sometimes the host agencies, particularly in the case of churches, couldn't qualify for rebuilding loans.
- Even agencies that were FEMA eligible had to find "front money" to begin structural repairs, since the nature of the Federal process is to reimburse expenses. Nonprofits historically have a hard time obtaining funds from commercial lending institutions, and few have adequate cash reserves. We made no-interest loans to 12 agencies to help them with the rebuilding process; two years later, only five have progressed far enough to pay us back.
- Nonprofits had a hard time understanding when they were eligible for public assistance or even reimbursement for the provision of emergency services. We made several grants to legal services and other advocacy organizations to prepare materials and provide direct assistance to nonprofits lost in a maze of government procedures.
- Community clinics and other smaller nonprofits have found themselves "carrying" for months or years what they hope will be receivables in the form of government reimbursements for services, but their cash flow and operating reserves are seriously strained in the meantime. (The smaller the agency, the more burdensome the wait.) MOU's or some other contractual mechanism need to be put in place for them ahead of time, so that they can receive timely payment for basic disaster relief services they render.
- Even in non-disaster situations, we lack adequate forces of bilingual health and human services personnel to assist clients in all the primary languages that are spoken in Los Angeles. After the earthquake, some culturally specific nonprofit agencies whose missions have little to do with basic social service provision diverted significant resources to translation and other disaster relief work--and had little or no success in recovering their costs.
- Generally, in light of our experience, it would help if we could codify a broader definition of what may--given the particular disaster--constitute essential (reimbursable) services, so as to reduce the need for time-consuming local interpretation.

Mr. Chairman, it has been fairly noted by more than one commentator that Los Angeles

California Community Foundation Testimony**January 19, 1996****Page 4**

functions best as a community in genuine crisis situations, and indeed, we're getting better and better at it. In the interests of time, I have not spoken about the considerable efforts made by private funders, the United Way, local government, and others at the time of the quake and since to coordinate our response and plan to meet future emergencies. That activity has been enhanced by our greater understanding of how state and federal disaster response works, and by relationships we've developed with key agency leadership over the course of multiple calamities.

We hope that this experience--which we really wouldn't have chosen to acquire--will be valuable in helping to realize the potential and address the limitations of our disaster response mechanisms, particularly as they involve--or rely upon--the nonprofit community. I'll be happy to answer any questions you may have. Once again, thank you for the opportunity to be heard.

ATTACHMENT A

EARTHQUAKE GRANTS AND LOANSA. Grants for Repairs, Equipment Replacement, and Relocation Expenses

- Agency: **Almanson Center, South Pasadena**
Grant: \$275 to replace television used in educational center.
- Agency: **Actor's Alley Theatre, North Hollywood**
Grant: \$12,000 for first and last month's rent on a temporary location.
- Agency: **Al Wooten Jr. Heritage Center, Los Angeles**
Grant: \$4,500 to repair damaged walls and replace two computers that were broken beyond repair.
- Agency: **Aman Folk Ensemble, Los Angeles**
Grant: \$3,000 for first and last month's rent on a new space.
- Agency: **Assistance League of Santa Monica**
Grant: \$10,670 for repairs, equipment replacement, and clean up costs at the preschool, which serves low-income families.
- Agency: **Boys and Girls Club of the Santa Clarita Valley, Newhall**
Grant: \$8,000 toward unreimbursed repair costs, and to help replace equipment lost at any of the four club sites.
- Agency: **Boys and Girls Club of the San Fernando Valley, Pacoima**
Grant: \$20,000 toward repairs to the roof, gymnasium, lighting fixtures, and interior walls of the building, which were damaged in the quake.
- Agency: **California Council for Veterans' Affairs, Los Angeles**
Grant: \$6,800 to relocate South Central Los Angeles office to a new site in the area because of structural damage due to the earthquake.
- Agency: **Camp Fire, Glendale-Crescenta-Canada Council**
Grant: \$400 to relocate children's sport programs from facilities that were damaged in the earthquake.
- Agency: **Community Corporation of Santa Monica, Santa Monica**
Grant: \$20,000 for emergency repairs and overtime salaries for maintenance workers at a number of the low-cost apartment buildings owned and managed by the organization.
- Agency: **Community Counseling Services, Hollywood**
Grant: \$12,500 to repair roof and other structural damage at residential home for severely mentally ill in Hollywood.

1994 Earthquake Response Funding

- Agency: **Families in New Directions, Los Angeles**
Grant: \$1,000 to replace equipment damaged in the earthquake.
- Agency: **The Gathering Place, Los Angeles**
Grant: \$7,000 to replace the earthquake-damaged refrigerator with a lockable industrial refrigerator to support the meal program for people with AIDS, as well as to replace the television and VCR used for children's programs.
- Agency: **Glendale Family YMCA, Glendale**
Grant: \$12,500 to assist with emergency repairs and clean-up at the residence and low-cost housing sites.
- Agency: **Haven Hills, Inc., Canoga Park**
Grant: \$8,000 to replace photo copier damaged beyond repair; and for materials necessary to repair six small apartment units.
- Agency: **Hollygrove (L.A. Orphans), North Hills**
Grant: \$10,000 for repairs to the group home.
- Agency: **Los Angeles Commission on Assaults Against Women, Hollywood**
Grant: \$7,000 to add counseling staff for the increased patient load due to the earthquake, as well as funds to repair and replace office equipment (printer, typewriter, bookcases, doors).
- Agency: **Lula Washington Contemporary Dance/Los Angeles Contemporary Dance Foundation, Los Angeles**
Grant: \$5,000 to replace dance studio mirrors shattered in the earthquake.
- Agency: **Martin Luther King Legacy Association, Los Angeles**
Grant: \$6,000 to replace equipment and furniture damaged or destroyed at the Rosa Parks Rape Crisis Center and other agency sites.
- Agency: **MEND (Meeting Each Need with Dignity), Pacoima**
Grant: \$5,200 toward three months rental of space and purchase of chalkboards for agency's ESL program, which had to be moved from its original site because of earthquake damage.
- Agency: **Mid Valley Family YMCA, Van Nuys**
Grant: \$7,500 toward repairs, equipment replacement, and the costs of extending child care hours and providing showers for families displaced by the earthquake.
- Agency: **National Multiple Sclerosis Society, Glendale**
Grant: \$9,800 to replenish the Emergency Needs fund, used to assist MS patients with uninsured costs of medications and "necessities of life," exhausted by unusually numerous demands due to economic dislocations caused by the earthquake.

1994 Earthquake Response Funding

- Agency: **North Valley Family YMCA, Mission Hills**
 Grant: \$8,700 toward unreimbursed clean-up and repair costs as well as the cost of providing free child care at two disaster centers immediately after the quake.
- Agency: **Nursery Nature Walks, Santa Monica**
 Grant: \$2,500 to help cover expenses for two months due to lost revenue following the cancellation of all school-related programs for several weeks.
- Agency: **Ocean Park Community Center/Turning Point, Santa Monica**
 Grant: \$20,000 to set up three trailers to replace temporarily the 35-bed homeless shelter destroyed in the earthquake.
- Agency: **Optimist Youth Homes, Highland Park**
 Grant: \$7,000 to demolish and rebuild the exterior wall at the Altadena group home, which sustained \$13,000 of damage in the earthquake.
- Agency: **Pacifica Radio Archive, North Hollywood**
 Grant: \$1,000 for tape restoration and clean up in Reseda and North Hollywood.
- Agency: **Parent Institute, Inc., Los Feliz**
 Grant: \$2,500 to replace two computers (critical to their education program) that were destroyed.
- Agency: **Plaza de la Raza, East Los Angeles**
 Grant: \$1,000 for equipment damaged in the earthquake.
- Agency: **Regis House, Pico Union**
 Grant: \$5,900 to relocate programs to the building next door, and to cover the cost of purchasing milk (not provided by foodbanks) for the additional children needing nutritious meals.
- Agency: **San Fernando Valley Association for the Retarded, North Hills**
 Grant: \$7,250 for office equipment, machinery and produce losses in the Ceramics Workshop, which employs and trains clients with developmental disabilities.
- Agency: **San Fernando Valley Girl Scout Council, Chatsworth**
 Grant: \$20,000 toward repair costs incurred and not covered by insurance.
- Agency: **SEA (Soledad Enrichment Action), Pacoima**
 Grant: \$13,890 for rental and installation of two mobile units to continue an alternative education program for youth at-risk in Pacoima after SEA's original site was destroyed in the earthquake.
- Agency: **Senior Health and Peer Counseling, Santa Monica**
 Grant: \$17,217 for furniture, equipment, and supplies damaged in the earthquake.

1994 Earthquake Response Funding

- Agency: **Southern California Indian Center, Los Angeles**
 Grant: \$15,000 to assist with costs of relocating and re-equipping the destroyed Van Nuys office.
- Agency: **St. Barnabas Senior Center, Los Angeles**
 Grant: \$1,226 for repairs.
- Agency: **Tree People, Beverly Hills**
 Grant: \$3,500 to replace television used for training and school programs; and to help replace damaged stone walls along educational outdoor trails at agency's park headquarters.
- Agency: **United Liver Association, Los Angeles**
 Grant: \$2,000 to replace printer.
- Agency: **Vista Del Mar Child and Family Service, West Los Angeles**
 Grant: \$4,500 to replace damaged equipment.
- Agency: **Wellness Community, Santa Monica**
 Grant: \$26,187 towards moving costs, increased rent, and tenant leasehold improvements necessary to relocate the agency's programs from quarters destroyed by the earthquake.
- Agency: **West Hollywood Homeless Organization, West Hollywood**
 Grant: \$9,600 for security deposit on a 12-unit apartment complex where WHHO will move its 60-bed shelter program for 4-6 months while its present site is being rehabilitated.
- Agency: **West Valley Family YMCA, Canoga Park**
 Grant: \$6,000 for cost of relocation to and rent of temporary trailers, where most services have continued to be provided on site.
- Agency: **YWCA of Santa Monica**
 Grant: \$20,000 for the immediate conversion of a disused men's locker room into offices for administration and the child care and vocational counseling programs. The building that previously housed these functions suffered major structural damage, and will require many months to repair. (A loan has been recommended to help with the latter process.)

Subtotal - Repairs, Equipment Replacement, and Relocation (43 grants) \$372,115

1994 Earthquake Response Funding

B. Grants for Services Affected by the Earthquake

- Agency: **African Community Refugee Center, Los Angeles**
 Grant: \$12,000 to replace computer and printer, and to cover a substantial rise in expenses due to the increase in clients' requests for assistance. Many of the center's low-income, recent immigrant clients were displaced from their apartments. Because of language and cultural barriers, most of the affected clients need assistance from center staff to help them relocate and to determine what resources may be available to them.
- Agency: **American Thai Institute, Los Angeles**
 Grant: \$16,000 for Thai-speaking outreach worker and to replace equipment damaged in the earthquake.
- Agency: **Bet Tzedek, Los Angeles**
 Grant: \$30,000 to hire additional legal staff in the North Hollywood office to help clients obtain earthquake relief.
- Agency: **Boy Scouts of America-Western L.A. Council, Sherman Oaks**
 Grant: \$8,000 for special camp program provided to children in three emergency shelters.
- Agency: **Bridge Focus, Inc., Burbank, CA**
 Grant: \$8,000 to support increased crisis intervention counseling services for children in the Valley.
- Agency: **CARECEN, Pico Union**
 Grant: \$15,000 for repair and replacement of computers and printers, staff assistance and outreach for distribution of food and clothing, and to reimburse agency for food purchased for earthquake victims.
- Agency: **Clinica Para Las Americas, Pico Union**
 Grant: \$25,000 for increased medical and mental health services following the quake.
- Agency: **Community Coalition for Substance Abuse Prevention & Treatment, Los Angeles**
 Grant: \$12,000 to help meet critical staffing needs caused by the quake, and expand the substance abuse support groups for four months. (This South Central agency relies heavily on senior citizens as volunteers and many of the volunteers' homes suffered serious earthquake damage, necessitating paid temporary help to replace lost volunteers.)
- Agency: **Community Counseling Services, Pico Union**
 Grant: \$1,500 for outreach efforts to quake victims in San Fernando Valley and Pico-Union.

1994 Earthquake Response Funding

- Agency: **Computer Access Center, Santa Monica**
 Grant: \$6,300 to replace income from membership fees lost during closure of this adaptive technology center for people with disabilities.
- Agency: **Educational Resources and Services Center, Inc., Culver City**
 Grant: \$10,000 in extended staff time for day programs for children in the San Fernando Valley.
- Agency: **El Centro de Amistad, Canoga Park**
 Grant: \$20,000 toward costs of an outreach project to deliver trauma counseling services to low-income Spanish speakers in seven San Fernando Valley communities.
- Agency: **El Nido Family Centers, Pacoima**
 Grant: \$2,000 to replace baby blankets and diapers provided to displaced families immediately following the earthquake. (Depleted supplies were reserved for the pregnant teen and teen family life parenting programs.)
- Agency: **El Rescate, Pico Union**
 Grant: \$4,500 for social service delivery and food allocations to more than 200 families, plus some equipment and supplies expenses.
- Agency: **Foodbank of Southern California, Long Beach**
 Grant: \$10,000 to assist with costs of supplying food to outlets in the San Fernando and Santa Clarita valleys.
- Agency: **Friends of the Family, Van Nuys**
 Grant: \$2,700 to cover staff overtime expenses, caused by a 60% increase in client load related to earthquake stress.
- Agency: **Hollywood Sunset Free Clinic, Hollywood**
 Grant: \$4,000 to hire a bilingual mental health professional to provide counseling to patients affected by the earthquake.
- Agency: **Humane Animal Rescue Team, San Fernando Valley**
 Grant: \$7,500 to help cover three months of boarding expenses, pound rescues, vet bills, transportation and telephone costs. This agency provides services to low-income and elderly San Fernando Valley pet owners displaced by the quake.
- Agency: **Jewish Family Service of Los Angeles**
 Grant: \$12,500 for taxi coupons for needy seniors for travel to earthquake relief centers and other related social service offices; and for added 3/4 time social worker.

1994 Earthquake Response Funding

- Agency: **Jewish Family Service of Santa Monica**
 Grant: \$10,000 for additional staff for bilingual case managers serving frail elderly who are displaced and in need of services and counseling.
- Agency: **Koryo Health Foundation, Los Angeles**
 Grant: \$15,000 for three months' follow-up screening and medical services for earthquake victims, particularly those with hypertension and stress-related disorders.
- Agency: **L.A. Works, Los Angeles**
 Grant: \$13,000 to hire two additional staffers for two months to handle enormous quake-related demand for volunteers and to replace the badly damaged photocopier.
- Agency: **Latino Resource Organization, Santa Monica**
 Grant: \$11,260 for the delivery of groceries, and short-term case management to homebound, Spanish speaking senior citizens effected by the earthquake.
- Agency: **Library Foundation of Los Angeles, Los Angeles**
 Grant: \$59,000 to help replenish the bilingual reading materials and other inventory in the four bookmobiles that are in use six days a week since 12 branch libraries were closed by quake damage in San Fernando Valley; to maintain the bookmobiles during the six months of extremely heavy use until most of the branches are repaired; and to replace materials destroyed in the Pacoima branch library.
- Agency: **Los Angeles Free Clinic, Los Angeles**
 Grant: \$25,000 toward the costs of providing additional services to the frail elderly, clients living with AIDS, homeless youth, people living in the Hollywood Red Cross shelter, and others requiring primary medical care or counseling as a result of the earthquake. (A portion of this grant is a designated contribution from Doctors Without Borders.)
- Agency: **Los Angeles Regional Foodbank, Los Angeles**
 Grant: \$25,000 toward purchase of truck and driver salary to distribute food in the San Fernando Valley and other areas of the county where local agencies are unable to come to the Foodbank to pick up their weekly food allocations.
- Agency: **Lutheran Social Services of Southern California, Van Nuys**
 Grant: \$10,810 for one month's salaries, space costs, and administration of post-quake counseling services, food distribution, case management and the Family Assistance Program, all extended through at least the end of May, 1994.
- Agency: **Mission City Community Network, Sepulveda**
 Grant: \$12,000 to purchase medications and laboratory services otherwise unavailable to uninsured patients seeking medical assistance in the family medicine clinic in the aftermath of the quake.

1994 Earthquake Response Funding

- Agency: **National Council of Jewish Women, Los Angeles**
 Grant: \$23,700 toward the direct costs of providing information, referral, and counseling services in seven languages, and emergency financial aid and household goods, to earthquake victims, through Women Helping Women Services; as well as to help offset revenue losses due to the destruction of the Canoga Park Thrift Shop.
- Agency: **North Valley Family Counseling Center, San Fernando**
 Grant: \$10,000 to meet requests for additional trauma counseling services.
- Agency: **Northeast Valley Health Corporation, San Fernando**
 Grant: \$15,000 toward nonreimbursable expenses incurred providing medical services to the community in the aftermath of the earthquake.
- Agency: **Organization for the Needs of the Elderly, Van Nuys**
 Grant: \$7,000 for additional staff to conduct in-take services for the homebound frail elderly who need assistance with paperwork, translation, and information and referral at home.
- Agency: **PAWS/LA, West Hollywood**
 Grant: \$1,000 to cover the costs of pet food and emergency, quake-related vet and animal boarding expenses.
- Agency: **San Fernando Valley Child Day Care Resource Center, North Hollywood**
 Grant: \$5,115 for additional mailing costs for outreach into the community of disaster/emergency related information to families and day care providers.
- Agency: **San Fernando Valley Interfaith Council, Chatsworth**
 Grant: \$5,000 to help cover the costs of a major post-quake caseload increase in program services to seniors.
- Agency: **Santa Clarita Valley YMCA, Valencia**
 Grant: \$15,000 for balance of costs of extending child care hours at 12 sites to accommodate the increased commuting times of parents, and toward uninsured repairs to the sites.
- Agency: **Valley Community Clinic, North Hollywood**
 Grant: \$15,000 toward the costs of providing primary medical care to additional individuals and families suffering economic hardship as a result of the earthquake.
- Agency: **Venice Family Clinic, Venice**
 Grant: \$20,000 to support lab costs and x-ray fees for the remainder of the fiscal year (until St. John's Hospital is able to resume full service for the clinic.)
- Agency: **Venice Family Clinic, Venice**
 Grant: \$7,000 to assist with increased demand for medical services in the aftermath of the quake. (This grant is a designated contribution from Doctors Without Borders.)

1994 Earthquake Response Funding

- Agency: **Wilmington Community Free Clinic, Wilmington**
Grant: \$20,000 to help offset the unreimbursed costs of providing primary medical care, counseling, and social service referrals to "overflow" patients referred from quake-damaged clinics in the South Bay area.
- Agency: **WISE Senior Services, Santa Monica**
Grant: \$25,000 toward elderly client relocation costs, staff redeployment and extended hours, hiring of additional staff, and office relocation costs.
- Agency: **Women's Care Cottage, North Hollywood**
Grant: \$5,000 for temporary staffing, to replace volunteers dealing with personal losses from the earthquake.
- Agency: **Youth Development Fund, Antelope Valley**
Grant: \$2,200 for additional food purchased for the overflow of children using the Pacoima site, and radios and emergency flashlights for five sites.
- Agency: **Youth News Services, Los Angeles**
Grant: \$16,000 to replace two computers, cover increased distribution costs, and staffing expenses connected with working with students from damaged public schools, where activities were halted or curtailed.
- Subtotal - Services Affected by the Earthquake (44 grants) \$580,085**

1994 Earthquake Response Funding

C. Grants for Special Projects

- Agency: **Chinatown Service Center FBO Asian Pacific Planning Council, Los Angeles**
 Grant: \$32,100 for a staff person to coordinate earthquake, relief referrals and services of APPCON -- a consortium of Asian-Pacific Islander service providers.
- Agency: **Community Partners FBO Los Angeles Volunteerism Project, Los Angeles**
 Grant: \$24,900 toward the costs of screening and deploying volunteers countywide to respond to needs caused by the earthquake.
- Agency: **Habitat for Humanity-San Fernando/Santa Clarita Valleys, Van Nuys**
 Grant: \$22,600 for purchase of a network server and six work stations to handle the increased work volume resulting from HFH's long-term earthquake response building program.
- Agency: **Hollywood Community Housing Corporation, Hollywood**
 Grant: \$20,000 for the first six months' salary of a project manager to assist with the acquisition and rehabilitation of approximately 240 units of low-income housing in the East Hollywood area damaged during the earthquake and presently uninhabitable.
- Agency: **Info Line, Baldwin Park**
 Grant: \$25,000 toward \$75,000-80,000 estimated extra staffing and printing costs incurred handling disaster referral calls.
- Agency: **KCRW-FM**
 Grant: \$4,000 to support "The Earthquake Report" from January 24 to February 16, 1994.
- Agency: **Local Initiatives Support Corporation (LISC), Los Angeles**
 Grant: \$40,000 for outreach, assessment, and implementation of a training/technical assistance program for nonprofits in the San Fernando Valley area interested in affordable housing development.
- Agency: **Los Angeles Earthquake Arts Recovery Fund**
 Grant: \$10,000 toward a pool of funds to assist individual artists and arts organizations make repairs and replace supplies and materials damaged in the earthquake. (This fund will be jointly administered by the California Community Foundation and the Cultural Affairs Department of the City of Los Angeles.)
- Agency: **National Council of La Raza, Los Angeles**
 Grant: \$20,000 toward the provision of technical assistance and interagency coordination for Latino community-based organizations in the San Fernando Valley whose services have been stretched by the earthquake.

1994 Earthquake Response Funding

Agency:	Operation USA
Grant:	\$25,000 to revitalize free and community clinics in Southern California.
Agency:	Operation USA/National Health Foundation, Los Angeles
Grant:	\$35,000 to support the development of a "Hazard Mitigation Plan" (HMP) to enable improved coordination and preparation for medical services during disaster situations. The plan will enable local groups to compete for a portion of \$700,000 available from FEMA for competitive hazard mitigation grantmaking in Los Angeles, Orange, and Ventura Counties. Relevant partners for the plan include community clinics, school-based health programs, hospitals, parish nursing programs, and other related programs. Funding covers the six month planning and writing period (including costs for consultants/staff to facilitate the process, provide disaster expertise, and write the plan).
Agency:	Public Counsel, Los Angeles
Grant:	\$40,000 for the salary of an attorney to coordinate post-quake disaster assistance to nonprofits, including training and intervention around FEMA, SBA, and other reimbursement programs. (Project duration will be 12-18 months.)
Agency:	Southern California Association for Philanthropy
Grant:	\$5,000 toward costs of the strategic assessment commissioned following the January 17, 1994, Northridge earthquake.
Agency:	Valley Economic Development Center, Van Nuys
Grant:	\$35,000 for six-month salaries of a loan packaging position and an administrative assistant position to assist small businesses in the Reseda area damaged or destroyed by the earthquake.
Subtotal - Special Projects (14 grants)	\$338,600
Total - Earthquake Response Grants (100 grants)	<u>\$1,290,800</u>

1994 Earthquake Response Funding

D. Earthquake Loans

Agency:	Community Corporation of Santa Monica
Loan:	\$50,000 to begin structural repairs to numerous low-income housing units damaged during the earthquake.
Agency:	Los Angeles Free Clinic, Los Angeles
Loan:	\$50,000 to begin structural repairs to two of its social service facilities, in Hollywood and West Hollywood.
Agency:	Lula Washington Dance Ensemble, Los Angeles
Loan:	\$40,000 to repair or relocate the dance studio, and help with disrupted cash flow caused by cancellation of performances.
Agency:	Northeast Valley Community Health Corporation, San Fernando
Loan:	\$35,000 to begin structural repairs and replace equipment/supplies damaged or destroyed in the earthquake.
Agency:	Plaza de la Raza Community Cultural Center, Los Angeles
Loan:	\$40,000 to begin structural repairs to the Boathouse Gallery.
Agency:	San Fernando Valley Association for the Retarded, Sepulveda
Loan:	\$38,000 to begin structural repairs to sheltered workshop facilities.
Agency:	San Fernando Valley Child Guidance Clinic, Northridge
Loan:	\$40,000 to begin repairs at the facility.
Agency:	San Fernando Valley Girl Scout Council, Chatsworth
Loan:	\$30,000 to help cover the deductible from their earthquake insurance, and to assist with revenue shortfall caused by loss of income from cookie sales.
Agency:	Senior Health and Peer Counseling, Santa Monica
Loan:	\$35,000 to begin structural repairs to this social services center.
Agency:	T.H.E. Clinic for Women, Los Angeles
Loan:	\$50,000 to begin structural repairs to the clinic building.
Agency:	YWCA of Santa Monica
Loan:	\$40,000 to begin structural repairs to the Amaranth Home.
Total - Earthquake Response Loans (11 loans) \$448,000	

Summary

1994 Earthquake Response Funding

Grants for Repairs, Equipment Replacement, & Relocation (43 grants) . . .	\$ 372,115
Grants for Services Affected by the Earthquake (44 grants)	\$ 580,085
Grants for Special Projects (14 grants)	<u>\$ 338,600</u>
Total - Earthquake Response Grants (101 grants)	\$ 1,290,800
Earthquake Response Loans (11 loans)	<u>\$ 448,000</u>
Grand Total - Earthquake Response Grants & Loans	<u>\$ 1,738,800</u>

Mr. FLANAGAN. Certainly—and for your edification and all the members of the panel, future panels and past panels, your written testimony will be included in its entirety, so it isn't necessary to read it. A summary of it will do very nicely—not that you were reading it, Ms. Jones, but a summary will get us through because we have all read it. We have been there. Mr. Suggs.

Mr. SUGGS. Mr. Chairman and members of the committee, I am John Suggs, the director of public policy and government affairs for the United Way of Greater Los Angeles.

As you have already heard from the previous testimony of my colleagues that the non-profit sector has an enormous resource and availability for responding to disasters, that often the community-based organizations are the first ones on the scene and the first ones that local communities turn to because they are known and they are respected and they understand the particular needs.

At United Way, what I would like to talk about besides in dealing with our core competencies, because we raised \$1.7 million and allocated that within the first few weeks of the earthquake, we also co-sponsored with the Interfaith Hunger Coalition a publication on how to get food, disaster assistance and money, and had that distributed to the DACs, the Red Cross shelters, churches, hospitals, the schools, et cetera.

What I would like to talk to you about briefly in my time with you today is greater detail about a long-term project that United Way in conjunction with the Los Angeles Emergency Food and Shelter Program local board developed in response to the Northridge earthquake.

It is not well-known that non-profits, certain non-profits, are eligible for Federal reimbursement. However, they are, and that is under the Federal Code of Regulations. It stipulates that private non-profits which provide qualified food, shelter, and/or similar immediate disaster relief as well as those agencies with building and equipment damages qualify for public assistance reimbursements if the services are open to the general public and are of an essential governmental nature.

The regulations include under this such agencies as homeless shelters, community centers, senior citizen centers, rehab agencies, food pantries, et cetera, among those agencies that are qualified under this.

What we attempted to do was, recognizing that the “mom and pop” agencies out there that were providing these services that were legally eligible for Federal reimbursements, knowing that they would have enormous difficulties if they applied on their own and worked through the maze of the relief recovery bureaucracy, we attempted to bundle their claims and to be able to provide our organization as a liaison for the community.

There were more than 90 organizations that were ultimately bundled into the United Way claim for a total of approximately \$30 million. What we found there was that this is an excellent exercise that bears replication throughout the country as disasters are prone to hit anywhere throughout the United States.

Because the service being that the non-profit sectors with the funders having in pre-existing relationships with them and with the community-based organizations being very familiar with the

funders' organizations and coming down to our offices rather than going into a Federal office and a State office, that we were able to serve as a vital liaison to the entire process.

In fact, at our high point we were basically a Federal disaster office with a dozen State and Federal inspectors working out of the United Way building. I cannot stress enough the value of this type of organization and response. However, the two problems that we have seen that bear noting is the delay in getting the reimbursements—there are still a very large number of non-profit agencies still awaiting receipt of their reimbursements—and this has caused tremendous hardships for them—and also in the organization of this, that as has been stated earlier today on several occasions is we recognize that there is a need to have a pre-existing Memorandum of Understanding because what we found is that based on word of mouth and written correspondence back and forth that as we went forward with this effort to bundle disaster claims that a lot had to be worked out over the course of the process.

This is a successful process that I think everyone can point to with pride, both FEMA, the Governor's Office of Emergency Services, and the non-profit sector.

I would strongly urge you to consider having FEMA and the State agencies throughout the country to look at ways in which MOUs can be established prior to disasters so that these facilitations can continue. Thank you.

[The prepared statement of Mr. Suggs follows:]

STATEMENT FOR THE RECORD



United Way

Submitted to
Committee On Government Reform and Oversight
Subcommittee on Government Management, Information and Technology

by

John F. Suggs, Director, Public Policy & Government Affairs
United Way of Greater Los Angeles

January 19, 1996

Mr. Chairman and Members of the Committee, I am John Suggs, the Director of Public Policy & Government Affairs for United Way of Greater Los Angeles. Thank you for inviting me here today to speak on behalf of United Way of Greater Los Angeles' (United Way) and the nonprofit community's recovery efforts following the January 1994 earthquake.

To respond to the devastating earthquake, United Way worked closely with our network of over 250 member nonprofit agencies and partners, thousands of corporate supporters and other United Ways across the nation. Both short- and long-term projects were put in place by United Way to provide relief to the agencies and residents of the affected communities.

Relief projects implemented by United Way included the establishment of an Earthquake Relief Fund which raised and distributed more than \$1.7 million to 71 nonprofit agencies which had earthquake-related damage and those which provided relief services. This included more than \$450,000 distributed to the American Red Cross and \$40,000 to the Salvation Army's relief programs. In addition United Way linked volunteers in relief programs with community services agencies in need of assistance and sponsored the Interfaith Hunger Coalition's publication and distribution of 200,000 English and Spanish guides "How to Get Food, Disaster Assistance and Money" to Disaster Assistance Centers (DACs), Red Cross Shelters, churches, service providers, hospitals, legal advocates, and schools. The guide provided essential information to quake victims on how to obtain food, income, housing, health care and legal services.

Today, however, in light of this committee's charge, I would like to discuss in greater detail United Way's experience after the 1994 earthquake with filing an umbrella Disaster Claim with the Federal Emergency Management Agency (FEMA) and the Governor's Office of Emergency Services (OES) on behalf of more than 90 nonprofit community organizations.

It is not well known that certain nonprofit organizations qualify for public assistance reimbursement of disaster related services. However, 44 CFR 206.221 stipulates that private nonprofit organizations which provided qualified food, shelter and/or similar immediate disaster relief as well as those agencies with building and equipment damage qualify for public assistance reimbursement if the services provided are open to the general public and are of an essential nature otherwise provided by the government. Homeless shelters, community centers, senior citizen centers, rehabilitation agencies and food pantries are among those services that qualify.

United Way of Greater Los Angeles • 523 West Sixth Street • Los Angeles, CA 90014 • 213/630-2100

United Way Testimony
January 19, 1996
Page Two

As a result of that regulation, United Way, in conjunction with the Los Angeles Emergency Food and Shelter Program Local Board (EFSP), immediately moved to assist the nonprofit sector severely impacted by the 1994 earthquake by facilitating the filing of their disaster reimbursement claims. The more than 90 organization claims that were ultimately bundled into the United Way claim totals approximately \$30 million.

The ability of nonprofit organizations to obtain federal reimbursement in order to provide governmental related essential services during a disaster is vital to the community's ability to recover from such a catastrophic event. Nonprofit agencies have a unique role during a disaster for, with their direct link and knowledge of the community they serve, they are, in many instances, the first ones on the scene and the best situated in providing food and shelter to those in need. At the same time, however, these nonprofit agencies are undergoing their own difficulties with organizational and structure damage as a result of the disaster.

I, therefore, can not stress enough the value of providing disaster reimbursement to nonprofits so that they can effectively serve the community in the time of a disaster. However, I would like to share my thoughts and recommendations for increasing the effectiveness of the program.

Recommendations

- Two years after the earthquake, a number of nonprofit agencies are still awaiting receipt of their reimbursement. This delay has caused tremendous hardships among the agencies. Recognizing the unique role the nonprofit community has to play in the community, I recommend in future disasters that these claims be processed in a more timely manner.
- Throughout the filing and determination process, United Way consistently encountered difficulties in coordinating the claims through both state and federal agencies. Continual effort to strengthen and improve the coordination between these agencies is greatly needed. One specific action that could be taken to improve such efforts is to develop a standard memorandum of understanding between the state, the federal government and designated nonprofit representatives before a disaster occurs.

Thank you, Mr. Chairman, for this opportunity to testify before your committee. I will be happy to answer any questions you have. We look forward to working with you to enhance future disaster response.

Mr. HORN [presiding]. Who's next? Anybody? We thank each of you. We are going to now proceed with the questioning. I had read the testimony in advance. I found it immensely helpful and I appreciate all of you coming here to share those ideas with us.

I will first yield 5 minutes to Mr. Flanagan, the gentleman from Illinois.

Mr. FLANAGAN. Thank you, Mr. Chairman. Happy to see you back.

Ms. Jones, does your organization receive any of the Federal moneys involved in disaster relief at all, in any way, shape, or form?

Ms. JONES. No, not at all.

Mr. FLANAGAN. That's terrific. I want to commend you on the laundry list of fabulous services you have provided, but being from Chicago I would be remiss if I didn't ask you about one of them.

Ms. JONES. Certainly.

Mr. FLANAGAN. On page 4, third one down, who are the "tree people of Beverly Hills"—I just want to know.

Ms. JONES. Tree People is an organization that provides environmental—

Mr. FLANAGAN. Sounds like a bad "B-movie," like from the 1950's.

Ms. JONES. Well, it sort of does, but they are a very much valued organization. They provide environmental education in urban settings around the city for both children and adults. They are responsible for assisting in the sort of greening—particularly of low income neighborhoods and the preservation of natural resources in some of our urban park lands.

Mr. FLANAGAN. Tremendous. Well, I will not ask a question but offer gratuitously that the work that you do collectively in helping out in any disaster is indispensable.

It is the model upon which we should work for future disaster relief efforts, as opposed to relying upon you as an augmentation.

The public-private partnership that must develop is developing. The first line of defense in the public portion should be at the local level, but with heavy emphasis on the private portion.

The infinite capacity of Americans to give in time of emergency and filter through your various agencies and hands quite often should be put in a position of more than being just helpful. It should be relied upon. We should put you more in a position of authority in these matters rather than in an augmentation pose.

I commend you all. I thank you all and I thank you for your testimony today. I yield back, Mr. Chairman.

Mr. HORN. Mr. Jones, Mr. Haigwood, perhaps you could help me with the overhead cost problem.

I am sure you have covered some of this. That seems to be a bone of contention with the university and with others in relation to FEMA is the degree to which overhead would be covered in some of these areas.

What has been the experience of the Red Cross in other disasters across the country as to the amount of overhead, administrative costs that were covered?

Mr. JONES. As far as I can speak primarily to what it cost us, our overhead cost normally runs between 14 and I have seen it go as high as 40 percent. It will depend on the nature of the disaster.

For example, if you had—we just recently responded to floods in Alabama that covered 57 counties. It took a lot of people to get out and do damage assessment and deliver services, versus where you had a large cluster, so you can't say that—I don't think that from one disaster you can set any specific figure.

I am not familiar with the discussions that went on this morning between FEMA and the State, but I think your recommendations that you have a standard procedure in place is the way to deal with that and then don't have to deal with the variations prior to the event occurring, but we do vary in it and I have seen it go as high as 14, I have seen it go as far as 50 percent.

Mr. HORN. My experience in other incarnations—I was once a dean of research and graduate studies for a year and then president of the university for 18 years. What you run into in a university, Federal Government overhead is the whole range, from zero to the Department of Education historically at about 8 percent—take it or leave it—and then of course to the National Science Foundation's set rate, which would be anywhere from 40 percent for a public university to almost 100 percent for some private universities.

Cynically I could feel that the private universities were gouging the Federal Government, but if you are private university president you don't feel that way, and the fact is people have a choice of whether they take the overhead or not when they apply for these grants, so maybe that isn't a fair analogy, but you and I both know that overhead covers a whole multitude of items.

Mr. JONES. Absolutely.

Mr. HORN. Some inclusive, some not—

Mr. JONES. Yes.

Mr. HORN. In the case of a university, you take a percent of the executive office, the library, you name it, toss it in the bin, and see if it will stand an audit, so I am just curious what you feel the standard ought to be, or is that just flexible based on the resources you used in the disaster?

Mr. JONES. Yes, I think so, and we even take it one step further and get into a dialog on what is administrative and what is support cost. The cost of my salary when I go to disasters is an administrative cost. If I was out there driving a vehicle, it would be support costs, so it really gets a little cloudy when you start doing it.

The reason that we are able to return so high a percent of our donated dollars back to the victims is no salaries follow all of those volunteers, and our costs would increase significantly if we did not have the kind of donated—you know, the commitment from those volunteers.

Mr. HAIGWOOD. But the overhead or administrative costs do vary depending on the type of disaster. A highly concentrated disaster is much more efficient for us to respond to, where we have a smaller number spread over a much larger geographic area, it drives up the cost, so we do have a great deal of flexibility and from our perspective if flexibility was there, it would be beneficial to us, but

that is also difficult I think and leaves a lot to interpretation on the part of the administration of the program.

Mr. HORN. Yes, certainly if you had to move staff from central Los Angeles to some of the outlying places and pay hotel rooms and transportation costs and all that, that obviously increases the overhead just as, say, coming out from Washington to help supervise and add other resources does the same thing.

Mr. JONES. I even probably contribute to overhead because of the need in the States that some of you mentioned this morning, some of the States have very few disasters, but in order to maintain a capability, I have to give them on the job experience, and so I may move someone from the State of Alaska here or from Hawaii here to get operational training and that gets very expensive. An airline ticket from Hawaii to here is much more expensive than bringing someone from Arizona.

Mr. HORN. Do either Ms. Jones or Mr. Suggs have comments on this issue of overhead? Is that at all involved with your particular operations?

Ms. JONES. The most I heard about overhead expenses in the context of disaster response issues was from at least one non-profit that approached us with some concerns, and I think the issue I really want to report is a certain amount of confusion about what kinds of activities were to be considered as direct disaster relief expenses and what kinds of things were to be considered as administrative overhead because they were concerned about the limitation.

In fact, they were a subcontractor for the county and they were confused about what they could charge off and what they couldn't charge off and be reimbursed for under the disaster relief issues.

I think again that is an issue of education, rather than a problem with the system per se. You know, I didn't hear—I didn't hear a widespread difficulty, although John may have.

Mr. SUGGS. No, I would say that basically the whole issue around labor costs and so forth, that there was a great deal of confusion around that for the agencies providing the services, but other than that I did not hear any major issues.

Mr. HORN. Yes, we certainly had that problem with some governmental units where they would reimburse for governmental staff, but not for contracts made by Government doing the same thing, so there could be. We need to look at that very carefully and clarify it so that comparable actions regardless of entity are comparably reimbursed.

Ms. Jones, I notice in your testimony, page 3, you said non-profits "had a hard time understanding when they were eligible for public assistance or even reimbursement for the provision of emergency services. We made several grants to legal services and other advocacy organizations to prepare materials and provide direct assistance to non-profits lost in a maze or that grant was lost in the maze of Government procedures," and the question is obviously your testimony spelled out the problems in understanding when non-profits were eligible for public assistance and can the Federal Government create some sort of a notification process, and would that be helpful to you?

Ms. JONES. I think it would be very helpful.

Again, the more notification that can take place in advance of an emergency, the better.

I mean that is a recurring theme. You are now hearing it from the non-profit perspective. You heard it this morning from Mr. Witt's perspective and from various Government agencies' perspective.

Something that I said off the cuff while you were out of the room, Mr. Chairman, was that to some degree I think that the problems that we are reporting and the issues that could stand some fine tuning are a result of FEMA's and generally speaking Government's recognition of, increased recognition of the role of non-profits in providing disaster relief.

We didn't have the luxury of complaining about whether or not non-profits were eligible for reimbursement in 1992. Generally they weren't.

In 1994 when the regulations had changed significantly, as John reported, then the question got to be of interpretation of new regulations with which people were unfamiliar, and that again is one of the reasons I think that a strategic grant to public counsel to develop materials to acquaint non-profits with the new regulations was a particularly useful thing.

Mr. HORN. I wonder, Mr. Suggs—or did you want to add to that? Go ahead.

Mr. SUGGS. One of the things is with each of these disasters we have gotten better at our jobs. No question about it.

A point of history is in the social unrest in 1992, the United Way and the local board of the Emergency Food and Shelter Program did file umbrella claims for impacted agencies and that totaled approximately \$1 million.

It was based on that first experience that when the earthquake hit that there were still enough people around that within the 2-year period both in the Government sector as well as in the non-profit sector that we were able to come together to be able to launch a similar response to do that.

We were all amazed when the claim that we filed came up to over \$30 million. None of us expected it to go that high.

But one of the nice things about working in collaboration has been that the California Community Foundation makes available, and you heard in her testimony from Ms. Jones, bridge loans, and so how we have been able to work together is when the non-profit agencies have been obligated finally at that stage of the process, we have been able to serve as a reference to the California Community Foundation for agencies that were desperate for the funding, and the California Community Foundation provided bridge loans for a handful of those agencies.

Mr. HORN. That is very helpful.

I was going to ask you, Mr. Suggs, because Congressman Dixon made some comments in this area and I have talked with a number of people both privately and in this hearing about mitigation, education, and so forth, of the potential impact on a particular population given certain types of disasters.

Could you expand on any of the educational programs that United Way has that will educate the public as to what the United Way

can do to assist disaster victims? Has that been given some thought?

Mr. SUGGS. Yes, it has, and in fact it is not only the United Way, but the larger body that this disaster has really brought out the best in all of us and has really developed strong collaborative efforts.

The case in point is the Los Angeles VOAD, which was pretty much moribund in the years preceding the earthquake. Now it boasts a membership of over 700 CBOs and it has been renamed the Emergency Network Los Angeles. Out of that as the main entity and which has been recognized by the county of Los Angeles and by the city of Los Angeles, and which has county and city, State and Federal representation on the board, that there's been a great deal of organizing around CBOs.

One of the major issues that ENLA has tackled and as a member of ENLA's board, I can tell you that that is the issue of hazard mitigation. A lot—a great deal of non-profit organizations, the “mom and pop” variations, are in church basements, are in poorly structured buildings, and one of the things that ENLA is attempting to do is to receive mitigation funding so that they can go in and mitigate for the CBOs because the CBOs are not going to be good to anyone if their building has collapsed and if they are not functional and up in operation.

United Way also collaborated with the Interfaith Hunger Coalition and others to publish a “how to get food, disaster assistance, and cash” guide and that also included—this is a historical precedent because it was the first time that the food stamp applications were allowed to be published outside of the regular norm of the Government bureaucracy and so there were over 200,000 of these guides distributed within 6 days of the earthquake, through all the DACs and so forth.

This was very helpful to individuals who were going to the DACs for assistance plus organizations—

Mr. HORN. Going to the what?

Mr. SUGGS. DACs, the Disaster Assistance Centers.

Mr. HORN. Yes, I just wanted you to spell it out. It's like the inside-the-Beltway crowd in Washington. There is the inside-the-non-profit sector crowd.

Mr. SUGGS. Exactly.

Mr. HORN. I just wanted to get it so we laymen can understand it.

Mr. SUGGS. And not only did we make sure that those got to the Disaster Assistance Centers and the churches and the hospitals and so forth, but we also made that available to human resource officers throughout the corporate structure, because a lot of corporations were finding that their workplace was being disrupted because their employees were impacted by the earthquake, and so their personnel departments were able to give them the necessary information, so that got widespread dispersal.

Mr. HORN. Did you file that pamphlet as part of your testimony?

Mr. SUGGS. No, I didn't but I would be happy to make that available.

Mr. HORN. Good. If you would, we'll insert it in the record at this point without objection.

Having been a former—one of the five regional chairs for United Way Los Angeles, I know the terrific job you do and I know the terrific job the Red Cross does and I also know the terrific job that California Community Foundation does—since my wife has served on that board, so I congratulate all of you for what you have done in this particular situation.

I think any suggestions that come to your mind as you drive home today or fly back to Washington, as the case may be, please feel free to write us. We will insert them in the record—keep the record open for about several days, weeks, whatever—because we are interested in ideas and we are interested in your experiences in how we improve this process, because very frankly, regardless of where that disaster occurs it cannot be mediated without the help of fine non-profit, good will organizations such as yourself that have lived through these, worked through these, experienced these, and we need to share those experiences in advance of disasters, and that is what our last panel was going to talk about is mitigation, education, and so forth.

We would certainly welcome your thinking as you listen to some of the things that panel particularly says.

I now yield to Mr. Davis.

Mr. DAVIS. Thank you. I am not going to ask any questions. I want to get to our next panel.

I think you have been very inclusive with what you said.

Let me just make one comment. Without all of you, the Government would not have been successful in working through this disaster and many, many others. We are kind of a means to an end, but the bottom line is having groups like the United Way and the Red Cross and Community Foundations out there.

You get much more bang for the dollar working through all of you. It's just been proved time and time again and I think in this particular instance it helps stretch those Federal dollars farther and you were really the margin of excellence in this, in making that bridge between what was going to be a tough time and making it a lot better for a lot of people, so I thank all of you and thank you for your testimony. Hopefully, Government can learn from some of the experiences that you have had.

Mr. HORN. Well, thank you so much for coming and sharing a busy Friday afternoon.

This is about the time the freeways are becoming packed, so drive safely.

OK, we now have our final panel, Blenda Wilson, who we heard earlier, president of California State University, Northridge; her colleague, Dr. Robert Maxson, president of California State University, Long Beach; and Dr. Richard Williams, dean of engineering at the College of Engineering, California State University, Long Beach.

Welcome.

[Witnesses sworn.]

Mr. HORN. All three have affirmed and we will proceed with Dr. Wilson, the very able president of California State University, Northridge, who knows what an earthquake can do to an institution.

Ms. WILSON. Indeed.

Mr. HORN. Welcome.

STATEMENTS OF BLEND A J. WILSON, PRESIDENT, CALIFORNIA STATE UNIVERSITY, NORTHRIDGE; ROBERT MAXSON, PRESIDENT, CALIFORNIA STATE UNIVERSITY, LONG BEACH; AND J. RICHARD WILLIAMS, DEAN OF ENGINEERING, CALIFORNIA STATE UNIVERSITY, LONG BEACH

Ms. WILSON. Thank you, Congressman Horn.

Since January 1994, members of the Cal State Northridge community have had many opportunities to reflect on our experience and share what we have learned with other organizations and certainly with the University. This is one of the most welcome opportunities to do that, because we have experienced a full cycle of recovery, from emergency response to, what I called this morning, almost normalized operations. I believe we can contribute some useful insights into the emergency response from an institutional applicant's perspective.

I would start at the outset, however, by stating that FEMA and OES, without question, made it possible for almost 24,000 students to continue their education following the January 17th earthquake. Because of the expertise and availability and talent of the FEMA staff, over 6,000 students graduated in June 1994 from Cal State Northridge. And all of my remarks are with the spirit of gratitude and partnership, which characterized our working together to make that possible.

We believe the initial FEMA/OES response to Cal State Northridge was exemplary. Within hours of the earthquake FEMA Director, James Witt, and OES director, Richard Andrews, were in contact with the chancellor of the CSU system and officials of the CSUN campus.

Everyone has spoken about the technical aspects of disaster recovery. I would want to have you note that the encouragement and assurances and advocacy of experienced disaster personnel were also relevant, in that they gave us the confidence that we could overcome what appeared to be, at that time, an overwhelming challenge.

There are only two areas that I would mention as possibilities for revision in FEMA regulations. I think they might facilitate full recovery for institutions like ours from these kinds of disasters. Both have been mentioned before, so I will not belabor the point except to mention them.

The two areas are human resource deployment and the damage survey report or the DSR process. With regard to human resource deployment, we have gone through what I would call three phases in our relationships with FEMA.

Early in the disaster, Cal State Northridge was fortunate to receive the assistance of experienced FEMA and OES personnel. They sent a Federal coordinating officer, a public assistance officer, a deputy public assistance officer and various staff members from the Region IX office in San Francisco. These individuals were well informed on Federal regulations, policies and procedures. They were knowledgeable about construction and engineering. They understood the academic enterprise, which is, again, a unique talent within these disaster relief agencies and they had many years of

experience in preparing DSRs and related funding policies. They became intimately knowledgeable about the nature of the damage and the technical and managerial capacity of the university and they had the kind of onsite authority to make decisions.

Chief among those was an early decision to provide the university with advance funding, without which we would have been unable to open this university.

As a result of a Federal policy regarding per diem eligibility, however, this pattern of effective collaboration and decisionmaking was interrupted when Region IX FEMA representatives were required to return to their homes, because they no longer qualified for travel status and per diem after 1 year at the Northridge site. I understand that the per diem and travel for FEMA staff beyond this time would be categorized as taxable income to the employees.

What occurred then is that these experienced employees, knowledgeable about this disaster, were replaced with either contract employees or temporary help and that ensued a period of difficulty for us in our recovery, a slow down in the processing of DSRs and some confusion.

Many of these individuals, as you would understand, had no prior experience or knowledge about the basic regulations under which FEMA operates. And they did not in all cases, honor decisions that had been made by their predecessors. We experienced a period of delay, where DSRs were in review or suspended pending further documentation. Disparate interpretations of standards and codes occurred and that is the kind of testimony you heard from other organizations today.

Our recommendation is—and I should say that period fortunately has ended since the arrival of Federal coordinating agent Leland Wilson, the issue of continuity in the office of the Federal Emergency Management organization has been superbly and effectively addressed. So we are now in a period where we are working, I believe, most effectively.

To think about this issue from a policy perspective, for your subcommittee, we would recommend that FEMA review its hiring and staffing policies to ensure continuity, efficient processing of required documents, and smooth collaboration for disasters of this magnitude. At least one member of the emergency response team should continue at a disaster site throughout the several phases of recovery. That person should be an experienced FEMA officer who is empowered to make decisions and provide effective orientations for new employees or even for temporary borrowed employees.

The second area, again, briefly, and it has been mentioned, is the DSR process itself. In the emergency phase of disaster response FEMA agreed to write DSRs based on cost estimates provided by campus consulting engineers. In actual experience these estimates were consistently lower than actual costs, so there is no evidence that FEMA was subject to overfunding repair costs. Later, however, these consultant reports were criticized as being too gross in their estimates.

The documentation required to support each DSR has become increasingly onerous and exacting and, from our point of view, sometimes appears to go beyond the scope of established DSR requirements.

As Director Witt testified this morning, one of the areas which would benefit greatly from a review of FEMA policy is the DSR process itself and the degree of bureaucratization and, not the necessity of documentation, but the degree to which documentation can be questioned from one FEMA official to another.

Similarly the decision to provide advanced funding for the campus, as I indicated, was absolutely critical. There can be no doubt in your minds that the California State University system and the Northridge campus in particular did not have a working capital reserve to be able to advance moneys for repair and other reconstruction needs.

While we understand that FEMA is established as a reimbursement program, we noted Director Witt's comment about the viability of an advance as well as a reimbursement program. We think FEMA might consider an explicit advance program, particularly for public agencies and local governments as was requested by Director Andrews. This approach could result in eliminating a lot of time delays and confusion. And, in our experience, would result absolutely in cost savings to the Federal Government because processing and oversight could be streamlined.

The applicant would also realize cost savings because the reconstruction program could be completed much faster. In that regard, we are eager to receive the balance of the funding needed to complete our repairs and to restore the kind of academic environment that our students and faculty deserve.

Mr. HORN. Excuse me, at this point what is the balance of funding? Is there an estimate on that?

Ms. WILSON. Yes, the balance that we have requested of FEMA is approximately \$139 million.

Mr. HORN. \$139 million?

Ms. WILSON. Correct. Our request, which Congressman McKeon referred to earlier, is supported by full documentation, which is indeed the work of an extraordinary effort of Leland Wilson and his staff with our staff. This would complete the repair of what we call the major buildings, the central part of the campus, and enable us to be completely restored to full operations by December 1997.

Relative to the benefit of this final close-out grant—which I would say we have been pleased today that both Director Witt and Leland Wilson are considering the request and considering it in a, what I hope and what I have experienced, very sensitive and positive way.

The benefit to both the applicant and to the Federal Government would be that doing that now would save an additional \$60 million. The longer we are paying costs for temporary facilities, the more costly the total outcome of the repair. Our original estimate was that Northridge damage would be \$350 million. We are now clear that if we were to receive a final close-out grant now, we could complete our repairs for \$301 million.

I would like to leave the subcommittee with two videos which capture the accomplishments which were made possible by this partnership between FEMA, OES and the CSU. The first is a short 8-minute account of the early days immediately following the earthquake. The second is a lengthier 46-minute depiction of the quake's long-term effects at Cal State Northridge and the kinds of

decisions we had to make. It was done to help other universities or other organizations, for that matter, prepare for similar disasters. Produced by Sue Ellen Hirschfeld, who is a professor of geological sciences at Cal State Hayward, with a grant of \$100,000 from FEMA and OES, so it would be used as a training film by those agencies as well.

The second film is entitled Academic Aftershocks and includes a variety of technical information, as well as campus-wide and disaster response roles. I request that these video tapes be placed in the record.

Mr. HORN. Without objection they will be placed in the files of the committee and those parts that we can excerpt, in terms of either charts, tables, some pertinent comments, not only will the staff review them, but I will take them and see them this weekend.

So I thank you. I know you have a very excellent media service here and I thank you for submitting those, because they are going to graphically show us what all the reading will not really tell us. So we appreciate it.

Ms. WILSON. You would be interested in knowing that, several days ago, the video Academic Aftershocks was shown, through compressed video technology, to 17 campuses, simultaneously, in the CSU, even for those of us at Northridge who knew what it was like, it did trigger a memory that we had forgotten.

Mr. HORN. Sure.

Ms. WILSON. I hope these videos and my comments will be of some benefit to you in supporting the extraordinary men and women of FEMA whose personal sacrifice enabled us to repair buildings and to repair lives after this disaster.

Thank you very much for giving me the opportunity to address you.

[The prepared statement of Ms. Wilson follows:]

Field Hearing conducted by the
Subcommittee on Government Management, Information and Technology
Chair: Rep. Stephen Horn

January 19, 1996

"The CSUN Experience"

TESTIMONY of Blenda J. Wilson
President, California State University, Northridge

Since January of 1994 members of the Cal State Northridge community have had many opportunities to reflect on our experience and to share what we learned about disaster planning and response with other Universities throughout the country. We have done so as generously and helpfully as we could recognizing that most institutions of higher learning are as unprepared as we were for a disaster of this magnitude.

The testimony you will be receiving today will address your interest in improving the federal response to disasters; we commend you for taking this initiative to learn from the experience of the Northridge earthquake. I should state at the outset, however, that FEMA and OES made it possible for almost 24,000 students to continue their education. Because of the expertise and encouragement of your staff over 6,000 students graduated in June of 1994.

Cal State Northridge and the CSU system are very appreciative of the assistance given to us by FEMA and OES; we have made great progress since 1994, which in large measure, is attributable to their advocacy and funding. However, because we have experienced a full cycle of recovery, from emergency response to "normalized" operations. I believe we can contribute some useful insights to the emergency response from an institutional applicant's perspective. Our suggestions for improvement are offered in gratitude and with the spirit of partnership which has characterized our working together.

We believe the initial FEMA/OES response to the University was exemplary. The most important aspect of their effectiveness was establishing immediate

communication and on-site visibility. Within hours of the earthquake, FEMA Director James Lee Witt and OES Director Richard Andrews were in contact with Chancellor Barry Munitz and campus officials. Regional field officers visited the campus soon thereafter, evaluating the damage and offering total and unwavering advice and assistance. Throughout the early weeks and months, these officials and their deputies met with University officers on the campus regularly. They were available to us by telephone to discuss major problems and to resolve them quickly. Most importantly, their encouragement and assurances of support gave us confidence that we could overcome what appeared to be an overwhelming challenge.

I should like to focus my remarks today on two specific areas where revisions in FEMA regulations might facilitate full recovery from catastrophic disasters. In each area I will be focusing on the difference between what we perceived to be extremely effective operations in the earliest stages of disaster recovery which were later replaced by procedures that impeded efficient recovery. The two areas are human resource deployment and the Damage Survey Report (or DSR) process.

Human Resource Deployment

Early in the disaster, Cal State Northridge was fortunate to receive the assistance of experienced FEMA and OES personnel. FEMA sent the Federal Coordinating Officer, a Public Assistance Officer, a Deputy Public Assistance Officer, and various staff members from its Region IX office in San Francisco. Similar roles were represented by the state's Office of Emergency Services from its regional and executive offices in Sacramento.

These experienced officials and staff were well-informed on federal regulations, policies, and procedures. They were empowered to make decisions on issues surrounding the recovery. They were knowledgeable about construction and engineering, understood the academic enterprise, and had many years of experience in preparing DSRs and related funding matters. Thus, long delays and uncertainties were eliminated, and our ability to respond literally to thousands of

after-shocks and to make crucial academic scheduling decisions was facilitated.

The deployment of experienced people, who became intimately knowledgeable about the nature of the damage and about the technical and managerial capacity of the University was a second strength of the inter-agency process. During this time a critical decision was made to provide the University with advance funding¹ without which we would have been totally unable to reopen the University. **On-site decision-making is critical for effective and swift response.**

As a result of the federal policy regarding per diem eligibility, however, this pattern of effective collaboration and decision-making was interrupted when Region IX FEMA representatives were required to return to their home offices because they no longer qualified for travel status and per diem after one year at the Northridge site. As I understand it, per diem and travel reimbursements for FEMA staff beyond this time frame are categorized as taxable income.

In mid- and late-1994, experienced FEMA and OES employees were replaced with either contract employees or temporary help.² Many of these individuals had no prior experience in or knowledge about the basic regulations under which FEMA operates [*Code of Federal Regulations*], and they did not, in all cases, honor decisions made by their predecessors.

The Federal Coordinating Officer was replaced by other regional officers, sometimes as often as twice per month, when the national office took over the administration of the recovery effort. DSRs, on which we depended for funding, were delayed "in review" or "suspended pending further documentation." Disparate interpretations of codes and standards in the repair process emerged, resulting in confusion and some conflict among the agencies. The organizational hierarchy appeared to us to become

¹ Cal State Northridge received \$24.7 million; CSU systemwide received \$10.0 million.

²FEMA contracted with Construction management firms for staff. OES used temporary help.

4.

more rigid, more vertical, and less able to make timely decisions. In some circumstances, the hierarchical structure led to counter-productive discussions surrounding some of the earlier decisions that had already been made.³

Early in the disaster, knowledgeable FEMA and OES officials were involved in the decisions we made about proposed repairs and structural calculations, and determined them to be reasonable and eligible for FEMA funding. Later, however, replacement officials raised questions about the efficacy of those decisions and their eligibility for funding. All of these frustrating experiences, many occurring at critical stages in our recovery, appear to be related to the many changes in personnel at the Disaster Field Office.

I would like to say, however, that since the arrival of Federal Coordinating Officer, Mr. Leland Wilson, the issue of continuity in the office of the Federal Emergency Management Agency has been superbly and effectively addressed. The comments that I have made regarding transitory directors are still germane within the scope of disaster management, but our personal situation is vastly improved.

To address the problem for future emergency situations, we would recommend that FEMA review its hiring and staffing practices to ensure continuity, efficient processing of required documents and smooth collaboration for disasters of this magnitude. It would be desirable for at least one member of the emergency response team to continue at a disaster site throughout the several phases of recovery. This individual should be an experienced FEMA officer who is empowered to make decisions and provide effective orientation for newer employees so that a consistency in interpretations and decisions is maintained.

³ For example, the early decision by FEMA/OES that 5% of construction cost was eligible for campus project management and another 5% for campus project-related costs. This decision was challenged in October 1994 and required a report from the State Controller's Office in March 1995 to resolve the issue. In the meantime, all DSRs in process were on hold.

DSR PROCESS

In the "emergency" phase of disaster response FEMA agreed to write DSRs based on cost estimates prepared by the campus' consulting engineers. In actual experience these "estimates" were consistently lower than actual costs, so there is no evidence that FEMA was subject to over-funding repair costs using this methodology. The consultants' reports were praised, the time required to produce a DSR was significantly reduced, and thus the time required to process payments was shortened as well.

Later, however, these consultants' reports were criticized as containing "gross cost estimates," and rejected as not being specific enough to be acceptable to FEMA reviewers as the basis for preparing the DSRs. The documentation requested to support each DSR has become increasingly onerous, exacting, and, at times, appears to us to go beyond the scope of established DSR requirements.⁴

We have been engaged in a prorated discussion this past year regarding the early decision to provide advance funding for repairs to the campus. There can be no doubt that the California State University system, and the Northridge campus in particular, did not have working capital reserve funds to advance for repairs and other reconstruction needs--especially in light of our total need of over \$300 million. While we understand that FEMA is established primarily as a reimbursement program, we also know that the *Code of Federal Regulations* allows for both an **advance** and a reimbursement program.⁵

 4 For example, at one time we were asked to identify the total number of linear feet of different types of cable used for our communications system, along with identifying each relay and other small parts used in each building to support the DSR for communications restoration.

5 44 *CFR*, para. 13.21, "Payment: (c) Advances. Grantees and subgrantees shall be paid in advance, provided they maintain or demonstrate the willingness and ability to maintain procedures to minimize the time elapsing between the transfer of funds and their disbursement by the grantee or subgrantee. (d) Reimbursement. Reimbursement shall be the preferred method when the requirements in paragraph (c) of this section are not met...."

We believe that FEMA should consider developing an explicit advance program for repairing facilities owned by public agencies. We believe this approach would eliminate time delays and confusion. It would also result in cost savings to the federal government because processing and oversight could be streamlined and administration would be simplified. The applicant would also realize cost savings because the reconstruction program could be completed faster, and many of the ongoing costs, such as facility rental, construction management, and inflation of construction costs, would be avoided.

While I hope nothing like the Northridge earthquake ever occurs again, we too have learned a great deal from this experience.

Ms. Lorraine Newlon, Director of Admissions and Records, observed three months later that the earthquake

"...led us to take more risks. We've realized we can have an organization without walls and that we don't always need pieces of paper. As a result, we're taking a fresh look at our procedures and jettisoning some steps.

"If you can plan a registration while standing in a field with a cellular phone and a hard hat, it gives you the confidence to make smaller changes."

During the past two years, we've continued to make changes--in the academic program, the delivery of counseling, financial aid, and other student services, in our disaster preparedness plans, in our communications both internally and externally, and in our administrative operations. We have learned, as I've said in previous testimony about the earthquake, that the true gift of education is the ability to think our way through a circumstance we have never experienced before. We're a stronger community, a better university, and our facilities, once repaired, will be state of the

art. We are, of course, eager to receive the balance of the funding needed to complete the repairs to our major buildings and to restore the kind of academic environment that our students and faculty deserve.

In closing, I'd like to leave with the subcommittee two videos which capture the accomplishments which were made possible by the partnership between FEMA, OES and the CSU. The first is a short 8-minute account of the early days immediately following the earthquake, when we were definitely in an "Urgency" mode. The second is a lengthier, 46-minute depiction of the quake's long-term effects at CSUN and is intended to help other Cal State campuses prepare for similar disasters. It was produced by Sue Ellen Hirschfeld, Professor of Geological Sciences at Cal State Hayward, with a grant of \$100,000 from FEMA and OES. Entitled "Academic Aftershocks," the video includes important steps for all campuses to take in developing or updating emergency plans, training all employees in their disaster response roles, holding regular campus-wide exercises, and reducing potential structural and nonstructural hazards.

I hope these videos and my comments will be of some benefit to you in supporting the extraordinary men and women of FEMA whose personal sacrifice enabled us to repair buildings and lives after this extraordinary disaster. Thank you very much for giving me the opportunity to address you this afternoon.

Mr. HORN. Well, we are delighted to have your first-hand opportunity. We know you are an outstanding president and I think you have demonstrated that twice today.

So we now turn to another outstanding president, Robert Maxson, the president of California State University at Long Beach.

The next two gentlemen will give us a perspective that I think every key official has mentioned should occur and that is mitigation and education and what do we do to get a broader constituency educated, regardless of the type of disaster.

So, Dr. Maxson, it is all yours.

Mr. MAXSON. Thank you, Mr. Chairman.

I, too, want to thank you for this opportunity to be here and want to commend you and your colleagues for holding this hearing. Of course, everyone in Long Beach knows you quite well and, as I went about my campus yesterday and this morning and told people where I was going to be, almost to a man and a woman, they said, please give Steve my best regards and thanks for all he has done for us. Though you have, certainly, an outstanding and spectacular record of service to the Long Beach area, I do commend you for holding these hearings on this campus.

Dr. Wilson and I had lunch today, and I was telling her something that she already knew and many people have said: There has not been a president in American history that has ever been through what this president has been through nor a campus that has been through what this campus has been through. Of course, it is through her strong and steady hand that the young men and young women have received and continue to receive the quality of education that they have been accustomed to here.

So I think you picked the absolute right spot to hold this hearing, because it dramatizes what these hearings are about; and also I think it is one of the great American success stories that happens to be on this campus.

You are here, I know, because you are interested in doing what you can for the men and women who were directly impacted by the Northridge earthquake, but I also know that you are here to try to learn a lesson from this and to learn what we can from this so we might do something to mitigate the devastation of natural disasters, and that is what we are interested in. I will be very brief because you do have our written testimony.

As you know, we have an interest in developing centers that will protect us against the devastation of natural disasters. And we all know the only and the real purpose of any mitigation is to protect people. It is the lives and the property and welfare of people that we are concerned about. We are very interested, Mr. Chairman, in collaborating with some of the major universities around the country in developing these centers and then, some way, through using technology—and not just technology to be developed, but also technology that exists today—using these technologies to some way mitigate against the devastation that takes place in occurring with natural disasters.

This is not a research project that we are talking about, this is an action project. It is my understanding that there have been bills introduced in both the House and the Senate that carry funding for

such centers as this. We are very interested at Cal State, Long Beach, in being a part of this process.

We believe that this is something that, through relatively small expenditures compared to what we spend taking care of the devastation of natural disasters, that we can prevent some of this devastation.

So this is the testimony that we want to give to you and your committee; and we want to talk to the part about where we go, what did we learn from this and what can we do. I was interested in hearing the people that preceded us from the volunteer organizations, talking about where they have to house themselves and saying that we desperately need to protect the volunteers. And this is exactly what we are talking about with these centers. It is to use the technology that we have and use the education that we have to try to mitigate against the devastation of these natural disasters.

[The prepared statement of Mr. Maxson follows:]

TESTIMONY BEFORE THE GOVERNMENT REFORM AND OVERSIGHT COMMITTEE

Robert Maxson, President - California State University, Long Beach

Natural disasters and the devastation they unleash are becoming a more frequent and more costly threat to our country. Coupled with this is a growing crisis of insurance in disaster-prone areas such as Southern California. With increasing frequency, the United States is being subjected to natural disasters ranging from severe winter storms and hurricanes in the East to volcanoes and earthquakes in the West. We cannot control the natural events that produce these disasters, but we can protect people from them by aggressively applying appropriate technologies that are now available to reduce damage to people and property.

Protecting people and reducing damage from natural disasters must be principal goals of any national natural disaster mitigation program. In such a program, preventative measures to reduce damage caused by natural disasters, such as the earthquake that struck here in Northridge, are essential because they help reduce the number of victims, property loss, environmental damage, disruption of the economy and insurance rates. In addition, damage prevention and reduction should be viewed as the means to decrease demands for disaster response resources. They reduce the principal causes of injury and death; they enable a quicker lifesaving response and economic recovery because the community infrastructure remains intact, and they reduce the societal impacts of natural disasters because they result in less disruption of the social environment. In essence, damage prevention and protection of the public are foundations of sustainable community development.

Regardless of their cost or frequency, the fact is that catastrophic natural disasters are inevitable. According to the United States Geological Survey, 39 states are prone to damaging earthquakes and related seismic disasters. There is a 67% chance for a catastrophic earthquake in the San Francisco Bay Area and a 60% chance in Southern California during the next 25 years. Also, the odds of a destructive earthquake striking central or eastern portions of the United States are at least 40% within the same period.

Other types of natural disasters are also striking this country with increasing frequency. Hurricanes, in particular, are recognized as nature's most destructive phenomena. More hurricanes of at least the magnitude of Andrew and Hugo will strike vulnerable United States coastlines in the near future. At least 18 Gulf and East Coast states are hurricane-prone. Sixty-seven million Americans live in coastal counties where hurricanes are most destructive. In addition, flooding is another natural peril which regularly inflicts substantial damages, as underscored by the Great Floods of 1993 in the upper Mississippi and Missouri River valleys. Other natural disasters include volcanic eruptions, tornadoes, cyclones, wildfires, land and mud slides, sink holes and severe winter storms.

Beyond the tragic human destruction, the economic losses from catastrophic natural disasters are devastating. The United States, prior to 1989, had never experienced more than \$1 billion in insured losses from a single natural disaster. Since then, there have been several natural disasters--including the Northridge earthquake--that have exceeded \$1 billion. Over the past seven years, the taxpayers' bill for disaster relief just in the form of special supplemental appropriations bills exceeded \$34 billion. The appropriations supplemental to aid victims of the Midwest floods totaled \$5.7 billion. The total federal aid package, including subsidized loans for Hurricanes Andrew and Iniki was over \$8 billion, and the relief funds appropriated for the 1989 "World Series/Loma Prieta" earthquake topped \$3 billion. In 1994 Congress passed an \$8.6 billion emergency appropriations aid package for the victims of the Northridge earthquake. The losses to state and local governments and to individuals and corporations were many

times greater than the amounts cited. There is a growing lack of insurance in disaster-prone areas--and when insurance is available, the rates are often prohibitive.

As a result of the Northridge earthquake, many of California's largest property insurers are restricting their writing of new policies in the state for both residential and commercial clients. The lack of homeowner's insurance is having an impact on home sales that is further dampening California's slow economic recovery. California adopted a state earthquake insurance fund following the 1989 Loma Prieta earthquake, but the California program didn't have the resources needed to capitalize its fund. Similar efforts following the Northridge earthquake have also been unsuccessful. The insurance availability crisis is not limited just to consumers in California, Florida and Hawaii. Property owners from Cape Code to New Orleans report that coverage is harder to find and increasingly more expensive. A major cause of the insurance availability crisis is the lack of availability of catastrophic reinsurance for property and casualty insurers. Due to the increasing frequency of major natural disasters, reinsurance availability has declined dramatically over the past seven years.

Many cost-effective technologies exist that can substantially reduce the damage caused by natural disasters and, therefore, hold down insurance rates. However, many of these technologies have not been deployed significantly for a variety of reasons including adverse codes and regulations and a lack of potential beneficiary and end-user knowledge. The Centers for Protection Against Natural Disasters (CPAND), a not-for-profit corporation, has been formed by a group of universities and a large private non-profit technology transfer firm with extensive experience in the application of the relevant technologies. CPAND is dedicated to ensuring the rapid and widespread deployment of established and new technologies that will significantly reduce the damage caused by natural disasters and will, therefore, greatly reduce costs incurred by the federal government, states, local communities, private sector insurance companies and uninsured individuals as a result of a natural disaster. CPAND will focus on established and new technology deployment, not on research. CPAND will use modern telecommunications technologies and management techniques to function effectively as a virtual, agile organization with service centers strategically located throughout the United States.

We must act now to reduce the damaging consequences of earthquakes, hurricanes, floods, fires and other natural disasters in order to protect the citizens of the United States, their homes and businesses, and the nation's infrastructure and industrial facilities. A great deal of technology exists that can dramatically reduce both the loss of life and damage to property caused by major natural disasters, and the cost of deploying these technologies would be a tiny fraction of the savings achieved through the reduction of death, injury and property damage resulting from a major natural disaster. However, the deployment and implementation of many of these available technologies have been delayed for a variety of reasons, including the following:

- Lack of comprehensive understanding of the cost drivers for damage losses
- Lack of widespread knowledge of available natural disaster damage prevention/reduction technologies
- Lack of information on the cost-effectiveness of damage prevention/reduction technologies
- Lack of strategies to effectively and efficiently deploy damage prevention/reduction technologies

- Ill-conceived regulations that prevent or discourage the use of damage prevention/reduction technologies
- Lack of incentives for implementing damage prevention/ reduction technologies

The overall objective of CPAND is to achieve a large reduction in the damage caused by major natural disasters by implementing cost-effective technologies that will lead to damage reduction. Life-cycle cost-effectiveness analyses will be performed, and suitable cost-effective technologies will be identified and disseminated. We will literally be spending "pennies to save dollars." CPAND will provide leadership and technical support for implementation of these technologies on a local, state and national level. CPAND will be under the direction of FEMA and will work closely with governmental agencies and insurance carriers to develop and implement policies that will provide the necessary incentives and technical support to businesses, industries, contractors and homeowners to implement proven, cost-effective damage prevention/reduction technologies. CPAND will also work closely with existing private sector organizations and federal, state and local government agencies to overcome barriers to the deployment of damage prevention/reduction technologies, and will ensure the rapid deployment of cost-effective technologies to reduce the damage caused by natural disasters. CPAND will thereby help to save lives and substantially reduce the cost of natural disasters to federal, state and local governments, to insurance companies and to the affected individuals.

CPAND will operate outreach centers that will support the rapid deployment of both established and new damage prevention/reduction technologies. Each of these Centers will focus on the rapid deployment of both established and new technologies throughout their respective regions, but with particular emphasis on those geographic regions most susceptible to natural disasters. Through modern telecommunications and networking, CPAND will function as a single organization.

The mission and objective of CPAND will be attained by a combination of the following approaches:

- Prioritize the demand-driven needs for process and technology change
- Identification of currently available technologies that can be deployed for damage reduction
- Identification of technological gaps or needs for natural disaster protection technologies
- Based on past natural disaster damage patterns, identification of critical areas where technology deployment for damage reduction is most badly needed
- Dissemination of information on natural disaster protection technologies through seminars, publications, the media and by modern telecommunications technologies
- Promotion of hazard reduction technologies through coalitions among, and liaison with, manufacturing, insurance, government and educational organizations
- Identification and assessment of practices of other countries that would be beneficial for application in the United States

- Assisting local, state and federal agencies in developing relevant policies for reducing natural disaster damage and in responding to the requirements of federal and state legislation
- Demonstration, verification and promotion of reciprocity for rapid transition of appropriate processes and technologies
- Development and implementation of strategies for motivating the public to adapt natural disaster hazard reduction practices
- Interaction with code-enactment bodies to influence the extent to which technological products are specified within codes, including training programs.
- Establishing a technology clearinghouse from which potential users can obtain information
- Assuring that reconstruction following a natural disaster utilizes cost-effective, appropriate technologies to protect people and property as well as the government and insurance companies against future losses
- Assuring that effective action is taken to maintain critical communications links following a major natural disaster
- Developing international liaisons to effect the transfer of technologies developed abroad to the United States

Owners and managers of public and private facilities must be provided the incentives to retrofit existing structures with damage reduction technologies as well as to incorporate these technologies into new or reconstructed facilities. There are a number of ways to provide incentives and remove disincentives, including tax deductions, lower insurance premiums, reduced overall life-cycle costs and building code modifications. CPAND will explore and assist with the implementation of a system of incentives that will vastly increase the utilization of natural disaster damage reduction technologies.

First of all, creating and operating CPAND would save many lives and greatly reduce injuries in a major natural disaster. In addition, CPAND would save a substantial part of the future cost of natural disasters to the federal government and insurance companies, conservatively estimated to be in the range of \$5 billion to \$10 billion a year. For this purpose CPAND will evaluate the life-cycle cost-effectiveness of the application of appropriate technologies to determine which of them will provide the greatest benefit for the largest number of people at the least cost. The cost-effectiveness of the establishment and continued operation of CPAND will be measured by well-documented real and projected natural damage reductions directly attributable to CPAND activities.

A plan to protect the people of this country against major natural disasters must be established before the "Big One" hits. The time for action is now! There is a great deal of work to be done. The Natural Disaster Protection Partnership Act was introduced last year in the House and a companion bill introduced in the Senate. Both bills include funding for CPAND. This legislation should be strengthened to assure aggressive and effective deployment of damage prevention technologies. The Centers for Protection Against Natural Disasters stand ready to assist.

Mr. HORN. Thank you, Dr. Maxson.

Dean Williams, would you like to add to that?

Mr. WILLIAMS. Thank you, Mr. Chairman.

I was pleased to participate a few days ago in the Academic Aftershocks—

Mr. HORN. Put the mic a little closer.

Mr. WILLIAMS. I was pleased to participate a few days ago in the Academic Aftershocks teleconference. Those of us who viewed the 46-minute video and participated in that teleconference are certainly aware of the tremendous damage caused by the Northridge earthquake. It certainly refreshed our memory of what happened 2 years ago. We can imagine the damage that would result from a major earthquake a magnitude larger. An earthquake of this magnitude is certain to strike California.

In order to prepare for such an eventuality, FEMA and the Office of Emergency Services have embarked upon a program to increase the earthquake resistance of schools, hospitals, public service buildings and other critical facilities.

As these projects are undertaken, it is imperative that we learn how effective these projects really are in protecting the public against the destruction caused by future earthquakes.

As an example, the city of Long Beach proposes to upgrade its public safety building to seismically strengthen the structure in order to protect personnel, prisoners and the public from risk of injury, loss of life, and damage to property, and also reduce the risk of incapacitating the city's public safety infrastructure as a result of a major earthquake. City engineers have developed plans for seismic bracing to make this building seismically safe and for other modifications required to ensure safety to occupants and facilities, during and following a major seismic event.

Since there are many buildings of this type around the United States, the city has proposed that the building be instrumented and analyses performed to determine the effectiveness of the seismic hardening and provide information to facilitate future seismic retrofits of this type.

We believe that projects to protect buildings against earthquakes should demonstrate the use of modern technologies and ensure that the modifications are done in the most cost effective manner and that the benefits of the modifications are carefully measured and analyzed. The projects should result in cost savings, by ensuring that the modifications are cost effective, and provide opportunities for interaction with code enactment bodies to influence the extent to which applications of appropriate damage prevention technologies are specified within codes and that these codes are enforced.

The Long Beach Public Safety Building houses the police and fire departments of the city. A team of architects and engineers concluded that the building is in extremely delicate condition, that is a quote, and would be in danger of structural failure in a major earthquake. That would leave the city without fire or police protection. Seismic hardening is needed to ensure that the city is not without police and fire protection following a major earthquake.

This building, which is an example of many similar buildings around the country, will also play a pivotal role during the period

after a strong seismic event. It must, therefore, remain intact and be completely functional, since it will be used as the emergency management center after a major earthquake.

In view of the pivotal importance of the Public Safety Building to the city of Long Beach, the city proposes to carry out the necessary modifications to ensure that police and fire protection are not disrupted in the event of an earthquake, but an integral part of this project is establishing a monitoring capability to ensure the adequacy of these modifications. This includes comprehensive instrumentation installed and operated for continuous monitoring and assessment, state-of-the-art sensors embedded in the building at critical locations, as well as surface mounted instruments will be used to measure the structural performance characteristics, dynamic response and other characteristics.

The proposed program involves computer modelling and simulation, life cycle cost/benefit analysis, placement of sensors prior to retrofit, structural bracing of the building, instrumentation of the building following retrofit, and data collection and analysis for a period of 3 years to determine the effectiveness of the modifications.

This project and others of this type demonstrate the effectiveness of employing existing technologies to reduce earthquake damage to critical facilities. Based on our experience here in Northridge, it is imperative that we learn how to prevent this kind of damage from reoccurring in the future.

Thank you, Mr. Chairman.

[The prepared statement of Mr. Williams follows:]

Testimony Before the Government Reform and Oversight Committee

J. Richard Williams, Ph.D., P.E.
 Dean of the College of Engineering
 California State University, Long Beach
 Long Beach, CA 90840

The damage from the Northridge earthquake, as great as it was, was minuscule compared to the damage that would result from a major earthquake a magnitude larger. An earthquake of this magnitude is certain to strike California. In order to prepare for such an eventuality, the Federal Emergency Management Agency (FEMA) has embarked upon a program to increase the earthquake resistance of schools, hospitals, public service buildings, and other critical facilities. As these projects are undertaken, it is imperative that we learn how effective these projects really are in protecting the public against the destruction caused by future earthquakes.

For example, the City of Long Beach has submitted a proposal to the California Office of Emergency Services for funding from FEMA through the State of California Hazard Mitigation Grant Program. The funding source is the \$600 million which Congress provided the State of California after the Northridge earthquake to support this program. The City of Long Beach proposes to upgrade its Public Safety Building to seismically strengthen the structure in order to protect personnel,

persons, and the public from risk of injury, loss of life, and damage to property, and also reduce the risk of incapacitating the City's public safety infrastructure, as a result of a major earthquake. Structural bracing in the building is minimal, and the building falls well below current seismic code standards. City engineers have developed plans for seismic bracing to make the building seismically safe, and for other modifications required to ensure safety to occupants and facilities during and following a major seismic event. Since there are many buildings of this type around the United States, it is proposed that the building be instrumented and analyses performed to determine the effectiveness of the seismic hardening and provide information to facilitate future seismic retrofits of this type.

The proposed project to protect this building against earthquakes represents a major opportunity to demonstrate the use of modern, existing technologies to ensure that the modifications are done in the most cost-effective manner and the benefits of the modifications are carefully measured and analyzed. The project as proposed will result in considerable cost-savings by ensuring that the retrofit is cost-effective, by greatly extending the life of the building, by providing a database for making similar future retrofit projects more cost-effective, and by mitigating damage to the Public Safety

building before it occurs -- and more importantly, by ensuring continued fire and police protection for Long Beach following a major earthquake. This project will also provide an opportunity for interaction with code-enactment bodies to influence the extent to which applications of appropriate

damage prevention technologies are specified within codes.

The City of Long Beach is a major seaport, transportation, communications center for the United States and a major center for commerce in the Los Angeles area. The Long Beach Public Safety Building, dedicated in 1958, houses the police and fire departments of the City of Long Beach. A team of architects and engineers from the offices of HOK/LA (architects), KPFF (structural engineers), and Syska and Hennessy (mechanical/electrical engineers), assessed the Public Safety Building and concluded that the building is in "extremely delicate condition" and would be in danger of structural failure in a major earthquake. This would leave the City of Long Beach without fire or police protection. The City is not able to demolish and replace the building at this time. Seismic hardening is needed now to ensure that the City is not without police and fire protection following a major earthquake.

In addition to structural hardening, other modifications that are needed to bring the building up to code and make it seismically safe include bracing of ceiling elements, asbestos abatement, and bracing of equipment. Areas of suspended acoustic tile ceiling have been collapsing within the facility. Also, there is virtually no bracing of ceiling elements, such as ductwork, piping and lighting fixtures. Failure of ceiling elements due to an earthquake could result in a shutdown of operations. There is little bracing of building mechanical or electrical equipment, and electrical switchgear and mechanical components, such as chillers and roof cooling towers, are unanchored. The facility includes unbraced records storage units and equipment in the area of the crime lab on the first floor, and evidence storage racks on the fifth floor. Seismic bracing for these elements is needed. Likewise, the wiring is old and subject to shorting in an earthquake, possibly setting the building on fire. In order to effect the structural reinforcing and install the instrumentation and replace wiring, the asbestos in the building must be abated.

This building will play a pivotal role during the period after a strong seismic event. It must therefore remain intact and be completely functional, since it will be used as the emergency management center after a major earthquake. In view of the pivotal importance of the Public Safety Building to the City of Long Beach, the City proposes to carry out the necessary modifications to the building to ensure that police and fire protection for the City are not disrupted in the event of a major earthquake. An integral part of this project is establishing a monitoring capability to ensure the adequacy of these modifications. This will include a comprehensive

instrumentation network installed and operated for continuous monitoring and condition assessment. State-of-the-art sensors, imbedded in the building at critical locations, as well as surface-mounted instruments, will be used to measure the structural performance characteristics such as strain in critical columns (using conventional and fiber-optic strain gages), dynamic response at critical locations (using strong motion accelerometers), structural deflections across the seismic gaps (using LVDTUs), and ground settlement (using sensitive tiltmeters). Sensitive seismic instruments will also be used for monitoring the ground shaking at different locations in the vicinity of the Public Safety Building.

The proposed program involves (1) computer modeling and simulation of the dynamic response of the building, and experimental modeling using a scale model of the building, to determine optimum retrofit strategies and sensor placement, (2) a life-cycle cost-benefit analysis of the project, (3) placement of sensors in carefully selected locations prior to structural retrofit to determine a baseline, (4) structural bracing of the building and other modifications as required to protect the building, occupants, and critical equipment in an earthquake, (5) thorough instrumentation of the building following retrofit, and (6) data collection and analysis for a period of three years following retrofit to determine the effectiveness of the modifications to the building. This project will demonstrate the effectiveness of deploying existing technologies to reduce earthquake damage to critical facilities.

The cost of this project has been determined to be at least 50% lower than the cost of demolishing the building and constructing a new building with equivalent seismic hardening.

This project would be carried out by the City of Long Beach in partnership with the Centers for Protection Against Natural Disasters (CPAND). CPAND is a not-for-profit corporation formed by the California State University, Long Beach, several other major universities, and a large private non-profit technology transfer firm with extensive experience in the application of the relevant technologies. CPAND is dedicated to ensuring the rapid and widespread deployment of established and new technologies that will significantly reduce the damage caused by natural disasters and therefore greatly reduce mitigation costs incurred by the federal government, states, local communities, private sector insurance companies, and uninsured or inadequately insured individuals and small businesses.

Representatives of CPAND have had several discussions with executives at FEMA in regard to the urgency of widespread deployment of established and new technologies that will significantly reduce the damage caused by natural disasters. FEMA has indicated that this is a necessary, but presently inadequate, component of its mitigation program. Executives at FEMA have indicated that the seismic upgrading of the Long Beach Public Safety Building would be an excellent

opportunity for CPAND to demonstrate the ability to achieve a large reduction in the damage caused by earthquakes utilizing existing, cost-effective technologies. This is the type of pilot project that FEMA is presently interested in pursuing.

This pilot project will demonstrate that impediments to deployment of existing natural disaster protection technologies can be overcome. It will also demonstrate that a large reduction in the damage caused by a major earthquake can be achieved by implementing cost-effective technologies that will lead to damage reduction. Suitable cost-effective technologies will be identified and utilized for this pilot project. The project will help to fulfill the urgent need to reduce the damaging consequences of natural disasters in order to protect the citizens of the United States, their homes and businesses, and the nation's infrastructure and industrial facilities. A great deal of technology exists that can dramatically reduce both the loss of life and damage to property caused by major natural disasters. However, the deployment and implementation of this available technology has been delayed for a variety of reasons, including the following:

- Lack of widespread knowledge of available natural disaster damage prevention/reduction technologies
- Lack of information on the cost-effectiveness of damage prevention/reduction technologies
- Lack of strategies to effectively and efficiently deploy damage prevention/reduction technologies
- Inappropriate regulations that prevent or discourage the use of damage prevention/reduction technologies.
- Lack of incentives for implementing damage prevention/reduction technologies

The proposed project to protect this building against earthquakes represents a major opportunity for earthquake hazard mitigation in California, as well as an opportunity to demonstrate the use of modern, existing technologies to ensure that the modifications are done in the most cost-effective manner and the benefits of the modifications are carefully measured and analyzed.

CPAND has been included for funding in the Natural Disaster Protection Partnership Act of 1995 as introduced in the House and in the Natural Disaster Protection and Insurance Act of 1995 as introduced in the Senate. These bills have more than 250 co-sponsors in Congress and are expected to pass this year.

I respectfully request that the Government Reform and Oversight Committee urge the California Office of Emergency Services to select this project and recommend that the Federal Emergency Management Agency fully fund it as a demonstration project.

Mr. HORN. Thank you, Dean Williams.

Dean, as I recall, you are fairly knowledgeable in the use of early warning systems and advances when it comes to this type of disaster. Would you share with the committee some of the advances that are occurring in this area?

Mr. WILLIAMS. Yes, there is an early warning system in Mexico City, which is kind of traditional. Basically, an earthquake starts at one location and spreads outward at the speed of sound. So you can have a network installed, so whenever an earthquake starts alarms immediately go off everywhere and people know an earthquake is coming.

Technology exists today to develop and install a cost effective early warning system using modern telecommunications technology that would literally allow you to install inexpensive alarms in homes and buildings and, with the system in place, when an earthquake starts at some location, you would then have—your alarm would go off and a countdown would be heard. You might say, beep—15, beep—14.

You would know an earthquake is coming and you would know when it is going to hit and how much time you have got. You would have half a minute or a minute, depending on how far away you are from the epicenter, but this would provide time for people to duck and cover and protect themselves and their children, to grab the child, get under the table and be prepared before the earthquake hits.

This could greatly reduce, and there have been assessments, you could dramatically reduce death and injury from earthquakes with an early warning system of this type. Twenty years ago this couldn't be done in the manner I have described, but it can be done today.

Mr. HORN. Some have argued, when they have tried various civil defense measures and warnings, that it might just create panic and everybody gets in their car and clogs the highways and you have chaos. What do you think about that reaction?

Mr. WILLIAMS. An early warning system without training and education, of course, could be counterproductive. People have to know, they have to plan, they have to practice. They have to know what to do and they have to understand that with an early warning system for an earthquake there will be no time to get in the car and go anywhere. An earthquake comes rather quickly, at the speed of sound, and they do need to duck and cover and they will have time to do that, but there won't be time to clog the highways.

Mr. HORN. If you had these natural disaster centers in operation, what are the priorities you see in terms of the use of those centers to reach the potential disaster constituency, if you will, and educate them and help them with mitigation? How would you go about it? What do you see on that front?

Mr. WILLIAMS. Well, the Centers for Protection Against Natural Disasters, which is proposed as a partnership between the universities and a major non-profit technology transfer firm that has a lot of expertise in the relevant technologies would focus on working with FEMA and with all State and local entities in deploying; not developing new technologies, but in deploying the technologies that

need to be put into place. We see many examples of cost effective technologies that have been developed and are not being used.

In conversations with executives at FEMA and others who are knowledgeable, it has been pointed out again and again that this is not currently being done as effectively as it needs to be done. There is a great deal of new technology that is being developed in some very good research facilities, but there is no organization really devoted purely to deployment. It has been pointed out that it is not a good idea to have a research organization also focus on the deployment, because of the tendency to naturally try to deploy the things that you have developed, but to have an organization that does not do research, but that interfaces and—that interfaces with the community, State, local and Federal officials and focuses on doing whatever needs to be done in the way of education and helping to get the technologies from the research labs, from foreign countries where many have been developed, into the United States and get them used by the public.

Mr. HORN. Let me give you an example. There are, as I understand it, some cities, Long Beach is one of them as I recall, try to put in the gas company bill, how do you turn off the gas when one of these occurs? Because we all know with the San Francisco earthquake, the earthquake while it did damage was not responsible for all of the deaths and the destruction of the city of San Francisco in 1906. It was the water mains cracking the gas mains, all the rest, they couldn't put out the fires. And so you try to teach people where is that gas switch or whatever. There are also automatic shutoff switches one can have. What else along that line can you think of?

Mr. WILLIAMS. Well, you have hit on a classic example of existing technology that could be used very easily that would prevent most of the fires resulting from earthquakes and, of course, as we know, most of the damage from major earthquakes come from the fires. That is seismic shutoff valves on gas lines, and they can be installed inexpensively.

Mr. HORN. What is the cost of something like that?

Mr. WILLIAMS. One hundred to one hundred and fifty installed. The problem is that there are a number of things that inhibit that from happening, which we, of course, don't have time to go through right now. But one of the problems is that the gas company would have a problem if we used standard seismic shutoff valves if you had a small earthquake which didn't cause a lot of damage, and a lot of these valves activated. Then they have to go out and turn them back on. But if you used modern electronically actuated valves, which could be turned on and off, perhaps by the early warning system could be shut off. Then, the minute that you are confident that it is safe to turn them back on, this could be done by sending a signal from a central point. Then it becomes practical, and some of the problems associated with doing that disappear.

Mr. HORN. Well, one of your problems if you deal with each individual is, your neighbor might not buy the shutoff valve.

Mr. WILLIAMS. Right. That is one thing.

Mr. HORN. On the other hand, the gas company can always add that cost to its rate structure that it goes to the public utilities commission to cover. Wouldn't it be simpler to have the gas com-

pany deal with a major shutoff per block or something like that, where the gas would stop flowing?

Mr. WILLIAMS. That would definitely be the correct approach and, as you have pointed out, the problem with individuals buying shutoff valves is, if you get one and your neighbor doesn't—

Mr. HORN. Right, he burns, you burn.

Mr. WILLIAMS. He burns, you burn, yes. Yes, having the gas company do it would be the best way to do it. Again, they have been reluctant to do it because of having to go out. You can't shut off back at the source. You have to, as you say, shut off on each block, because there is a lot of gas in those lines. You could shut off, certainly, on each block or each group of houses.

This is one of the things CPAND would work on, how do we overcome the regulatory inhibitions or provide incentives to the gas companies to actually deploy this very simple existing technology, which is an example of many. There is structural bracing you can put on overpasses that are at risk. It is just a matter of which ones need it and how to do it, which ones are cost effective, which ones are likely to be damaged in a probable earthquake.

Therefore, you are paying pennies to save dollars. It is the ounce of prevention versus a pound of cure, when it is applicable. That is what CPAND, the Centers for Protection Against Natural Disasters, C-P-A-N-D, would focus on.

Mr. HORN. Let me ask each of the other witnesses, before I yield to Mr. Davis, do you have anything in addition to add to this dialog on how we go about early warning, educating constituencies to mitigate the damage that might be done to the particular structure, house, apartment, whatever?

Any thoughts, Dr. Wilson?

Ms. WILSON. Not profound ones, Mr. Chairman.

Mr. HORN. Those are sometimes the best ones that aren't too profound, but are common sense. So go ahead.

Ms. WILSON. There was a time when the schoolrooms, elementary and secondary schoolrooms, were the places in which children learned how to protect themselves about a whole variety of things. I am a newcomer to California, but people who have lived here have told me about the habits that were ingrained in school children and over time, for reasons I am not quite sure about, stopped. It is clear to us that so many people did not have the faintest clue of what to do and not only at home, but in our offices.

It wouldn't surprise you that I am an advocate for education being the solution to so many of our problems. A public education campaign, somewhat like the city of Los Angeles began to do around earthquake preparedness—unfortunately after the disaster—seems to me has to be a standard way of life.

If that is the case, the consumer will be requiring the gas company to think of ways to have the gas shut off or to have the kinds of products in homes and in offices that would enable people to survive for 2 or 3 days without water or without—so I think education, as with many things, is the place to start.

Mr. HORN. I think you are right. Now, when you have 70 languages spoken in the Los Angeles and the Long Beach school system, you have a good chance to at least get the youngster to understand some of these things, take it home and hopefully commu-

nicate with their parents who might not be speaking English. There is no way you are going to translate 70 languages into various pamphlets. Yet you need to reach them. The 6-year-old and the 10-year-old, if they repeat it enough, could be pretty good Ambassadors to solve some of those problems.

Mr. WILLIAMS. Absolutely.

Mr. HORN. Dr. Maxson, do you want to add anything?

Mr. MAXSON. Mr. Chairman, I think the questions you have asked are just the very questions that the centers, strategically located at universities and other places around the country, would respond to. There are a number of policy questions. When is it the obligation of the individual or when is it the obligation of the company for the greater good?

Everyone has to submit their will to the greater good for all the people. We are not just talking about earthquakes, whether we are talking about floods in the Midwest or we are talking about fires, we just know there is a lot of technology out there that is not being used.

Mr. HORN. Right.

Mr. MAXSON. You have to develop a set of incentives or maybe even disincentives to make sure these technologies—I was intrigued when the mayor, whom I really admire, of Los Angeles was talking about, as a builder, simply putting blocks in the construction and I thought, how simple that sounds. But of all the technologies out there if we can get this information and we can get this done, some of it on an individual basis, some of it on a governmental basis, some of it on a business basis. That is what these centers propose to do and, as the deans says, we view it as spending pennies to save dollars, but the most important is this is the conservation of human life.

Mr. HORN. I now yield to the former mayor of Fairfax County, which might someday be as large as Los Angeles.

Mr. DAVIS. I don't think we will ever be there, but we are 900,000 and growing.

Let me ask you, this plays on something the mayor addressed earlier today and I asked in earlier questions, but I'll ask you. You have a more dispassionate viewpoint on it. That is, do the current building codes ensure that structures withstand modern earthquakes? Are the laws on the books now adequate for new construction, do you think, or should we constantly be looking at ways to improve in light of the magnitude of quakes we are getting in?

Mr. MAXSON. I think I would probably have to defer to the dean on that. My graduate in Georgia Tech would probably be more able than I to answer that.

Mr. HORN. With a good civil engineering department.

Mr. DAVIS. I am not going to touch that. That's all right.

Mr. WILLIAMS. OK. Could you restate that?

Mr. DAVIS. The question was, to date, building codes and standards in the State of California, and local standard, are they really adequate to ensure for new construction?

Mr. WILLIAMS. You know, if you look at it, the Japanese have some of the best building codes in the world and you look at what happened in Kobe. They simply weren't being enforced and the buildings that collapsed deviated strongly. So there are two issues,

one to have right codes and, second, to make sure they are really enforced. They both need to be examined, because we know that there are shortcomings, there are shortcomings in the code, although they are stronger than they used to be, and there are shortcomings in the enforcement of the codes.

Another issue comes up in the use of new technologies. I will just pick one, base isolation of buildings. You can base isolate a building so the ground shakes and the building doesn't or doesn't shake very much. The problem is, that is not in the code and if you do that you are taking a risk, because if a builder does base isolation and anything goes wrong, the builder is liable. Whereas, if the builder sticks strictly by the code, which does not include base isolation, they are not liable.

So we need to work very hard to ensure that the appropriate technologies are included in the codes in the right way. If you do it the wrong way you have created a worse problem.

So the codes need to be updated, modernized, the codes need to require technologies, such as base isolation and many others, that are proven to be cost effective. These are things you can do that will actually reduce your insurance premiums by more, in the long-term, by more than the cost of doing it, because you have reduced the damage that is going to ultimately occur.

Mr. DAVIS. That is beyond the building code?

Mr. WILLIAMS. That needs to be upgraded, they also need to be enforced.

Mr. MAXSON. The codes are sort of interesting, too, and it seems to me, from a layman's standpoint, they fit in almost every area except earthquakes, in the sense that—well, 2 years ago when I arrived at Cal State, Long Beach, as president, we were getting ready to open an \$11 million parking deck.

That parking deck—before we opened that parking deck—as we were getting ready to open it the earthquake hit this campus. It was built to the exact same code which was the accepted code that caused the collapse here on this campus. We put a stop—now, it met the code. We were in full compliance with the codes of the State of California. We then spent another \$3 million and opened it up this fall, a year later, based on what we learned from this experience.

So, in some ways it is the nature of natural disasters, they are so unpredictable and uncontrollable, when are codes, when do we learn that they no longer work. Again, I know why it sounds like I am making a pitch, but that is why we are here, that is where I think centers like this can respond quickly to that and can make judgments on that and not go through the slow machinery of watching it happen someplace else.

My university, at no encouragement of anyone, spent \$3 million, just to make sure that parking deck was safe before we let a car in it, based on what happened to this woman and her campus. Literally weeks before we were to open.

Mr. DAVIS. You may spend that \$3 million and in our lifetimes we never realize the benefit of that.

Mr. MAXSON. Exactly.

Mr. DAVIS. Let me just ask another question I think you will want to answer. In a July 1995 report, FEMA's Inspector General

proposed eliminating the eligibility of costs for repairing or restoring the facilities of private, non-profit organizations that generate income, such as universities, as one option for reducing Federal public assistance costs. What is your response to that option?

I mean, could the repair of damage caused by the Northridge earthquake be paid for out of the university's existing funds or raised tuitions?

Ms. WILSON. No, sir. Not at all.

Mr. DAVIS. I thought you might like this question, but I put some distance between yourself and the IG report.

Ms. WILSON. I would say two things, as a State agency, State-supported university, the assumption that has been made within the CSU is that, as with the State, we are self-insured, meaning that there would be funds available in the State coffers for any kind of disaster that would befall a Cal State University campus. In these economic times, that was obviously not true. Probably, for a disaster of this magnitude, assuming the entirety of the Northridge area magnitude, it wouldn't be true in any case.

It is interesting because I have heard Federal officials worry that we have become a country that is always depending on the Federal Government for these kinds of things. But unless we have broad-based insurance-type programs, whether it is for a private university or for a public university system like Cal State, we don't have the means to move rapidly enough, because there is not funding available, just sitting there, and we don't have the means to provide funding to cover this large a cost, anywhere in the country. So, no.

Mr. DAVIS. I thought that is what you might say.

Mr. HORN. That is an example of Mile's law, where you stand depends on where you sit. You are now sitting on this side and, as a mayor, you would have said the same thing, right?

Ms. WILSON. Yes.

Thank you.

Mr. HORN. Well, we have appreciated your testimony. Are there any other points you would like to make before we go to the next event, which is public response?

Any thoughts any of you have from the testimony anybody else made this morning?

Dean Williams.

Mr. WILLIAMS. I would just say, with regard to these projects, retrofit projects, a lot of money is being spent and I am talking not replacing panels in a ceiling, but major retrofit projects. When the public taxpayers spend a lot of money, I do urge we would be willing to spend a little bit more to learn from that project, so we can do it next time. That is what my remarks were directed toward. That is, if we are going to do this, let's do it right, let's instrument it and let's learn from it so we can do it better next time.

Mr. HORN. I think that you made some excellent suggestions and I would hope, either on a stand-alone basis or as part of the proposed insurance legislation that is before the Congress and has over 200 sponsors, that something can be worked out where we don't simply think about how we pay money after the disaster, but how we minimize that disaster, whether it be fire, flood, hurricane or earthquake, in advance. So that we will be able to have remedi-

ation with less money being paid out of either the Federal, State or local governments and, more important, minimize the tragedies and the loss of life that come with these disasters. All the money in the world doesn't make up for a life.

On the other hand, some sensible program, education mitigation, which will minimize the effect on human beings of these disasters which we can't stop anyway. Earthquakes are going to be earthquakes no matter what we do. The fact that the cows in San Benito County sense them long before the U.S. Geological Survey, we quite haven't captured how the cows do that, but they do it.

So thank you very much for coming and we appreciate it.

Now we will move to our public forum, where those of you that have any suggestions and have listened to the testimony or haven't listened to the testimony, we would welcome you to come forward, use the microphone and give us your suggestions. If they are a particular point about a Federal, State or a local agency, we will ask that agency, we will ask that agency to respond at the point you comment in the record.

So does anybody want to come forward and make some comments or suggestions?

I see the distinguished associate chancellor for planning and physical development of the California State University System. This is the first time he has been at a loss for words in the 25 years that I have known him.

Mr. DAVIS. We know how to tempt him.

Mr. HORN. I think he is worried about me swearing him in and taking the oath.

But anybody else that wants to come forward?

[No response.]

Mr. HORN. Well, if not, let me thank a lot of people that have had a hand in putting this hearing together, as is our custom for the majority staff.

Well, let me first thank, again, the president of California State University, Northridge, and a lot of her staff, which I will get into, for the fine facility in which we are meeting.

Then the leader of the majority staff, J. Russell George, the staff director and general counsel; Andrew Richardson, the subcommittee clerk; from the full Committee on Government Reform and Oversight; Kevin Sabo, the general counsel; and Jeff Wilmot, professional staff member on the full committee.

For the minority staff, we thank Cheryl Phelps, professional staff member, and we thank our official reporter, Dennis Davis.

Then the thank yous on the Government Relations staff, here in Northridge, Dorena Knepper and Gail Lafrendien, and video taping, the instructional media center did a great job, and Tony Hilbrenner, we thank you.

Let's see, we have also the university student union facilities, Marty Cox, Louis Martiz, Stella Lopez. The physical plant management, with the signs and the easels. I must say even I could find the parking lot, which is more than I can say I usually am able to do. Bill Chaddam, Marty Holsman, Mike Witner, parking; Mary Cooley, Carol Lowing, security; Marlin Hines, Chief Ed Harrison and Lieutenant Mark Kausinc.

Also my staff director and district director in Lakewood who worked closely with the Northridge faculty and staff and also with our subcommittee staff, Connie Szieble.

We also had a couple of interns as I remember, helping in this, Lori was one of them and I have forgotten the other one, but we will put it in the record, Connie, since I don't have a sheet before me on that.

So, with that, we adjourn this session and thank you all for coming.

[Note.—The report entitled, "Status of the Northridge Earthquake Recovery" can be found in subcommittee files.]

[Whereupon, at 3:10 p.m., the hearing was concluded.]



EXHIBIT E



Final Action Report

A Summary of the 2009 Budget Act

Chapter 1, Third Extraordinary Session, Statutes of 2009
Chapter 1, Fourth Extraordinary Session, Statutes of 2009

Including:

- *Overview of the General Fund Condition*
- *Trailer Bill List*
- *Budget Detail by Subcommittee*
- *Compendium of Governor's Vetoes*

Senator Denise Moreno Ducheny, Chair
Senate Committee on Budget and Fiscal Review

November 10, 2009

ROBERT DUTTON
Vice Chair

California State Senate

STAFF DIRECTOR
DANIEL ALVAREZ

ALL MEMBERS OF THE SENATE

COMMITTEE
ON
BUDGET AND FISCAL REVIEW

ROOM 5019, STATE CAPITOL
SACRAMENTO, CA 95814

CONSULTANTS
BRIAN ANNIS
BRIAN BROWN
KIM CONNOR
BRYAN EHLERS
KRIS KUZMICH
JENNIFER TROIA
DIANE VAN MAREN
SEIJA VIRTANEN

COMMITTEE ASSISTANT
GLENDA HIGGINS



SENATOR
DENISE MORENO DUCHENY
CHAIR

(916) 651-4103
FAX (916) 323-8386

November 10, 2009

The Senate Budget and Fiscal Review Committee has completed its Final Action Report which is a detailed summary of the 2009-10 budget actions taken by the Budget Conference Committee along with the Governor's vetoes. This report is available on the Senate Budget and Fiscal Review website:

Please follow the links:

- 1 – www.sen.ca.gov
- 2 – Committees
- 3 – Standing
- 4 – Budget and Fiscal Review
- 5 – Information
- 6 – Final Action Report 2009

We hope you will find this information useful. Please feel free to contact the staff of the Senate Budget and Fiscal Review Committee should you have any questions.

Sincerely,

DENISE MORENO DUCHENY
Chair, Senate Budget and Fiscal Review

CONTENTS

Overview of the Budget Act

Introduction.....	Page 1
Highlights by Subject Matter	9
Trailer Bill List	22

Budget Detail by Subcommittee

Index, Departments by Subcommittee and Item Number.....	26
<i>Subcommittee No. 1: Education</i>	1-1
<i>Subcommittee No. 2: Resources, Environmental Protection, Energy and Utilities, Food and Agriculture, and Transportation</i>	2-1
<i>Subcommittee No. 3: Health and Human Services</i>	3-1
<i>Subcommittee No. 4: State Administration, Corrections and Rehabilitation, Judiciary, Public Safety and Criminal Justice, and Veterans Affairs</i>	4-1
<i>Subcommittee No. 5: Revenues, the Economy, and Labor</i>	5-1

Governor’s Vetoes and Signing Messages

INTRODUCTION

In February 2009, the Legislature passed SB 1, the 2009 Budget Act (Chapter 1, Statutes of 2009, Third Extraordinary Session). On July 24, the Legislature passed subsequent legislation making modifications to the 2009 Budget Act (AB 1, Chapter 1 of the Fourth Extraordinary Session). In enacting these measures, the Legislature met its constitutional obligation to pass a balanced budget.

Enclosed is the Senate Final Action Report. The report provides a detailed summary of the 2009 Budget Act, which reflects actions taken by the Senate Budget and Fiscal Review Committee, the Budget Conference Committee, and includes final negotiations between leadership of the Legislature and the Administration, along with gubernatorial vetoes (some of which, at the time this report was produced, were being adjudicated upon).

In total, the final 2009-10 Budget assumes \$86.1 billion in General Fund (GF) expenditures. The overall Budget (GF, special, and select bond funds) is \$119.2 billion.

The 2009-10 Budget was accomplished in two major phases, in February 2009 over \$42 billion in budget solutions were voted on. The modifications to the 2009-10 Budget included another \$24 billion in solutions to address the further deterioration of the state's fiscal situation identified in the 2009 May Revision.

The over \$60 billion in total budget solutions adopted this year addresses the largest budget gap the state has ever faced, both in dollar amount and in the percentage of General Fund revenues it represents. As a result of deteriorating state economic conditions, revenue collections were not meeting projections, and therefore required the State to address the problem. The package solves the worst fiscal crisis in California since the Great Depression.

February, 2009-10 Budget Enacted Five Months Early

In the Third Extraordinary Session, February 2009, the Legislature at the insistence of the Governor, enacted \$41 billion in solutions to what was then the estimated General Fund budget gap (subsequently, \$6 billion in solutions failed to pass in a May 2009 special election). The relative value of the package of solutions for the 18-month period ending June 30, 2010, can be summarized as follows:

- | | |
|---------------------------------------|-----------------------|
| • Tax increases and other revenues | \$12.7 billion |
| • Spending reductions and fund shifts | \$22.6 billion |
| • Borrowing | <u>\$ 5.4 billion</u> |
| | \$40.6 billion |

The overall package is also predicated on having a revised General Fund reserve of a little over \$1 billion.

February 2009, Summary of Tax Increases and Credits. The Legislative Leadership and Governor agreed to various tax increases and credits as part of the overall compromise to the budget shortfall – all these measures will be in either SB 3 / AB 3 (tax increases) or SB 15 / AB 15 (tax credits) in the Third Extraordinary Session. The table below summarizes the proposals.

Revenues (<i>dollars in millions</i>)	2008-09	2009-10	Total
<u>Sales Tax 1 cent increase</u> (no exceptions) through 2011-12.	\$1,203	\$4,533	\$5,736
<u>Increase Vehicle License Fee (VLF) to 1 percent</u> through 2012-13 (if spending cap fails, then through 2011-12).	264	1,213	1,477
<u>Increase VLF by 0.15 percent</u> for local public safety programs through 2011-12; which saves GF \$600 million (if spending cap fails then thru 2010-11).	111	508	619
<u>Reduce Dependent Credit</u> – reduced to level of personal credit for up to four years (if spending cap fails, then for two years).	--	1,440	1,440
<u>Single Sales Factor Apportionment</u> beginning 01/01/11. Change in corporate tax law; includes provisions to prevent manipulation. Revenue loss projected to be \$65 million first year, increasing to a maximum of \$700 million.	--	--	--
<u>New Film Credit</u> – Allocations begin 07/01/11. Tax credit subject to budget appropriation, capped at \$100 million revenue loss.	--	--	--
<u>Hiring and Retention Credits</u> effective 2009 and 2010 tax years. Tax credit of up to \$3,000 for new hires in small businesses (20 employees or less). Capped at \$200 million per year for two years only.	-20	-200	-220
<u>Personal Income Tax Surcharge</u> – 0.25 percent tax surcharge for four years (if spending cap fails then for two years). However, if federal funds become available under the “federal funds trigger” then the surcharge is lowered to 0.125 percent. For illustrative purposes, this table includes the full 0.25 percent increase.	--	3,658	3,658
Total	\$1,558	\$11,152	\$12,710

Summary of Borrowing. The total level of borrowing assumed in the Budget Package totals \$5.4 billion. The major components of this are (a) \$5 billion from the securitization of the State Lottery

– the securitization will have to go before the electorate at the next statewide election; and (b) various transfers and loans from special funds totaling approximately \$433 million. The Department of Finance (DOF), at that time, conservatively estimated that based on the revised Budget Package and estimates of federal funding, the State would not have to borrow for Revenue Anticipation Warrants (RAW).

Other elements of the February Budget package included:

- A spending cap contained in SCA 1 or ACA 1 of the Third Extraordinary Session – limiting spending to the rolling 10-year trend in revenues;
- A long-term stability funding mechanism for schools by recognizing \$9.3 billion in funding owed under Proposition 98 (contained within SCA 2 or ACA 2);
- A number of measures deemed economic stimulus being addressed in the Second Extraordinary Session. The bills in the Second Extraordinary Session relate to economic stimulus and mortgage relief for Californians. The bills are intended to streamline regulatory processes to advance infrastructure projects; expand the opportunities for the state to enter into public-private partnerships to develop infrastructure; make it easier to construct courthouses; and provide flexibility provisions into the state’s labor laws, while maintaining essential workers’ rights.
- Open Primary and Changes to Legislative Salaries (two Constitutional Amendments). The February Budget Package contained two constitutional amendments dealing with: (1) an amendment to the state constitution to establish primary elections in which voters may vote for any state or congressional candidate regardless of party registration, with the two candidates receiving the most votes, regardless of party affiliation, advancing to the general election; and (2) prohibition of any salary increase for the Legislature and constitutional officers in fiscal years determined to be in deficit.

In May 2009, the electorate rejected (a) over \$6 billion in budget solutions (mainly the borrowing item from the State Lottery) and (b) all constitutional amendments, with the exception of the open primary and changes to Legislative salaries, from the February 2009 package.

Further Action Required after February 2009

In February, the Legislature passed the 2009 Budget, as well as amendments to the 2008 Budget Act that comprised \$41 billion in deficit reduction solutions.

Although the 2009 Budget Act was enacted, the State’s overall economy continued to worsen and eroding revenue assumptions made when the Budget was passed, required action on the part of the Legislature to insure a positive ending balance at June 30, 2010. In addition, the State’s overall cash flow position required immediate action in order to assure investors of the State’s solvency and allow the State access to credit markets to keep the State’s monthly payment schedules in effect.

In March, Senate Budget subcommittees held over 35 public hearings on (1) various items that were not addressed as part of February’s 2009 Budget Act (also known as the “without prejudice” list), (2) numerous new items that resulted from the Federal Economic Stimulus package that was passed by Congress, and (3) the traditional budget changes (such as caseload, population, updated revenue and expenditure data) that occur on the natural.

On May 21, the Legislature began deliberations on the 2009 May Revise. The Legislature's goal was to address both the budget and cash flow issues by mid-June. The Conference Committee (this year comprised of ten Legislators – five members from each house of the Legislature) heard over ten days of public testimony – thousands of concerned citizens and their locally elected representatives presented their views and suggestions regarding the Governor's May Revise proposals.

After this period of public testimony, the Conference Committee began its process of deliberation and discussion. The challenge of the Conference Committee was to make difficult, but significant reductions in all subject areas of the budget; maximize, to every extent possible, the receipt of available federal funds; limit the expansion of unnecessary bureaucracy, while maintaining the state's infrastructure of education and health/human services for its children, senior citizens, and most needy persons.

On June 16, the Budget Conference Committee concluded a large portion of its work by adopting a balanced approach to closing the multi-billion dollar gap in the 2009 Budget since its passage in February.

Beginning June 24, the Legislature attempted, on a two-thirds vote, to pass a package of bills that represented all the final actions of the Conference Committee; however, the package did not receive the necessary votes for passage.

On June 28, in the absence of a two-thirds vote, the Legislature put forth a package of 14 majority vote measures in the Third Extraordinary Session intended to provide a level of savings and additional revenues that would assist the State from falling into a fiscal abyss. Legislative leadership discussions with the Governor began in earnest immediately following the June 30 end of the 2008-09 fiscal year, when the State Controller began issuing registered warrants in lieu of immediate cash payments for various bills owed.

Finally, on July 24, the Legislature passed a number of measures intended to amend the budget package adopted in February, while providing an additional \$24 billion in budget solutions.

July 2009 – Major Modifications to 2009 February Budget Act

On July 20, discussions on revisions to the 2009 Budget Act concluded. The premise of the final Budget Modifications was to insure an appropriate level of a health and human services safety net infrastructure, minimizing to the greatest extent possible harm to programs and services for the most vulnerable in society; provide for future repayment of education reductions; minimize the loss of any available federal funds; and provide for reforms and changes to existing programs and services in an effort to create efficiencies, reasonable savings, and limitations on fraud and abuse.

The modifications to the Budget, agreed to by Legislative Leaders and the Governor, solve for a \$23.3 billion deficit. At the May Revision, the deficit was estimated at \$19.5 billion. The LAO estimated lower revenues of \$3 billion, actual June revenues were lower than anticipated by \$500 million, and due to an inability to capture a 2008-09 RDA property tax shift, the problem grew by another \$350 million. Therefore, the total problem to solve for became \$23.3 billion. The final package includes \$24.2 billion of solutions. The final deal provided for a \$921 million General Fund (GF) reserve.

The summary of solutions are:

• Cuts	\$15.6 billion
• Revenues	\$3.9 billion
• Borrowing	\$2.1 billion
• Fund Shifts	\$1.5 billion
• <u>Deferral/Other</u>	<u>\$1.2 billion</u>
• Total	\$24.2 billion

➤ Major Features of the final budget modifications:

- Avoided suspension of Proposition 98, the funding source for both K-12 education and community colleges – and guarantees repayment in future years of \$11.2 billion in Proposition 98 “Maintenance Factor.”
- Protected the human services “safety net.” It protected CalWORKs from elimination and from extreme cut proposals. It maintained the IHSS program largely intact, except for major new fraud prevention measures. It protected Healthy Families from elimination or from a reduction in the program eligibility threshold, although there are significant cuts to the program.
- Restored \$62 million of the \$70 million parks cut to avoid massive park closures.
- Included no new tax credits.
- Included some action on “reforms,” but not all items demanded by the Governor.
- Included reductions to local government, but with some mitigation.

➤ Major July spending reductions include: \$6.1 billion in Proposition 98, K-14 education funds; \$2 billion in higher education; \$1.3 billion associated with state worker furlough days; \$1.2 billion in corrections; \$1.3 billion in Medi-Cal GF reductions; \$1.7 billion from local redevelopment agencies; \$528 million to CalWORKs; \$334 million GF in Developmental Services; \$226 million to In-Home Supportive Services; and \$124 million in the Healthy Families program.

➤ July Revenue solutions include: \$1.7 billion from increasing payroll withholding schedules by ten percent; \$610 million from accelerating Personal Income Tax and Corporation Tax revenues into 2009-10; \$1 billion from the sale of a portion of the State Compensation Insurance Fund (SCIF).

➤ July Borrowing solutions include: \$2 billion from the suspension of Proposition 1A (2004). Suspension diverts eight percent of property tax revenues of cities, counties, and special districts. The state must repay the \$2 billion (with interest) within three years.

➤ Major fund shifts include: approximately \$1 billion from transferring transportation revenues (the Highway Users Tax Account, or HUTA) from local governments to pay for debt service on transportation bonds; \$100 million from an oil drilling lease for the Tranquillon Ridge project in Santa Barbara.

[With respect to HUTA (1) this is for two years only, not permanent as the Governor proposed; (2) local entities will continue to receive their local streets and roads money under Proposition 42 (which is NOT suspended); (3) local entities also have Prop. 1B bond funds and ARRA monies; and (4) there is an exemption for very small cities that have no Prop. 1B money left and for those with unique financial hardship.] *Both the HUTA and Tranquillon Ridge legislation failed passage in the Assembly.*

- And finally, approximately \$860 million in one-time savings from deferring the June 30 state worker pay check until July 1.

Overview of Solutions Since June/July Budget Conference Committee:

- \$15.6 billion in cuts, up from \$12 billion in the Conference Version (*see Senate Budget Committee website for link to Conference Committee Highlights dated June 17*). Major changes since Conference Committee are:
 - \$660 million in additional Prop 98 reductions, following assurances that \$11.2 billion in total maintenance factor obligations are recognized in 2008-09. Originally, the Governor proposed suspending Proposition 98 and did not recognize this maintenance factor.
 - \$450 million in General Fund savings achieved by funding the Quality Education Investment Act (QEIA) program in 2009-10 with \$402 million in ongoing K-12 Proposition 98 funds -- rather than one-time funds -- directed to revenue limit funding for districts and through a \$48 million deferral of community college QEIA payments. The QEIA program resulted from a settlement between the state and education groups following suspension of Proposition 98 in 2004-05.
 - \$425 million in recognition of the Governor's order for a third furlough day.
 - \$1.7 billion in redevelopment revenues to the new Supplemental Educational Revenue Augmentation Fund in 2009-10 benefiting the State General Fund. (An additional \$350 million is shifted in 2010-11.) For 2009-10, the state orders the shift of \$1.7 billion from redevelopment agencies to schools in order to save the same amount in State General Fund support.
 - For this year only, we suspend the statute that requires redevelopment officials to set aside 20 percent of their property tax increment revenues for affordable housing.
 - A redevelopment agency can pay the shift by borrowing from its affordable housing trust fund, but it has to repay the money in five years.
 - A redevelopment agency that pays its full shift amount gets a one-year extension on its time limits.
 - If a redevelopment agency fails to shift the money, its affordable housing requirement permanently increases from 20 percent to 25 percent.

- \$200 million in additional reductions to the CalWORKs single allocation, in large part to recognize that employment services are not needed during these recessionary times. The Governor wanted to cut an additional \$200 million from this item.
 - \$24 million to reflect a ten percent reduction to certain private hospitals for disproportionate share hospital funding.
 - \$54 million reduction to the Healthy Families program, but with no changes in eligibility threshold. It is hopeful that various foundations will help mitigate the impact of this cut with contributions to this program. The Governor proposed \$46 million beyond this additional level of cuts and limiting the program to families at 200 percent of poverty.
 - \$21 million reduction by increasing the IHSS share of cost for the small percentage of recipients that have a share of cost. The Governor proposed \$180 million in additional cuts and would have cut off services to individuals with a Functional Index of Three and below.
 - \$90 million in recognition of the savings generated from implementing various IHSS fraud prevention measures.
 - \$50 million in lower inmate medical costs from establishing limits on reimbursement rates to health care providers outside of prisons.
- \$3.9 billion in revenues, down from the \$8.2 billion included in the Conference Report. The major changes are:
- Lost \$1.9 billion with no oil, tobacco, or corporate loophole tax increases.
 - Lost \$1.9 billion with no independent contractor withholding.
 - Lost \$142 million with no "Parks Pass" tax increase.
 - Lost \$84 million by eliminating tax enforcement proposals.
 - Lost \$110 million by not implementing the Governor's Emergency Response Initiative (ERI) or the fire fee.
- \$2.1 billion in borrowing, up from the \$139 million in the Conference version. This is mainly due to the suspension of Proposition 1A (\$2 billion). Unlike previous Education Revenue Augmentation Fund (ERAF) shifts, the Prop 1A suspension is a loan.
- All cities, counties, and special districts are included.
 - Amount of reduction is equal to eight percent of the total property tax revenue apportioned in 2008-09. There are no exceptions, although there are some flexibility provisions.
 - There is a hardship clause intended for cities in bankruptcy or similar distress - this would be determined by the Director of Finance and a reduction for a distressed entity would be made up with increased payments by the other entities in the same county.
 - Local entities could mutually agree to shift the reduction across entities within the county.
 - An RDA could agree to loan funds to its legislative body to fund the Prop 1A borrowing. Also, cities, counties, and special districts all have the option of selling their receivables (repayment from the state) to the special purpose entity and to receive bond funds for early repayment of the state borrowing.

- Finally, unlike in the past, the Constitution now requires repayment and there is a bonding option that could significantly mitigate the local effects of the borrowing.
- \$1.5 billion in fund shifts, down from \$1.8 billion in the Conference version. The major changes are:
 - Lost \$300 million in Driver License Fees to provide CalWORKs realignment funding backfill.
 - Lost \$75 million due to updated spillover scoring.
 - Gain of \$100 million from the Tranquillon-Ridge slant drilling proposal. *This proposal failed passage in the Assembly.*
- \$1.2 billion in other solutions. This is down slightly from the Conference version due to the updated scoring of the paycheck deferral.

Summary of Various “Reforms” Demanded by the Governor as Part of July Changes

- Repeal SB 1419 (limits on school contracting-out): Rejected Governor’s proposal.
- Electronic Court Reporting: Rejected Governor’s proposal.
- Asset Management:
 - Provided authority to enter into sale/lease back agreements for 11 state properties, and to enter into long-term leases.
 - Provided authority to sell Orange County Fair Grounds.
- Procurement Reform: Approved limited proposal, modified from Administration original broader proposal.
- Elimination/consolidations: Eliminated and consolidated various boards, including the elimination of the Integrated Waste Management Board.
- Pension and Employee Health Rollbacks: Taken off the table.
- Centralized Eligibility Determination for certain programs: Provided authority to develop a plan; no authority to move forward on project without Legislative approval of the plan.
- Restructure of Medi-Cal to Include Greater Use of Managed Care and Medical Homes: Approved.
- Hospital Fee to Increase Rates and Offset State Costs: Taken off the table, pending discussion on policy legislation.
- CalWORKs Reforms:
 - Rejected most draconian proposals to limit length of program and to provide full family sanctions.
 - Approved graduated sanction policy, but only after interventions to assist the families with the appropriate services and programs.
 - Maintained 60-month lifetime limit, but only 48 months in any 60 month period.
- IHSS Reforms:
 - Rejected proposals to limit services.
 - Approved various "fraud" proposals, such as background checks, pay slip changes, fingerprinting, and unannounced visits in certain cases.
- Mid-Year Cut Authority: Taken off the table.
- Elimination of Statutory COLAs: Approved.

EXPENDITURE HIGHLIGHTS

Below, by major subject matter area, are some of the significant changes enacted as part of the overall 2009 Budget Act.

EDUCATION

- Proposition 98 Funding – K-14 Education. The budget provides \$49.1 billion for 2008-09 and \$50.4 billion for 2009-10 in total Proposition 98 funding for K-14 education, which provides funding at the minimum guarantee level and avoids suspension of Proposition 98.
- Proposition 98 - Programmatic Reductions. The February and July budget packages include the following major K-12 programmatic reductions to the 2008-09 and 2009-10 budgets.

2008-09

- \$1.9 billion in K-12 program reductions split evenly between revenue limits and categorical programs in 2008-09. Deficit factors are established for revenue limit reductions and foregone COLA. More than 50 categorical programs are subject to proportional reductions estimated at 15 percent in 2008-09.
- \$1.6 billion in Proposition 98 savings from the reversion of unallocated categorical program payments in 2008-09.

2009-10

- \$535 million in added program reductions split evenly between revenue limits (\$268 million) and categorical programs (\$268 million) to continue cuts that began in 2008-09, but at a somewhat higher rate. Deficit factors are established for revenue limit reductions and foregone COLA. More than 50 categorical programs are subject to proportional reductions estimated at 20 percent in 2009-10.
 - \$4 billion in new revenue limit reductions in 2009-10, including commensurate categorical reductions for Basic Aid Districts. These reductions include a \$1.6 billion reduction to offset the restoration of categorical funds reverted in 2008-09. Deficit factors are established for revenue limit reductions and foregone COLA.
- Federal ARRA Funds. New, one-time, federal funds of \$6 billion authorized under the ARRA (American Recovery and Reinvestment Act), significantly offset K-12 funding reductions in 2008-09 and 2009-10. Of this amount, \$3.8 billion was added to the 2008-09 budget via Department of Finance budget revision letters late last spring. The July budget revisions authorize another \$2.2 billion of these anticipated funds in 2009-10.
 - Categorical Program/Funding Flexibility. Continues categorical funding reductions beginning in 2008-09 through 2012-13 for more than 50 categorical programs and continues categorical flexibility for more than 40 of these categorical programs. Another 11 programs are subject to reductions, but are not subject to categorical flexibility programs. [Eight major Proposition 98 programs are excluded from any categorical reductions or flexibility, including Child

Development, Child Nutrition, Economic Impact Aid, Special Education, Home-to-School Transportation, After School Education & Safety, K-3 Class Size Reduction, and the Quality Education Investment Act.]

CHILD CARE

- Restores Child Care Services for CalWORKs families and families transitioning off CalWORKs.
- Rejects the Governor's proposal to increase family fees, which would have doubled fees for low income families.
- Denies the Governor's proposal to eliminate funding for ROC/P and Adult Education CalWORKs Services.
- Eliminates the Extended Day Care (Latchkey) program, but retains funding for services from July 1 until the start of school to ensure no children are immediately displaced, and adopts language to ensure that children receive priority placement in other subsidized programs.
- Holds the Regional Market Reimbursement rates constant at the 2005 levels, reimbursing up to a maximum of the 85th percentile.
- Appropriates \$110 million in American Recovery and Reinvestment Act (ARRA) federal stimulus funds in order to both hold program levels constant and increase child care slots in the voucher program.
- Clarifies that reimbursements to child care service providers based on a daily rate may only be authorized under specified circumstances.

HIGHER EDUCATION

- Community Colleges
 - Reduces funding by approximately \$700 million for community colleges consistent with the Proposition 98 minimum funding guarantee and the funding levels proposed by the Governor in the May Revise.
 - Provides smaller reductions to priority categorical programs, and places many (but not all) categorical programs into a flexible pot. Provides community colleges with some flexibility to achieve savings.
 - Increases student fees by \$6 per unit (to \$26 per unit), consistent with pre-2007 levels.
- University of California / California State University
 - Captures \$1.44 billion in General Fund savings from the UC and CSU attributable to the 2008-09 and 2009-10 fiscal years.

Total reductions of \$266 million to each segment (total of \$532 million) in 2009-10 are equal to the Governor's May Revise proposal, but unlike the Governor's proposal, cuts are equalized between UC and CSU.

Of these total reductions – \$1.97 billion over two years – approximately \$1.7 billion will be offset by federal economic stimulus funds.

- Does not eliminate funding for academic preparation as proposed by the Governor, but rather achieves savings through unallocated reductions.
- Hasting College of the Law. Rather than eliminate all funding for Hastings, the conference committee adopted a ten percent reduction.
- Student Financial Aid
- Does not eliminate the Cal Grant Financial Aid Program. However, the Governor vetoed \$6.3 million in state operations, of which \$4.3 million is being set aside to be restored contingent upon enactment of legislation that authorizes the decentralization of the Cal Grant Program and other financial aid programs – AB 187 (Assembly Budget) is the measure attempting to implement a pilot program and appropriate \$4.3 million GF.
 - Achieves substantial savings by transferring \$32 million in excess funds in the Student Loan Operating Fund to the General Fund to offset Cal Grant costs.

HEALTH

- Healthy Families: The Legislature rejected the Governor's proposal to eliminate the program and, instead, reduced by \$124 million (GF) by establishing a waiting list for enrollment unless funds are provided by third-party philanthropic organizations, foundations, the California First Five Commission, donations, or other sources to continue enrollment of children throughout the year. *However, the Governor vetoed another \$50 million (GF) from the program which created a funding gap of about \$174 million (GF).*
- Medi-Cal: Did not adopt the Governor's proposals to eliminate Adult Day Health Care, state-only programs, clinic programs, services for legal immigrants, or recent family planning rate increases. Rather, it makes redirections to provide rates in selected areas, seeks federal repayment for certain Medi-Cal expenditures and makes other related reductions.
- Reduces by about \$2.8 billion (GF) to reflect receipt of enhanced federal funds as provided under the American Recovery & Reinvestment Act (ARRA).
 - Assumes receipt of \$1 billion in federal funds for repayment to California for expenditures made within the Medi-Cal Program which should have been funded by the federal government.
 - Adopts the Governor's unallocated reduction of \$323.3 million (GF).
 - Reduces by \$22.5 million (GF) by requiring pharmacies to bill Medi-Cal at a rate that is comparable to private third-party payers as specified in trailer bill language.

- Reduces by \$37 million (GF) by making changes in the Medi-Cal reimbursement made to pharmacies as it pertains to the estimated acquisition cost of drugs.
 - Reduces payments to hospitals by sweeping the Distressed Hospital Fund for a savings of \$23 million (GF).
 - Reduces payments to private hospitals by \$23.9 million (GF) to reflect a ten percent reduction in disproportionate share hospital funding.
 - Reduces Adult Day Health Care coverage to three days per week and related changes, for a savings of \$26.8 million (GF).
 - Increases fees paid by skilled nursing facilities by expanding the amount of revenue upon which the AB 1629 fee is based, to include Medicare revenue, for increased revenue to the State of \$18 million.
 - Suspends cost-of-living increases effective August 1, 2009, for skilled nursing facilities and other long-term care for a General Fund savings of \$75.8 million in 2009-10.
 - Reduces by \$14 million (GF) to reflect the elimination of the state-only payment for ancillary health services provided in Institutions for Mental Disease (IMDs).
- Community-Based Clinics. Rather than eliminating all General Fund support as proposed by the Governor, the Legislature reduced community-based clinic programs by about one-third, or \$14 million (\$10 million General Fund and \$4 million Proposition 99 funds), including the following:
- Rural Health Services reduced by \$2.2 million, which left \$6 million (GF);
 - Seasonal Migratory Worker Clinics reduced by \$1.9 million, which left \$5 million (GF); and
 - Expanded Access to Primary Care Clinics reduced by \$8.4 million (total funds), which left \$19 million (\$9 million GF and \$10 million Proposition 99 funds).

However, the Governor vetoed all of the remaining General Fund support for these important clinic programs, or about \$20 million (GF).

- Maternal and Child Health: Rather than total elimination of the various programs and services offered, a reduction of \$11.5 million was adopted. However, the Governor vetoed the remaining \$12 million in General Fund support in the Adolescent Family Life Program and the Black Infant Health Program.
- HIV/AIDS Programs:
- Education and Prevention Programs. Reduced by \$2.2 million (GF) in lieu of eliminating these extremely cost-beneficial programs as proposed by the Governor. *However, the Governor vetoed the remaining \$22.4 million (GF).*
 - HIV/AIDS Counseling and Testing Program. Rejected the Governor's proposal to eliminate this program for a reduction of \$8.2 million (GF). *However, the Governor vetoed the program.*

- AIDS Early Intervention Projects. Rejected the Governor's proposal to eliminate this cost-beneficial program for a reduction of \$7.4 million (GF). *However, the Governor vetoed the program.*
- HIV/AIDS Surveillance & Epidemiologic Studies. Reduced by \$1 million (GF) in lieu of elimination as proposed by the Governor. This reduction leaves a total of \$7.6 million (GF) for this purpose.
- Domestic Violence Shelters. Reduced by 20 percent, or \$4.1 million (GF) support for the Domestic Violence Shelter Program which left a total of about \$16.3 million (GF) for the program. *The Governor vetoed this remaining amount; however, the Legislature attempted to restore this funding in SBX3 13.*
- Emergency Medical Services Authority: Reduces funding for the California Poison Control System, which provides immediate free treatment advice and assistance over the phone, for a savings of \$3 million.
- Department of Mental Health: Proposes to reduce the Mental Health Managed Care Services and Early and Periodic Screening, Diagnosis, and Treatment (EPDST) Program for a combined General Fund savings of \$92 million.
- Developmental Services: Reduces by \$334 million, as proposed by the Governor, through a methodical and inclusive approach with substantial input from the communities that access these services.

HUMAN SERVICES

- CalWORKs: Rejected the Governor's proposal to eliminate the entire CalWORKs program, which would have ended cash assistance and supportive services to over 546,000 families.
 - Authorized local partnership initiatives to provide subsidized employment, short-term non-recurring benefits, and supplemental basic assistance for TANF-eligible, low-income families with \$365 million in federal ARRA funding and funds that were previously used for AB 98 subsidized employment activities. Under ARRA's Emergency Contingency Fund, the federal government pays 80 percent of the costs of specified expenditures.
 - Approved proposed suspension of the July 2009 Cost of Living Adjustment (COLA), resulting in savings of \$79.1 million in 2009-10. Amended statutes so that annual COLAs are no longer automatically granted.
 - Reduced 2009-10 funding for child care and employment services by \$375 million GF, and adopted corresponding trailer bill language to allow counties flexibility to temporarily exempt individuals with high supportive service costs, including parents of very young children, from work participation requirements. Stopped the 60-month time-clock of limitations on aid and services for individuals exempted under these policies.

- Reverted \$43 million of mid-year adjustment funding for 2008-09 eligibility and employment services and scored them as GF savings for 2009-10.
- In-Home Supportive Services (IHSS): Rejected the Governor's proposals to eliminate all services for up to 387,259 or 90 percent of recipients. Instead made the following changes, effective September 1, 2009, which result in savings of \$53.2 million GF:
- Eliminated domestic and related services for individuals with the lowest levels of need for each particular service. This action was anticipated to impact approximately 85,000 individuals.
 - Eliminated all services for individuals with the lowest levels of overall need, as measured by a standardized scoring system (a functional index score below two). This action was anticipated to impact 9.3 percent of recipients, or around 39,000 individuals.
 - Established exemptions to both of the above reductions for individuals who receive paramedical services, protective supervision, or more than a total of 120 hours of services per month. The exemptions may be waived by the Director of DSS if necessary to maintain federal funding.
- The Governor further reduced the budget for IHSS services by \$28.9 million, in anticipation of the waiver of some or all of these exemptions.*
- Adopted changes to further ensure program integrity and bolster fraud prevention efforts, anticipated by the Administration to save \$130 million GF in IHSS costs
- Supplemental Security Income/State Supplementary Program (SSI/SSP):
- Rejected the Governor's proposal to reduce the maximum grants for individuals to the federal minimum level, and instead adopted a further reduction of .6 percent (\$5) to that maximum grant level (bringing it to \$845 from \$850), effective October 1, 2009. Adopted the proposed reduction of the maximum grants for couples to the federal minimum amount of \$1,407 (rather than \$1,489) as of October 1, 2009, which represents an \$82 reduction. Combined savings of these actions were \$115.9 million in 2009-10.
 - Approved the proposed suspension of the pass-through of the federal SSI COLA, effective May 1, 2009, resulting in \$79.8 million GF savings in 2008-09 and \$487.3 million GF savings in 2009-10. Suspended the June, 2010 state SSP COLA, resulting in additional savings of \$27 million in 2009-10.
 - Amended statutes so that annual COLAs are no longer automatically granted, except for the pass-through of any increase in federal SSI benefits.
- Foster Care: Rejected the Administration's proposal to impose an unallocated reduction of \$70.6 million GF to the budget for child welfare services. *The Governor made an even larger*

reduction of \$80 million GF to these programs. It is not yet known how the vetoed funding would be allocated among various child welfare services programs.

- Recognized \$51.6 million in savings to the state, as well as additional savings to the counties, due to enhanced 2009-10 federal financial participation (based on the Federal Medical Assistance Percentage or FMAP) in foster care and adoption assistance programs under ARRA.
 - Rejected a proposal to realign \$550 million of costs of child welfare services and foster care from the state to the counties.
- Safety Net and Food Programs for Poor Immigrants: Does not eliminate Cash Assistance Program for Immigrants (CAPI) or California Food Assistance Program (CFAP), as proposed by the Governor. However, CAPI recipients (approximately 12,000 aged, blind, and disabled legal immigrants who would be eligible for the SSI/SSP program but for their immigration status) will see a decrease in their grants consistent with the reductions adopted in the SSI/SSP program. CFAP would continue to provide food assistance to more than 30,000 low-income legal non-citizens between the ages of 18 and 65, who meet all the eligibility requirements for the federal Food Stamp program but have resided in the United States for less than five years.
- Alcohol and Drug Programs: Reduces funding by \$90 million for Proposition 36 programs that provide treatment to substance abuse offenders, but continues to fund treatment under the Offender Treatment Program (OTP). Provides federal Byrne funds of approximately \$45 million to supplement OTP services.

CORRECTIONS AND JUDICIARY

- Overall in Corrections: Achieved \$1.2 billion in various reductions to corrections.
- Eliminated \$503 million in General Fund support for various criminal justice local assistance programs and backfilled program funding on a two-year basis from an increase in the Vehicle License Fee (VLF). Programs receiving funding from the VLF instead of the General Fund are the following: Citizens' Option for Public Safety (COPS); Juvenile Justice Crime Prevention Act grants; Booking Fees; Small and Rural Sheriffs grants; Juvenile Probation Funding; Juvenile Camp Funding; Cal-MMET; Vertical Prosecution Block Grants; Evidentiary Medical Training; Public Prosecutors and Public Defenders funding; the California Gang Violence Suppression Program; the Multi-Agency Gang Enforcement Consortium; the Rural Crime Prevention program; the Sexual Assault Felony Enforcement program; and the High Technology Theft Apprehension and Prosecution Program. (SBX4 8, Chapter 4, Statutes of 2009).
- Judicial Branch: Approved \$393 million in budget reductions, special fund transfers, and additional revenues to offset the administration's proposals for unallocated reductions to the trial courts. These include the following:
- Approved one day per month court closures, estimated to save \$102 million.

- Approved use of \$71 million in trial court reserves to offset commensurate budget reductions.
- Approved transfer of \$130 million from various special funds to offset commensurate budget reductions.
- Approved a \$10 increase in the court security fee charged to criminal defendants. This increase is projected to generate an additional \$40 million in revenues to offset court security costs.
- Approved increases of \$5 in court reporter fees and \$10 in various post judgment fees, estimated to generate \$18 million in additional court revenues.
- Required Judicial Branch to absorb \$32 million funding increase associated with the State Appropriations Limit (SAL).
- Reduces funding, by \$168.6 million, by reducing general fund support to the courts by ten percent. This reduction will be achieved through various measures, including one-day per month court closures, transfer of reserves in various funds, and an increase in fees.

NATURAL RESOURCES AND THE ENVIRONMENT

- Offshore Oil Drilling: Attempts to work out an alternative agreement on slant oil drilling, to insure \$100 million in GF revenue, from the leasing of Tranquillon Ridge. *This proposal failed passage in the Assembly.*
- Department of Parks and Recreation: Provides for partial restoration of parks reductions proposed by the administration, in total the parks receive an unallocated GF reduction of approximately \$8 million.
- Department of Conservation: Reduces "Williamson Act" payments by approximately 20 percent, leaving \$28 million to counties for Agricultural and Open Space Land Preserves. These subventions currently backfill a portion of revenue lost by local governments when they enter into voluntary agreements with land owners for lower property tax assessments when those land owners agree to use the land only for agricultural or open space purposes.
- California Conservation Corps: Fully funds the local conservation corps, which would have been severely cut under the Governor's plan.
- Integrated Waste Management Board: Eliminates the California Integrated Waste Management Board (CIWMB) and creates efficiencies by combining the CIWMB functions with recycling into a new department.

STATE GOVERNMENT

- Consolidations and reorganizations: Adopted Governor's proposed \$50 million in GF savings from consolidations and reorganizations.

- Information Technology Savings: Reduced funding for state information technology services, consistent with recent IT consolidation, and provides the Office of the Chief Information Officer (OCIO) additional authority to achieve another \$100 million in savings.
- Cash Deferrals: Adopted various Governor's cash deferral proposals.
- Employee Compensation: Rejected Governor's proposal to reduce salaries by five percent – thereby maintaining a 2-day furlough for all employees. *The Governor instituted a third monthly furlough day for all employees under his authority.*

Assumes some savings that will be achieved if proposed labor agreements are not ratified by the Legislature. General Fund savings are estimated at \$60 million in 2008-09 and \$150 million in 2009-10.

- Paycheck Deferral: Defers June 30, 2010, state employee paychecks to July 1, 2010 to achieve budget savings.
- Public Employees' Retirement System (PERS): Rejects the Governor's proposal to save an estimated \$132.2 million, beginning in January 2010, by contracting for lower cost health care coverage either through PERS or directly from an insurer. This change could conflict with existing collective bargaining contracts. Instead assumes PERS' 2010 final adopted health and dental premium rate increase will be less than the nine percent increase assumed in the February enacted budget and scores \$50 million in savings. Additionally, recognizes the plan adopted by the PERS Board to rebate, via a two-month payment holiday in 2009-10, \$100 million in excess Preferred Provider Organization premiums paid by the state.
- State Compensation Insurance Fund: Adopts the Governor's proposal to sell a portion of the State Compensation Insurance Fund (SCIF) to a private entity for an estimated \$1 billion. The SCIF would remain the "insurer of last resort." SCIF was established in 1914 as a self-supporting, non-profit enterprise that provides workers' compensation insurance to California employers with no financial obligation to the public.
- Department of Industrial Relations: Shifts the majority of the remaining General Fund support in the Department of Industrial Relations (DIR) budget to fee-support.
 - Employer fees will be increased to fund the Occupational Safety and Health Program and the Labor Standards Enforcement Program. Similar fees on employers were increased in the 2008-09 budget to address funding shortfalls. Ongoing cost reductions beginning in 2010-11 will produce over \$60 million in GF savings.
- Department of General Services: Delays repairs to the State Capitol building and park, for one year, providing \$6.6 million in savings.
- Approved funding of \$4.8 billion GF for 2009-10 General Obligation (GO) bond debt service. In addition to the GF, GO debt service is funded from mass transportation funds (\$254 million), federal-stimulus Build America Bond interest subsidy payments (\$126.1 million), and funds

received from county offices of education for state programs (\$120 million - this is related to the Proposition 1A of 2004 suspension).

LOCAL GOVERNMENT AND TRANSPORTATION

- Suspended Proposition 1A in 2009-10. Initially, the Budget Conference Committee resisted the suspension of Proposition 1A; however, as increased taxes were discarded, additional solutions needed to be achieved. The budget now proposes to borrow \$1.94 billion from local governments through the suspension of Proposition 1A (of 2004). Suspension, which requires legislation, allows the state to divert to schools up to eight percent of property tax revenues of cities, counties, and special districts to counties and special districts. Repayment, with interest, must be made within three years. The proposal also authorized a joint powers authority to facilitate local government borrowing against the state's repayment promise.
- Adopted the Governor's proposals on public transit funds. This includes new General Fund relief of \$561 million by directing new transit "spillover" revenues to transportation-related debt service. Additionally, directs \$315 million in transit revenue formerly directed to home-to-school transportation, to transportation-related debt service.
- The Senate adopted the Governor's proposal to redirect the local gas tax for General Fund relief, but limits the shift to two years instead of becoming permanent. In 2009-10, the amount of the shift would be \$971 million (after small city exemption), and in 2010-11, the shift would be about \$750 million. These amounts are consistent with the limit on bond debt payment of 25 percent of fuel and weight fee revenues outlined in Article XIX, Section 5 of the California Constitution. Future legislation can provide local governments with new opportunities to raise funds for public transit and local transportation services. *This proposal failed passage in the Assembly.*
- Shifted \$1.7 billion in redevelopment revenues to the new Supplemental Educational Revenue Augmentation Fund in 2009-10 to benefiting the State General Fund. (An additional \$350 million is shifted in 2010-11.) For 2009-10, the state orders the shift of \$1.7 billion from redevelopment agencies to schools in order to save the same amount in State General Fund support.
 - For this year only, we suspend the statute that requires redevelopment officials to set aside 20 percent of their property tax increment revenues for affordable housing.
 - A redevelopment agency can pay the shift by borrowing from its affordable housing trust fund, but it has to repay the money in five years.
 - A redevelopment agency that pays its full shift amount gets a one-year extension on its time limits.
 - If a redevelopment agency fails to shift the money, its affordable housing requirement permanently increases from 20 percent to 25 percent.
- Created the State Educational Revenue Augmentation Funds (ERAF) account within the California Infrastructure and Economic Development Bank (I-Bank) and requires a

redevelopment agency, unless it opts out, to annually deposit ten percent of its tax increment revenue in this fund, which will then be securitized. Among other conditions, securitization may only move forward if the board of directors of the I-Bank certifies that at least \$7.4 billion in bond proceeds are achievable by June 30, 2010, from this act. If these same conditions are met, the implementation of Proposition 1A borrowing, redirection of local gas excise tax revenues, and the redevelopment shift, contained in associated legislation in the budget package would cease and the State General Fund would receive an equivalent amount of revenue from bond proceeds. *This proposal failed passage in the Assembly.*

- **Reduced Open Space Subventions.** Approved a 20 percent GF cut to Subventions for Open Space / Williamson Act grants, which resulted in 2009-10 funding of \$27.8 million. This is in addition to a ten percent reduction implemented in 2008-09. *The Governor vetoed funding down to \$1,000 for Williamson Act grants. Funding was set at \$1,000 to create an in lieu appropriation to the continuous appropriation in statute.*

Under this longstanding program, the state backfills a portion of the revenue lost by local governments when they enter into contracts with land owners to limit property tax assessments for lands that are maintained as open space or agricultural lands.

REVENUE AND TAXATION

In addition to the February 2009 revenue and taxation actions referenced above, in July, the Legislature took action on the following revenue and taxation items below:

Revenue Accelerations

- **Quarterly prepayments.** Accelerated \$610 million of Personal Income Tax and Corporation Tax revenues into 2009-10 by increasing the June (second) quarterly estimated payment from the current 30 percent of annual tax liability to 40 percent, beginning June 2010. The percentage due with the first quarterly estimated tax payment (due in April) is 30 percent, so the total amount due in the first half of the year would be 70 percent. However, the proposal would eliminate the third quarterly estimated payment (now 20 percent of annual liability) and increase the final quarterly payment (due in December) from the current 20 percent to 30 percent of annual tax liability.
- **Payroll Withholding.** Increased payroll withholding schedules by ten percent, effective January 2010, to accelerate \$1.7 billion of Personal Income Tax revenue into 2009-10.

Revenue Enforcement and Administration

- **Backup withholding:** Generally conforms California to federal income tax backup-withholding rules related to various non-wage payments. Requires a business to withhold seven percent of reportable payment of interest, dividends, compensation for services, and other forms of income if the IRS determines a condition for withholding exists (such as significant underreporting of non-wage payments by the recipient on tax returns). Revenue gain of \$26 million in 2009-10 and ongoing revenue gain of about \$26 million.

- Non-retailer registration at BOE: Requires non-retailers to register with the Board of Equalization (BOE). Businesses that provide services will be required to register with the board and file annual use tax returns by April 15. The annual use tax return and payment applies to purchases on which sales tax was not collected (generally from out-of-state sellers), excluding vehicles, vessels, and aircraft. This provision increases compliance, but does not change tax liabilities. Revenue gain of \$28 million in 2009-10, revenue gain of \$57 million in 2010, and potentially larger amounts in future years. Also, an increase in local use tax revenues.

Final Budget Package
General Fund Budget Summary
With Solutions
(Dollars in Millions)

	<u>2008-09</u>	<u>2009-10</u>
Prior Year Balance	\$4,070	-\$3,493
Revenues and Transfers	\$84,098	\$89,586
Total Resources Available	\$88,168	\$86,093
Non-Proposition 98 Expenditures	\$57,609	\$49,061
Proposition 98 Expenditures	\$34,052	\$35,032
Total Expenditures	\$91,661	\$84,093
Fund Balance	-\$3,493	\$2,000
Budget Reserves:		
Reserve for Liquidation of Encumbrances	\$1,079	\$1,079
Special Fund for Economic Uncertainties	-\$4,572	\$921

BUDGET and TRAILER BILLS

Bill Number	Chapter Number	Topic	Senate Vote	Assembly Vote
<u>FEBRUARY 2009 (THIRD EXTRAORDINARY SESSION)</u>				
SBX3 1	Ch 1 (3X)	2009-10 Budget	27-12	58-21
SBX3 2	Ch 2 (3X)	Budget Act of 2008: revisions	31-8	65-15
SBX3 4	Ch 12(3X)	Education finance (trailer bill)	28-8	54-19
SBX3 6	Ch 13(3X)	Human services (trailer bill)	28-10	68-11
SBX3 7	Ch 14(3X)	Transportation finance (trailer bill)	27-12	65-12
SBX3 8	Ch 4 (3X)	State and local government (trailer bill)	27-11	54-21
SBX3 10	Ch 15(3X)	The Mental Health Services Act: Prop 63 amends (trailer bill)	36-2	76-4
SBX3 14	Ch 16(3X)	Prison facilities: construction (trailer bill)	32-6	79-1
SBX3 15	Ch 17(3X)	Taxation: credits: apportionment: sales factor (trailer bill)	30-7	63-8
SBX3 19	Ch 7 (3X)	Elections (trailer bill)	31-4	58-12
SBX3 20	Ch 3 (3X)	Budget Act of 2009 (Maldonado) (trailer bill)	27-9	57-4
SBX3 24	Ch 24(3X)	Medi-Cal: continuous eligibility: semiannual status reports (trailer bill)	35-0	67-1
SBX3 27	Ch 25(3X)	Drinking water: federal stimulus funding (trailer bill)	36-0	73-0
ABX3 3	Ch 18(3X)	Income taxes: sales and use taxes: motor vehicle and diesel fuel taxes: vehicle license fees (trailer bill)	27-12	54-26
ABX3 5	Ch 20(3X)	Health (trailer bill)	27-6	67-12
ABX3 7	Ch 26(3X)	State funds: registered warrants (trailer bill)	35-0	73-0
ABX3 11	Ch 6 (3X)	Special election (trailer bill)	36-1	75-4
ABX3 12	Ch 8 (3X)	California State Lottery (trailer bill)	30-8	70-8
ABX3 13	Ch 9 (3X)	State and local government (trailer bill)	36-3	71-8
ABX3 15	Chaptered out by SBX3 15	Taxation: credits: apportionment: sales factor	26-7	63-8
ABX3 16	Ch 5 (3X)	State finance	27-11	63-11
ABX3 17	Ch 11(3X)	Budget Act of 2008. California Children and Families Act: use of funds: services for children	37-0	75-3
ABX3 18	Ch 19(3X)	Elections	34-0	71-0
ABX3 20	Ch 21(3X)	Federal transportation economic stimulus funds	36-0	72-0
ABX3 23	Ch 22(3X)	Unemployment insurance: extended benefits	38-0	77-0
ABX3 29	Ch 23(3X)	Unemployment insurance: claims: appeals	31-7	60-6
ACAX3 1	Res Ch 1 (3X)	State finance	30-8	74-6
ACAX3 2	Res Ch 2 (3X)	Education finance	28-10	68-11

BUDGET and TRAILER BILLS

Bill Number	Chapter Number	Topic	Senate Vote	Assembly Vote
<u>FEBRUARY 2009 (SECOND EXTRAORDINARY SESSION)</u>				
ABX2 5	Ch 3 (2X)	Employment: alternative workweek schedules	33-2	46-29
ABX2 7	Ch 5 (2X)	Residential mortgage loans: foreclosure	23-15	48-27
ABX2 8	Ch 6 (2X)	State government	26-10	48-28
SBX2 3	Ch 1 (2X)	Air pollution: grants: farm equipment	36-1	62-10
SBX2 4	Ch 2 (2X)	Public contract: design-build: public private partnerships	30-4	43-29
SBX2 7	Ch 4 (2X)	Residential mortgage loans: foreclosure	24-15	48-27
SBX2 9	Ch 7 (2X)	Public works: labor compliance	33-4	71-6
SBX2 10	Ch 8 (2X)	Vehicle license fees	37-1	67-8
SBX2 11	Ch 9 (2X)	Judges: employment benefits	32-6	69-3
SBX2 12	Ch 10 (2X)	Court facilities financing	35-3	73-4
SBX2 15	Ch 11 (2X)	Personal income taxes: credit: principal residence	37-1	62-11
SBX2 16	Ch 12 (2X)	Horse racing: license fees	34-2	63-4

BUDGET and TRAILER BILLS

Bill Number	Chapter Number	Topic	Senate Vote	Assembly Vote
<u>JULY 2009 (FOURTH EXTRAORDINARY SESSION)</u>				
ABX4 1	Ch 1 (4X)	Budget Act of 2009: revisions	27-13	56-23
ABX4 2	Ch 2 (4X)	Education (trailer bill)	29-6	55-18
ABX4 3	Ch 3 (4X)	Education finance (trailer bill)	27-13	56-20
ABX4 4	Ch 4 (4X)	Human services (trailer bill)	35-5	73-3
ABX4 5	Ch 5 (4X)	Health (trailer bill)	27-11	54-21
ABX4 6	Ch 6 (4X)	Medi-Cal (trailer bill)	39-0	76-2
ABX4 7	Ch 7 (4X)	Public social services: statewide enrollment process (trailer bill)	25-15	46-30
ABX4 8	Ch 8 (4X)	Human services (trailer bill)	21-18	47-25
ABX4 9	Ch 9 (4X)	Developmental services (trailer bill)	28-10	62-15
ABX4 10	Ch 10(4X)	Transportation (trailer bill)	27-12	54-25
ABX4 11	Ch 11(4X)	Public resources (trailer bill)	31-7	68-10
ABX4 12	Ch 12(4X)	State government (trailer bill)	27-12	54-24
ABX4 14	Ch 13(4X)	Property tax revenue allocations (trailer bill)	27-13	54-25
ABX4 15	Ch 14(4X)	Property tax revenue allocations (trailer bill)	28-9	59-14
ABX4 17	Ch 15(4X)	Taxation – Omnibus (trailer bill)	22-16	46-33
ABX4 18	Ch 16(4X)	Taxation – Tax Enforcement (trailer bill)	23-16	47-32
ABX4 19	Ch 17(4X)	In-home supportive services (trailer bill)	25-15	42-33
ABX4 20	Ch 18(4X)	Consumer affairs: regulatory boards: operations: reorganization (trailer bill)	39-0	78-0
ABX4 21	Ch 19(4X)	State contracts (trailer bill)	38-0	76-2
ABX4 22	Ch 20(4X)	State property: Orange County Fair: inventory: leases: sale and leaseback (trailer bill)	37-0	76-3
ABX4 25	Ch 24(4X)	Surplus state funds (trailer bill)	39-0	67-11
ABX4 26	Ch 21(4X)	Community redevelopment: Supplemental Educational Revenue Augmentation Fund (trailer bill)	21-17	41-31
SBX4 13	Ch 22(4X)	Courts omnibus bill: public safety (trailer bill)	29-8	56-21
SBX4 16	Ch 23(4X)	State finances (trailer bill)	33-6	55-22
SB 63	Ch 21	Waste Management Board Regular Session	21-15	54-20
SB 90	Ch 22	Budget Acts of 2007 and 2008: augmentation (Ducheny) Regular Session	29-3	56-22
SB 116	Ch 23	State warrants (Calderon) Regular Session	36-0	57-16

BUDGET and TRAILER BILLS

Bill Number	Chapter Number	Topic	Senate Vote	Assembly Vote
<u>SEPTEMBER / OCTOBER 2009 (CLEANUP)</u>				
AB 182	*	Community redevelopment: Supplemental Education Revenue Augmentation fund	27-9	
AB 187	Ch 644	Cal Grant Program	34-2	69-4
AB 188	Ch 645	Medi-Cal: quality assurance fee revenue	28-9	61-8
AB 189	Ch 646	Budget Act of 2009	37-0	64-9
SB 65	Ch 633	State finances	38-0	64-10
SB 66	Ch 637	California Small Business Expansion Fund	37-0	77-1
SB 67	Ch 634	Property tax revenues: Proposition 1A receivables	37-0	62-12
SB 72	Ch 340	State employees: payroll: health care	21-14	63-9
SB 73	Ch 341	State fees	22-15	51-22
SB 75	Ch 342	Judiciary	33-4	58-14
SB 83	Ch 554	Traffic congestion: motor vehicle registration fees	23-17	46-31
SB 85	**	Local government finance	22-14	
ABX3 56	Ch 31	Education finance (Quality Education Improvement Act (QEIA))	23-13	51-22

*** In Assembly, on concurrence**

**** In Assembly, on Third Reading**

Subcommittee No. 1 – Education

6110	Department of Education	6610	California State University
6420	California Postsecondary Education Commission	6870	California Community Colleges
6440	University of California	7980	Student Aid Commission
6600	Hastings College of the Law		

Subcommittee No. 2 – Natural Resources, Environmental Protection, Energy & Utilities, Food & Agriculture and Transportation

0540	Secretary for Resources	3810	Santa Monica Mountains Conservancy
0555	Secretary for Environmental Protection	3820	San Francisco Bay Conservation and Development Commission
2600	California Transportation Commission	3825	San Gabriel & Lower Los Angeles Rivers and Mountains Conservancy
2640	State Transit Assistance	3830	San Joaquin River Conservancy
2660	Department of Transportation	3835	Baldwin Hills Conservancy
2665	High Speed Rail Authority	3840	Delta Protection Commission
2670	Board of Pilot Commissioners for the Bays of San Francisco, San Pablo, and Suisun	3845	San Diego River Conservancy
2700	Office of Traffic Safety	3850	Coachella Valley Mountains Conservancy
2720	California Highway Patrol	3855	Sierra Nevada Conservancy
2740	Department of Motor Vehicles	3860	Department of Water Resources
3110	Special Resources Programs	3900	State Air Resources Board
3125	California Tahoe Conservancy	3910	Integrated Waste Management Board
3340	California Conservation Corps	3930	Department of Pesticide Regulation
3360	California Energy Commission	3940	State Water Resources Control Board
3460	Colorado River Board	3960	Department of Toxic Substances Control
3480	Department of Conservation	3980	Office of Environmental Health Hazard Assessment
3540	Department of Forestry and Fire Protection	7300	Agricultural Labor Relations Board
3560	State Lands Commission	8570	Department of Food and Agriculture
3600	Department of Fish and Game	8660	Public Utilities Commission
3640	Wildlife Conservation Board	8770	Electricity Oversight Board
3680	Department of Boating and Waterways	9350	Shared Revenues
3720	California Coastal Commission		
3760	State Coastal Conservancy		
3780	Native American Heritage Commission		
3790	Department of Parks and Recreation		

Subcommittee No. 3 – Health and Human Services

0530	Secretary of Health and Human Services	4300	Department of Developmental Services
4120	Emergency Medical Services Authority	4440	Department of Mental Health
4140	Office of Statewide Health Planning and Development	4700	Department of Community Services and Development
4170	Department of Aging	5160	Department of Rehabilitation
4180	Commission on Aging	5170	State Independent Living Council
4185	California Senior Legislature	5175	Department of Child Support Services
4200	Department of Alcohol and Drug Programs	5180	Department of Social Services
4260	Department of Health Care Services		
4265	Department of Public Health		
4270	California Medical Assistance Commission		
4280	Managed Risk Medical Insurance Board		

**Subcommittee No. 4 – State Administration, General Government, Judiciary,
Public Safety, Criminal Justice, and Veterans Affairs**

0250	Judicial Branch	8620	Fair Political Practices Commission
0280	Commission on Judicial Performance	8640	Political Reform Act of 1974
0390	Contributions to Judges’ Retirement System	8780	Milton Marks “Little Hoover” Commission
0502	Office of the Chief Information Officer	8820	Commission on the Status of Women
0510	Secretary for State and Consumer Services	8855	Bureau of State Audits
0520	Scty for Business, Trans, & Housing	8860	Department of Finance
0552	Office of the Inspector General	8885	Commission on State Mandates
0650	Office of Planning and Research	8910	Office of Administrative Law
0690	California Emergency Management Agency	8940	Military Department
0820	Department of Justice	8955	Department of Veterans Affairs
0840	State Controller	9100	Tax Relief
0845	Department of Insurance	9210	Local Government Financing
0850	State Lottery Commission	9350	Shared Revenues
0855	Gambling Control Commission	9600	Debt Service for General Obligation Bonds
0890	Secretary of State	9618	Economic Recovery Financing Committee
0911	Citizens Redistricting Initiative	9650	Support for Health and Dental Benefits for Annuitants
0950	State Treasurer’s Office	9800	Augmentation for Employee Compensation
1100	California Science Center	9840	Augmentation for Contingencies and Emergencies
1690	Alfred E. Alquist Seismic Safety Commission		
1700	Department of Fair Employment & Housing		Control Sections:
1705	Fair Employment and Housing Commission	3.55	Preferred Provider Organization Premium Rebate
1760	Department of General Services	3.60	Contributions to Public Employee Retirement Benefits
1870	Victim Compensation & Gvrnmt Claims Bd	3.90	Employee Compensation Reductions’
1880	State Personnel Board	4.04	Delete Price Increase
1900	Public Employees’ Retirement System	4.30	Lease Revenue Bond Debt Service Adjustments
1920	State Teachers’ Retirement System	4.85	Transfer Bond Proceeds to General Fund
1955	Department of Technology Services	8.25	Federal Economic Stimulus Funds That Offset General Fund
2100	Department of Alcoholic Beverage Control	8.30	Restore GF Items If Discretionary Federal Funds Available
2150	Department of Financial Institutions	8.52	Federal Funds That Offset Any Funds
2180	Department of Corporations	8.55	American Recovery and Reinvestment Act (ARRA) Oversight
2240	Dept of Housing and Community Dvlpmnt	8.88	Financial Information System for California (FI\$Cal)
2260	California Housing Financing Agency	12.45	Payroll Accounting Methodology Adjstmnt
2310	Office of Real Estate Appraisers	13.25	Reorganizations & Consolidations Rdctns
2320	Department of Real Estate	15.30	Information Technology Savings
2400	Department of Managed Health Care	15.45	Proposition 1A Suspension/Redevelopment Shift
5225	Department of Corrections & Rehabilitation	28.00	Program Change Notification
8120	Commission on Peace Officer Standards and Training (POST)	35.50	Budget Stabilization Account Transfer to GF
8140	State Public Defender		
8180	Payments to Counties for the Costs of Homicide Trials		
8260	California Arts Council		
8320	Public Employee Relations Board		
8380	Department of Personnel Administration		
8420	State Compensation Insurance Fund		
8500	Board of Chiropractic Examiners		
8550	California Horse Racing Board		

Subcommittee No. 5 – Revenues, the Economy, and Labor

0559 Labor and Workforce Development Agency
0860 Board of Equalization
1730 Franchise Tax Board
7100 Employment Development Department
7120 Workforce Investment Board
7350 Department of Industrial Relations
9620 Interest Payments on General Fund Loans
9655 Augmentation for Statewide Accounts
 Receivable

SUBCOMMITTEE 1

FINAL ACTION REPORT

Senate Budget and Fiscal Review Committee

Members

Gloria Romero, Chair
Bob Huff
Carol Liu

Consultant

Kim Connor

SUBCOMMITTEE No. 1

EDUCATION

K-12

Department of Education.....	1-1
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Higher Education

University of California.....	1-8
California State University.....	1-8
Hastings College of the Law	1-9
California Community Colleges.....	1-9
Student Aid Commission.....	1-10

K-12 EDUCATION

6110 CALIFORNIA DEPARTMENT OF EDUCATION

Proposition 98 – K-14 Education

- **Proposition 98 Funding – K-14 Education.** The budget provides \$49.1 billion for 2008-09 and \$50.4 billion for the 2009-10 in total Proposition 98 funding for K-14 education, which provides funding at the minimum guarantee and avoids suspension of Proposition 98.
- **Proposition 98 Maintenance Factor.**
 - Certifies the amounts of the Proposition 98 minimum guarantee and outstanding balances for the 2005-06 through 2008-09 fiscal years.
 - Certifies that the maintenance factor for 2008-09 is \$11.2 billion and provides that this amount will be restored to the Proposition 98 base as otherwise provided in the State Constitution.
 - Creates an alternative statutory appropriation equivalent to the maintenance factor amount to guarantee that the Proposition 98 funding base is restored by the full \$11.2 billion.

K-12 Education

- **Proposition 98 - Programmatic Reductions.** The February and July budget packages include the following major K-12 programmatic reductions to the 2008-09 and 2009-10 budgets.

2008-09

- \$1.9 billion in K-12 program reductions split evenly between revenue limits and categorical programs in 2008-09. Deficit factors are established for

revenue limit reductions and foregone COLA. More than 50 categorical programs are subject to proportional reductions estimated at 15 percent in 2008-09.

- \$1.6 billion in Proposition 98 savings from the reversion of unallocated categorical program payments in 2008-09.

2009-10

- \$535 million in added program reductions split evenly between revenue limits (\$268 million) and categorical programs (\$268 million) to continue cuts that began in 2008-09, but at a somewhat higher rate. Deficit factors are established for revenue limit reductions and foregone COLA. More than 50 categorical programs are subject to proportional reductions estimated at 20 percent in 2009-10.
 - \$4.0 billion in new revenue limit reductions in 2009-10, including commensurate categorical reductions for Basic Aid Districts. These reductions include a \$1.6 billion reduction to offset the restoration of categorical funds reverted in 2008-09. Deficit factors are established for revenue limit reductions and foregone COLA.
- **Proposition 98 –Inter-Year Payment Deferrals.** The February and July budget packages added \$3.6 billion in new year-to-year payment deferrals as a means of achieving Proposition 98 savings in 2008-09 and 2009-10, as follows:
- \$2.9 billion in savings achieved by deferring various K-12 program payments 2008-09 to 2009-10.
 - \$1.7 billion in additional deferral savings achieved by shifting revenue limit payments from 2009-10 to 2010-11.

Together with \$1.1 billion in pre-existing deferrals, ongoing K-12 deferrals now total \$5.7 billion per year.

- **Federal ARRA Funds.** New, one-time, federal funds of \$6 billion authorized under the ARRA (American Recovery and Reinvestment Act), significantly offset K-12 funding reductions in 2008-09 and 2009-10. Of this amount, \$3.8 billion was added to the 2008-09 budget via Department of Finance budget revisions letters late last spring. The July budget revisions authorize another \$2.2 billion of these anticipated funds in 2009-10, including:
- \$600 million in anticipated ARRA State Fiscal Stabilization Funds to backfill K-12 revenue limit reductions and related categorical reductions for Basic Aid Districts;
 - \$634 million in anticipated ARRA Individuals with Disabilities Education Act (IDEA) funds for students with disabilities;
 - \$540 million in anticipated ARRA Title I Basic Grants for low-income students; and
 - \$44 million in anticipated ARRA Title I Set-Aside funds and \$346 million in anticipated ARRA School Improvement Grant funds.
- **Categorical Program/Funding Flexibility.** Continues categorical funding reductions beginning in 2008-09 through 2012-12 for more than 50 categorical programs and continues categorical flexibility for more than 40 of these categorical programs. Another 11 programs are subject to reductions, but are not subject to categorical flexibility programs. [Eight major Proposition 98 programs are excluded from any categorical reductions or flexibility, including Child Development, Child Nutrition, Economic Impact Aid, Special Education, Home-to-School Transportation, After School Education & Safety, K-3 Class Size Reduction, and the Quality Education Investment Act.]
- **Additional Program/Funding Flexibility Provisions for LEAs.**
- Continues the provisions enacted as a part of the February budget package and adds new provisions enacted as a part of the July revisions that provide K-12 local educational agencies (LEAs) with program and funding flexibility, as follows:

- High School Exit Exam. Suspends the California High School Exit Exam (CAHSEE) as a requirement for graduation for eligible students with disabilities, beginning in 2009-10, until the State Board of Education acts upon a recommendation for an alternative means of measurement for eligible students;
- Instructional Days. Allows school districts to reduce the number of instructional days by five – from 180 to 175 days per year -- through 2012-13 without losing longer-year incentive grants, beginning in 2009-10.
- Instructional Materials. Extends the suspension of the LEA requirement to purchase newly adopted instructional materials through 2012-13 (five years total) and prohibits the State Board from adopting materials during this period. The February budget package suspended the purchase requirement for two years only beginning in 2008-09.
- Surplus Property. Allows school districts to direct the proceeds from the sale of surplus property for general fund purposes through January 1, 2012. Only proceeds from the sale of non-state funded property are eligible for this additional flexibility, which commences in 2009-10.
- Routine Maintenance Requirements. Suspends the remaining routine maintenance reserve requirement of one percent for school districts that meet the facility requirements of the Williams settlement, beginning in 2009-10. The February budget package reduced the requirement from three to five percent from 2008-09 through 2012-13 for school districts generally.
- Ending Balances. Provides LEAs with access to additional, prior-year fund balances for general purposes in 2009-10 beyond those provided in February. LEAs may now access ending balances for the following additional programs: Targeted Instructional Improvement Grants; Instructional Materials; California High School Exit Exam; Adult Education; ROC/P Facilities; and Deferred Maintenance. [Economic Impact Aid; Special Education; Quality Education and Investment Act (QEIA); Home-to-School Transportation; English Language Learner Acquisition and Development Pilot Program; Child Development; and Child Nutrition remain protected.]

- Class Size Reduction. Continues the reduction of penalties for exceeding the maximum class sizes allowable under the K-3 CSR program for a four year period, beginning in 2008-09, as enacted in the February budget package.
- Deferred Maintenance Reserves. Continues the suspension of the reserve and reporting requirements for deferred maintenance for five years, beginning in 2008-09, as enacted by the February budget package.

➤ **Fiscal Oversight Relief.**

- Changes the minimum requirement for reserves for economic uncertainty to one-third of the currently required level in 2009-10, provided that LEAs make annual progress in restoring reserves and fully restore reserves in 2011-12.
- Allows LEAs to avoid a negative or qualified fiscal certification due to a substantial loss of federal ARRA Stabilization Funds in 2011-12 and 2012-13. To ensure consistent statewide implementation, the Superintendent of Public Instruction shall convene the Standards and Criteria Committee to modify the budget and fiscal review criteria to incorporate these changes.

➤ **Intra-Year Payment Deferrals.** The February budget actions shifted approximately \$2.5 billion in K-12 payments from July and August to October 2009. The July revisions defer an additional \$3.5 billion in payments from July, August and November to December, October and January, respectively. In addition, the July revisions permanently reschedule K-12 revenue limit and categorical program payments to provide five percent payments in July and August and nine percent payments for all remaining months in the fiscal year. This change will better align K-12 funding with local program expenditures and provide more predictable General Fund allocations at the state level.

➤ **Federal Program Improvement Funds.** The 2009-10 budget appropriates \$165 million in available federal Title I Set-Aside funds and \$403 million in anticipated federal School Improvement Grant funds that are set aside for the Quality Education Investment Act (QEIA) program and other program improvement purposes pursuant to legislation.

- **Quality Education Investment Act (QEIA).** The July budget package suspended a statutory General Fund appropriation of \$402 million for the QEIA program in 2009-10, and instead provides \$402 million in Proposition 98 funds to school districts to replace these funds. Reduced revenue limits for these school districts by \$402 million. Authorized districts to apply for federal Title I funds for the QEIA program in 2009-10. Extended the QEIA program for an additional year, through 2014-15.

ABX3 56/Evans (Chapter 31, Statutes of 2009 – Third Extraordinary Session) – passed by the Legislature in October -- repeals the funding mechanism enacted as a part of the July budget package for the QEIA program, and implements a new funding mechanism for the program in 2009-10. The new mechanism (1) redirects \$355 million in Proposition 98 funds previously available for categorical program backfill in 2009-10 to QEIA and appropriates an additional \$20 million in unspent Proposition 98 funds from prior years in order to fully fund the QEIA program in 2009-10, and (2) directs the Superintendent of Public Instruction (SPI) to allocate up to \$165 million in federal Title I Set Aside funds, which, if available, would offset Proposition 98 funding for QEIA in 2009-10. A related Department of Finance Budget Revision Letter allocates \$355 million in federal ARRA State Fiscal Stabilization Funds to backfill categorical reductions in 2008-09, which creates \$355 million in General Fund Proposition 98 savings utilized by this measure to fund QEIA in 2009-10.

- **Mandates.** The budget continues the practice of deferring annual K-14 mandate payments, instead of adopting the Governor’s proposal to eliminate K-14 education program mandates beginning in 2009-10. The Governor proposed to “suspend” all but two K-12 mandates and all community college mandates. This change in approach conformed to a recent lawsuit that requires the state to either fully fund or suspend education mandates. K-14 education mandate costs are estimated to total approximately \$348 million annually.

- **School Transportation Funding.**

- **Home-to-School Transportation.** Provides \$496 million in Proposition 98 funding for Home-to-School Transportation, partially replacing special funds provided for this program in 2008-09. This level of funding equates to a program reduction of nearly 20 percent, which is in line with reductions for

other categorical programs. The Home-to-School Transportation program is not subject to flexibility provisions affecting most categorical programs.

- **State Special Schools.** Provides \$3.9 million in federal funds to maintain transportation services at the State Special Schools in 2009-10.

➤ **Other Program Reductions and Savings**

- Eliminates Proposition 98 funding for (\$114.2 million) for the High Priority Schools Grant Program in 2009-10.
- Suspends one-time Proposition 98 funding (\$100 million) for the Emergency Repair Program in 2009-10.

➤ **Child Care & Development**

- Fully funds Stage 2 and Stage 3 child care services.
- Denied Governor's proposal to increase family fees and decrease reimbursement ceiling for child care providers.
- Retains child care reimbursement rates at the 85th percentile of 2005 Regional Market Rates.
- Adds \$110 million from federal ARRA funds to help maintain child care programs overall and to provide additional child care slots in the Alternative Payment program.
- Eliminates the Extended Day Care Program effective September 1, 2009, for a savings of \$27 million, and adopts language to ensure that displaced children and youth receive priority placements in other subsidized programs. The Extended Day Care Program is largely duplicative of the Proposition 49 After-School Education & Safety Program.

HIGHER EDUCATION

6440 UNIVERSITY OF CALIFORNIA & 6610 CALIFORNIA STATE UNIVERSITY

- Captures \$1.44 billion in General Fund savings from the University of California (UC) and California State University (CSU) attributable to the 2008-09 fiscal year.
- Provides reductions of \$266 million to each segment (total of \$532 million) in 2009-10, which are equal to the Governor's May Revise proposal, but unlike the Governor's proposal, are equalized between UC and CSU.
- Offsets total reductions above – \$1.97 billion over two-years – by approximately \$1.7 billion (\$868.5 million each for UC and CSU) in anticipated federal ARRA funds.

In addition, the budget assumes UC and CSU will receive additional revenue from student fee increases of \$166 million at UC (a 9.3 percent increase) and \$366 million at CSU (a 32 percent increase). About a third of this new revenue will be diverted to campus-based financial aid. Subsequent to enactment of the budget, the UC Regents were considering an additional fee increase to be imposed in the winter term.

- Denies reduction of funding for academic preparation as proposed by the Governor, but rather achieves savings through unallocated reductions for the two segments.
- Implements a number of intra-year payment deferrals for the two segments, including \$1 billion for UC and \$690 million for CSU, for the purpose of mitigating state cash shortages. (See *Cash Management* section for details.)

6600 HASTINGS COLLEGE OF THE LAW

- Reduces funding by a total of \$2 million, or 19 percent, which includes the Governor's veto of \$1 million.

6870 CALIFORNIA COMMUNITY COLLEGES (CCC)

- Reduces Proposition 98 programmatic funding – General Apportionment and categorical programs -- by approximately \$442 million for community colleges in 2009-10 compared to the revised 2008-09 budget.
- Allows community colleges to reduce workload (students served) to accommodate lower General Apportionment revenues. Expresses legislative intent that workload reductions be focused in areas other than transfer, vocational and basic skills education.
- Increases student fees by \$6 per unit (to \$26 per unit), consistent with pre-2007 levels. The additional fee revenue provides community colleges with \$80 million in new funds to partially offset apportionment reductions.
- Provides community colleges with \$130 million in federal economic stimulus funds – as estimated in July – to partially offset categorical program reductions.
- Provides categorical program flexibility to allow the community colleges to move funding among most – but not all – categorical programs.
- Defers a total of \$703 million in General Apportionment payments from the 2009-10 to the 2010-11 fiscal years, an increase of \$163 million over 2008-09.
- Implements a number of intra-year payment deferrals, including \$100 million intra-year deferrals enacted in September to mitigate state cash shortages. (See *Cash Management* section for details.)
- Shifts \$48 million in community colleges funding from the Quality Education Investment Act (QEIA) from General Fund to Proposition 98 in 2009-10; focuses all funding on Career Technical Education only beginning in 2010-11; and adds an extra year of program funding in 2014-15.

7980 CALIFORNIA STUDENT AID COMMISSION

- The Legislature rejected the Governor's plan to eliminate the Cal Grant Financial Aid (Cal Grant) Program and decentralize Cal Grant administration. Instead, the Legislature fully funded the Cal Grant program and achieved state savings by transferring \$32 million in excess funds from the Student Loan Operating Fund to the General Fund to offset Cal Grant costs. *[The Governor vetoed \$6.3 million in funding for Student Aid Commission operations and set aside \$4.3 million contingent upon legislation to implement a decentralization proposal. See AB 187 for status of partial restoration of GF.]*

SUBCOMMITTEE 2

FINAL ACTION REPORT

Senate Budget and Fiscal Review Committee

Members

S. Joseph Simitian, Chair
John Benoit
Alan Lowenthal

Consultants

Brian Annis
Seija Virtanen

SUBCOMMITTEE No. 2

RESOURCES, ENVIRONMENTAL PROTECTION, ENERGY, and TRANSPORTATION

Natural Resources

Secretary for Resources.....	2-1
Special Resources Programs	2-2
California Tahoe Conservancy.....	2-2
California Conservation Corps.....	2-2
Colorado River Board	2-3
Department of Conservation	2-3
Department of Forestry and Fire Protection.....	2-4
State Lands Commission	2-5
Department of Fish and Game.....	2-5
Wildlife Conservation Board.....	2-7
Department of Boating and Waterways	2-7
California Coastal Commission.....	2-8
State Coastal Conservancy	2-8
Native American Heritage Commission.....	2-8
Department of Parks and Recreation.....	2-9
Santa Monica Mountains Conservancy.....	2-10
San Francisco Bay Conservation and Development Commission	2-10
San Gabriel and Lower Los Angeles Rivers and Mountains Conservancy	2-10
San Joaquin River Conservancy.....	2-10
Baldwin Hills Conservancy.....	2-11
Delta Protection Commission.....	2-11
San Diego River Conservancy	2-11
Coachella Valley Mountains Conservancy	2-11
Sierra Nevada Conservancy	2-11
Department of Water Resources.....	2-11

Environmental Protection

Secretary for Environmental Protection	2-14
Air Resources Board	2-14
Integrated Waste Management Board	2-15
Department of Pesticide Regulation.....	2-16
State Water Resources Control Board.....	2-16
Department of Toxic Substances Control	2-17
Office of Environmental Health Hazard Assessment.....	2-18

SUBCOMMITTEE No. 2

(CONTINUED)

Energy and Utilities

California Energy Commission	2-19
Department of Water Resources (California Energy Resources Scheduling Division).....	2-20
Public Utilities Commission.....	2-20
Electricity Oversight Board.....	2-21

Food and Agriculture

Agricultural Labor Relations Board.....	2-22
Department of Food and Agriculture	2-22

Transportation

California Transportation Commission.....	2-23
State Transit Assistance	2-23
Department of Transportation	2-23
High Speed Rail Authority	2-28
Board of Pilot Commissioners for the Bays of San Francisco, San Pablo and Suisun	2-29
Office of Traffic Safety	2-29
California Highway Patrol.....	2-29
Department of Motor Vehicles.....	2-30
Shared Revenue	2-32

NATURAL RESOURCES

0540 Secretary for Natural Resources

- Approved \$28.3 million in Proposition 84 bond funds for the River Parkways grant program. Also, extended two existing positions for two years from Proposition 12 and 40 bond funds to administer the grant program.
- Approved \$24.8 million in Proposition 84 bond funds for the San Joaquin River restoration program.
- Approved \$2.9 million in Proposition 50 bond funds for the CALFED Science Program.
- Approved \$12 million in Proposition 84 bond funds for local assistance revolving loan programs and planning grants towards transportation and land use planning required by SB 375 (Steinberg, 2008).
- Approved two positions from existing Proposition 84 bond funds to support the activities of the Strategic Growth Counsel established by SB 732 (Steinberg, 2008).
- Approved \$800,000 from Proposition 84 bond funds for the City of Calexico's New River project.

Budget Bill Language

1. Approved budget bill language stating that the Secretary for Resources may continue to expend Proposition 84 bond funds for San Joaquin River Restoration only if the United States Bureau of Reclamation continues to provide federal funds and continues implementation of the settlement agreement.
2. Approved budget bill language stating that if legislation is enacted that establishes new policy priorities and a new governance structure for the Sacramento-San Joaquin Delta, the CALFED Science Program funds shall continue to be available if they are consistent with the new priorities and governance structure.
3. Approved budget bill language stating that \$12 million in Proposition 84 bond funds are for local assistance planning grants and incentives, including revolving loan programs and other methods for data gathering and model development necessary to comply with SB 375.

Trailer Bill Language

1. Adopted trailer bill language that raises the voluntary Environmental License Plate Fund fee by \$8 per plate (to \$48 for new plates and \$38 for renewals). This fee increase will generate approximately \$3 million in revenues annually and be used to off-set cuts in resources departments.
2. Adopted trailer bill language that requires the CALFED Bay-Delta Authority to post their science contracts on a publicly accessible website.

3110 Special Resources Program

- Approved as budgeted.

3125 California Tahoe Conservancy

- Approved \$1.6 million from various funding sources (Proposition 50 bond funds, Habitat Conservation Fund, Lake Tahoe Conservancy Account, and reimbursements) for the Lake Tahoe Environmental Improvement Program.

3340 California Conservation Corps

- Approved \$11.4 million in Proposition 84 bond funds for state operations.
- Approved \$6.7 million in Proposition 84 bond funds for local assistance to the local conservation corps.
- Approved \$8.25 million in Beverage Container Recycling Funds (BCRF) for the local conservation corps (these funds were a loan from AB 118 funds to the BCRF).
- Approved \$8.25 million GF for the local conservation corps (these funds were a loan from AB 118 to the GF). ***The Governor vetoed \$8.25 million GF.***

Budget Bill Language

1. Approved budget bill language stating that the Proposition 84 bond funds are to include, but are not limited to, outreach, education, and workforce training for California's foster youth.
2. Approved budget bill language stating that the local assistance Proposition 84 bond funds are to include, but are not limited to, outreach, education, and workforce training for California's foster youth.

3. Approved budget bill language allowing the California Conservation Corps (CCC) to bypass Joint Legislative Budget Committee (JLBC) 30-day approval process when receiving federal or local government funds during an emergency. The CCC will still be required to send a notification letter to the JLBC that a transfer of funds has taken place.

3460 Colorado River Board of California

- Approved as budgeted.

3480 Department of Conservation

- Approved \$3.5 million from Proposition 84 bond funds for the Watershed Coordinator Grant Program.
- Approved \$1.25 million from Proposition 50 bond funds for two years towards the CALFED Watershed Program.
- Approved \$2.5 million in one time Proposition 12 bond funds for local assistance grants to permanently protect farmland.
- Approved \$4.1 million from Proposition 84 bond funds for local assistance grants to permanently protect strategically important farmland.
- Approved \$2.7 million from special funds and 15 positions to implement AB 1960 (Nava, 2008), which requires the Department of Conservation to develop regulations for oil production facility spill contingency planning, as well as regulations for oil production facility maintenance, construction, ownership, and decommissioning.
- Approved \$1.4 million from special funds for contracting with the Department of Justice to combat fraud in the Beverage Container Recycling Program.
- Approved \$1.5 million from special funds for Recycling Starter Kits for locations without existing recycling infrastructure, and one new position to administer the program.
- Approved \$125,000 from special funds for abandoned mine remediation.
- Approved \$436,000 over four years from special funds for the increased costs of a building lease in Sacramento.
- Approved \$251,000 in 2009-10, growing to \$435,000 in 2010-11 from special funds for four limited-term positions to manage additional grants for beverage container recycling.
- Approved \$132,000 from special funds for information technology support.

- Approved \$27,792,000 GF for Williamson Act subventions. *The Governor vetoed \$27,791,000 GF to create a GF reserve.*
- Rejected the Governor's May Revise proposal to restructure the Beverage Container Recycling Fund grants and incentive payments.

3540 Department of Forestry and Fire Protection

- Approved \$1.7 million GF for 18 additional battalion chief positions to maintain staffing coverage that existed prior to the most recent Bargaining Unit 8 contract.
- Approved \$5.4 million from Proposition 84 bond funds for local assistance urban greening grants.
- Approved \$3.26 million from federal funds for fuels treatment projects in San Bernardino, Riverside, and San Diego Counties.
- Approved \$2.7 million from special funds for compliance with Air Resources Board regulations on mobile equipment.
- Approved \$1.35 million in reimbursements for a prototype mobile command center for the South Coast region.
- Approved \$1.1 million from Proposition 40 bond funds for eight positions to extend the Sierra Nevada fuels treatment program by one year.
- Approved \$1.3 million GF and 20 positions to provide additional accounting and procurement oversight of the Emergency Fund expenditures.
- Approved \$327,000 from special funds for the maintenance and support of the computer aided dispatch system.
- Approved \$166,000 from federal funds for three positions to continue expiring limited-term positions for the CALFED Bay-Delta Program.
- Approved \$285,000 from special funds and two positions to dispose of illegal fireworks.
- Approved \$293,000 from special funds for fire service training.
- Approved \$319,000 GF and 0.5 positions to perform background checks on Emergency Medical Technicians.
- Approved \$290 million in lease-revenue funded capital outlay projects.
- Approved a \$17 million GF reduction to vehicle replacements.
- Reduced Proposition 99 expenditure authority by \$53,000 to reflect decreased revenues in the fund.

- Rejected the Governor's Emergency Response Initiative (ERI). Restored \$76 million GF to CalFire's base budget so as not to reduce department functions and services due to rejection of ERI funding.
- Reduced \$7 million GF for the DC-10 plane contract.
- Reduced \$3 million GF for resources management.

Budget Bill Language

1. Approved budget bill language allowing for the one-time use of moneys in the Alternative and Renewable Fuel and Vehicle Technology Fund to comply with diesel vehicle regulations of the Air Resources Board.

Trailer Bill Language

1. Approved trailer bill language allowing for the use of federal American Recovery and Reinvestment Act of 2009 (ARRA) funds for the forestry management program.

3560 State Lands Commission

- Approved \$60,000 annually for two years from special funds for addressing implementation questions of the Marine Oil Terminal Engineering and Maintenance Standards (MOTEMS).
- Approved \$100,000 from Reimbursements for one position to perform Granted Public Trust Lands Programs functions.
- Approved \$150,000 from Reimbursement for one limited-term position to work on the San Joaquin River Restoration Project.
- Approved \$184,000 from special funds for the working drawings phase of the Huntington Beach field office replacement project.

3600 Department of Fish and Game

- Approved \$22 million from Proposition 84 bond funds for the Ecosystem Restoration Program in the Bay-Delta, contingent upon passage of legislation in the current session of a new Bay-Delta governance structure.
- Approved \$8.9 million from Proposition 84 bond funds for projects associated with the Natural Community Conservation Plan (NCCP) for the CALFED Bay-Delta program.
- Approved \$7.6 million from reimbursements to address low levels of dissolved oxygen and methyl mercury in the Delta.

- Approved \$10.5 million from reimbursements and one position for San Joaquin River restoration.
- Approved \$9.7 million from Proposition 84 bond funds for Anadromous fish management.
- Approved \$5 million from special funds for Salton Sea restoration.
- Approved \$3.1 million from special funds for trout hatcheries pursuant to AB 7 (Cogdill, 2005).
- Approved \$3 million from special funds for 15 new warden positions.
- Approved \$2.3 million from reimbursements for Office of Spill Prevention and Response (OSPR) to provide oversight of the department's laboratories.
- Approved \$1.5 million from special funds and ten positions for a renewable energy action team to assist in the environmental conservation aspect of siting renewable energy generation projects.
- Approved \$1 million from reimbursements for the implementation of the Delta Fish Agreement 2008 Amendment.
- Approved \$900,000 from special funds for Air Resources Board mandated diesel vehicle clean air retrofits.
- Approved \$619,000 from special funds and one position for the Wildlife Forensics Lab DNA program.
- Approved \$500,000 from special funds for the Oiled Wildlife Care Network.
- Approved \$500,000 from reimbursements for CEQA document review of non-state applicants.
- Approved \$450,000 from special funds and four positions for lake and streambed alteration program mandatory reviews.
- Approved \$400,000 over two years from federal funds and one position for improving the Department of Fish and Game radio communications system.
- Approved \$250,000 per year for two years from special funds toward a multi-county joint effort pilot project to address the Quagga Mussel in the Bay Area.
- Approved \$221,000 from special funds and two positions for wildlife area and ecological reserve management.
- Approved \$85,000 from special funds and two positions for data analysis of salmon harvest cards and conducting a Spring-run Chinook salmon creel survey.
- Approved \$80,000 from special funds for abalone enforcement and the printing of new abalone report cards.
- Approved a one-time transfer of \$30 million from the Fish and Game Preservation Fund to replace GF appropriation for the department.

- Reduced Proposition 99 expenditure authority by \$362,000 to reflect decreased revenues in the fund.

Budget Bill Language

1. Approved budget bill language stating that the Department of Fish and Game may continue to expend Proposition 84 bond funds for San Joaquin River Restoration only if the United States Bureau of Reclamation continues to provide federal funds and continues implementation of the settlement agreement.
2. Approved budget bill language stating that the \$22 million in Proposition 84 bond funds only becomes available if a new Bay-Delta governance structure is passed and enacted in this legislative session.
3. Approved budget bill language requiring the department to notify the Joint Legislative Budget Committee if the transfer of \$30 million from the Fish and Game Preservation Fund results in the loss of federal funds.
4. Approved budget bill language allowing for the one-time use of moneys in the Alternative and Renewable Fuel and Vehicle Technology Fund to comply with diesel vehicle regulations of the Air Resources Board.

3640 Wildlife Conservation Board

- Approved \$18.4 million Proposition 1E transfer to the Habitat Conservation Fund.
- Approved \$10 million from Proposition 84 bond funds for the Natural Communities Conservation Plan (NCCP) implementation and establishment.
- Approved \$1 million from special funds for the public access program.
- Approved \$109,000 from reimbursements and one position to support the San Joaquin River Conservancy's acquisition efforts.

3680 Department of Boating and Waterways

- Approved \$4.2 million from special funds for the Imperial Beach restoration projects.
- Approved \$1.5 million from special funds for the Robert Crown Memorial State Beach restoration project.

- Approved \$1.25 million from special funds for a boating infrastructure grant program.
- Approved \$500,000 from special funds for the Abandoned Watercraft Abatement Fund grant program local assistance grants.
- Approved \$250,000 from special funds for the Coastal Data Information Program's monitoring and prediction of waves and shoreline change in California.
- Rejected \$4 million from special funds for state-wide minor capital outlay projects.
- Rejected \$1 million in special funds for state boating operations and facilities combined. This rejection left \$8.8 million for state boating operation and \$16 million for state facilities.

3720 California Coastal Commission

- Approved a one-time augmentation of \$245,000 from special funds for coastal and marine education local assistance grants.

3760 State Coastal Conservancy

- Approved \$30 million in Proposition 84 bond funds for the Conservancy's statewide programs.
- Approved \$20 million in Proposition 84 bond funds for the San Francisco Bay Area coastal enhancement and restoration.
- Approved \$12.4 million in Proposition 84 bond funds for the Santa Ana River Parkway programs.
- Approved \$10.6 million in Proposition 84 bond funds for the Monterey Bay and Watersheds programs.
- Approved \$5.2 million in Proposition 84 bond funds for the San Diego Bay and Watersheds programs.
- Approved \$26.7 million in Proposition 84 bond funds for the Ocean Protection Council for capital projects and science applications.
- Approved \$900,000 from special funds for the public access program.
- Approved \$960,000 from special funds for the Santa Clara River Parkway.

3780 Native American Heritage Commission

- Approved as budgeted.

3790 Department of Parks and Recreation

- Reduced the department's budget by \$8 million GF. *The Governor vetoed an additional \$6.2 million GF, for a total reduction of \$14.2 million GF. This reduction will lead to the closure of approximately 100 of the 278 state parks.*
- Approved \$324.8 million from various funding sources (\$33 million from special funds; \$14.8 million from federal funds; and \$277 million from Proposition 84 bond funds) for local assistance.
- Approved \$8 million from Proposition 84 bond funds for the Americans with Disabilities Act compliance retrofits in state parks.
- Approved \$5.7 million GF and six positions for Empire Mine remediation.
- Approved \$5.3 million from special funds and 45 positions to staff newly completed capital outlay projects in state parks.
- Approved \$1.6 million from special funds for Air Resources Board mandated diesel vehicle clean air retrofits.
- Approved \$1.8 million from Proposition 84 bond funds for the Natural Heritage Stewardship program.
- Approved \$1.27 million from Proposition 84 bond funds for the Cultural Stewardship program.
- Approved \$1.6 million from Proposition 84 bond funds for the Interpretive Exhibit program.
- Approved \$6 million from Proposition 84 bond funds for natural resource restoration projects.
- Approved \$16.3 million (\$5 million from Proposition 84 bond funds and \$11.3 million in reimbursement authority) for the Candlestick Point State Recreation Area Yosemite Slough restoration project.
- Approved \$870,000 from Proposition 84 bond funds and four limited-term positions for local assistance grant program delivery.
- Approved \$214,000 from reimbursements and two positions for the Office of Historic Preservation to assist in review of renewable energy projects.
- Approved \$9.2 million from special funds for Off-Highway Vehicle parks capital outlay projects.
- Approved \$5 million from federal funds for statewide capital outlay projects.

- Approved 23.3 million from Proposition 84 bond funds for various capital outlay projects.
- Approved a \$35 million loan from the Renewable Resources Trust Fund for state park operations (loaned through the GF).
- Reverted \$22 million in Off-Highway Vehicle Fund capital outlay projects from 2008-09 and loaned these funds for 2009-10 state park operations.
- Reduced Proposition 99 expenditure authority by \$1.25 million to reflect decreased revenues in the fund.

Budget Bill Language

1. Approved budget bill language allowing for the one-time use of moneys in the Alternative and Renewable Fuel and Vehicle Technology Fund to comply with Air Resources Board diesel vehicle regulations.

Supplemental Report Language

1. Approved supplemental report language detailing the concessions contracts in state parks approved by the Legislature as part of the 2009-10 Budget Act.

3810 Santa Monica Mountains Conservancy

- Approved \$8.3 million in Proposition 84 bond funds for land acquisition and local assistance grants.

3820 San Francisco Bay Conservation and Development Commission

- Approved \$170,000 in Reimbursement authority and one position for work related to the standard agreement with the Metropolitan Transportation Commission.

3825 San Gabriel and Lower Los Angeles Rivers & Mountains Conservancy

- Approved \$7 million in Proposition 84 bond funds for capital outlay and grants.
- Approved \$3.7 million in Proposition 50 bond funds for capital outlay.

3830 San Joaquin River Conservancy

- Approved \$8 million in Proposition 84 bond funds for land acquisition.

- Approved \$4 million (\$2 million in Proposition 84 bond funds and \$2 million Reimbursement authority) for public access, recreation, and environmental restoration projects.

3835 Baldwin Hills Conservancy

- Approved \$3 million in Proposition 84 bond funds for acquisition and improvements.

3840 Delta Protection Commission

- Approved as budgeted.

3845 San Diego River Conservancy

- Approved as budgeted.

3850 Coachella Valley Mountains Conservancy

- Approved \$6 million from Proposition 84 bond funds for land acquisition.
- Approved \$456,000 from Proposition 40 bond funds for land acquisition.
- Approved \$343,000 from Proposition 12 bond funds for land acquisition.

3855 Sierra Nevada Conservancy

- Approved \$15.5 million in Proposition 84 bond funds for grants and cooperative agreements.

3860 Department of Water Resources

- Approved \$279.9 million in Proposition 1E and Proposition 84 bond funds and 31 positions for the FloodSAFE California Program.
- Approved \$119 million in Proposition 1E bond funds for systemwide levee evaluations and repairs.
- Approved \$35.2 million in Proposition 1E bond funds for system evaluation of the State Plan of Flood Control.
- Approved \$181.6 million in Proposition 1E bond funds and reimbursements for various capital outlay projects.

- Approved \$2.6 million from special funds and 17 temporary positions for the Delta Habitat Conservation and Conveyance Program to work on environmental planning, engineering, and right-of-way efforts for the Bay Delta Conservation Plan (BDCP) water conveyance options. Included Control Section 4.12 which states that none of the funds shall be used for construction of an alternative conveyance facility.
- Approved \$13.9 million in reimbursements for the San Joaquin River restoration project.
- Approved \$12 million in reimbursements for Salton Sea restoration.
- Approved \$10.3 million (\$7.3 million in Proposition 1E bond funds and \$3 million in reimbursements) for the South Sacramento County Streams project.
- Approved \$5.3 million in federal funds for floodplain mapping.
- Approved \$3.7 million (\$2.7 million from Proposition 13 bond funds and \$950,000 from reimbursements) for urban streams restoration.
- Approved \$4.3 million from Proposition 13 bond funds and 4.5 positions to address low levels of dissolved oxygen in the Stockton deepwater channel and methyl mercury in the Sacramento-San Joaquin Delta.
- Approved \$5 million from Proposition 1E bond funds for the Pajaro River Flood Control Project.
- Approved \$10.8 million from Proposition 50 bond funds for drinking water pilot projects.
- Approved \$3.1 million from special funds and 19 positions for State Water Project operations.
- Approved \$236,000 from special funds and one position for the State Water Project to address climate change issues.
- Approved \$750,000 from special funds and four positions to implement the Delta Fish Agreement 2008 Amendment.
- Approved savings of \$280,000 and four new positions for the transfer of 16 flow monitoring stations in the Delta from a U.S. Geological Survey contract to in-house work at the department.
- Shifted \$7 million GF for Delta levees to Proposition 1E bond funds.
- Shifted \$2,190,000 GF and 11 positions from the Central Valley Flood Protection Board to the department's Public Safety and Prevention of Damage program.
- Rejected \$38.5 million (\$31 million from State Water Project funds and \$7.5 million from Harbors and Watercraft Fund) for State Water Project facilities recreation to address Davis-Dolwig Act requirements.
- Rejected \$29.4 million (\$26.6 million from Proposition 13 bond funds and \$2.8 million from Proposition 50 bond funds) for the South Delta Improvement Project.
- Rejected \$800,000 from special funds and four positions for Delta fishery improvements.

- Rejected \$180,000 in Proposition 13 bond funds for the CALFED conveyance program.

Budget Bill Language

1. Approved budget bill language restricting the use of funds for the Delta Habitat Conservation and Conveyance Program to environmental planning, engineering, and right-of-way work, and preventing the use of those funds for construction of an alternative conveyance facility.
2. Approved budget bill language stating that the Department of Water Resources may continue to expend Proposition 84 bond funds for San Joaquin River Restoration if the United States Bureau of Reclamation continues to provide federal funds and continues implementation of the settlement agreement.

Trailer Bill Language

1. Approved trailer bill language requiring the Department of Water Resources to annually report on the State Water Project expenditures.

ENVIRONMENTAL PROTECTION

0555 Secretary for Environmental Protection

- Approved \$2.5 million from special funds and five positions to complete the Unified Hazardous Materials and Hazardous Waste Regulatory Management Program information management system by January 1, 2010.
- Approved \$219,000 from special funds and one position to support the operations of the Unified Program Data System and Exchange Node, a web-based inspection and enforcement reporting to the United States Environmental Protection Agency.
- Reduced Proposition 99 expenditure authority by \$8,000 to reflect decreased revenues in the fund.

Trailer Bill Language

1. Approved trailer bill language allowing the Secretary for CalEPA to both contract with and provide grants to Certified Unified Program Agencies (CUPAs) for information management services, rather than only provide grants.

3900 Air Resources Board

- Approved \$3 million in Proposition 1B bond funds for the Lower Emission School Bus program.
- Approved \$1.6 million from special funds for contracts and five positions to develop and implement a new diesel-powered vehicle program targeting new and existing on-road vehicles.
- Approved \$2 million from special funds for local assistance to the Oakland Unified School District to mitigate air quality impacts of the Caldecott Tunnel project.
- Approved \$682,000 from special funds and two positions to support greenhouse gas reduction strategies in the transportation and land use sectors pursuant to SB 375 (Steinberg, 2008).
- Approved \$362,000 from special funds and one position to support additional greenhouse gas reduction responsibilities pursuant to the regulation and verification of greenhouse gas emissions.
- Approved a \$35 million loan from the Beverage Container Recycling Fund to the Air Pollution Control Fund for AB 32 activities.

Budget Bill Language

1. Approved budget bill language specifying that \$2 million of the Air Quality Improvement Funds are for the Oakland Unified School District to mitigate the air quality impacts of the Caldecott Tunnel project at the Chabot Elementary School and the Claremont Middle School.
2. Approved budget bill language stating that the loan for AB 32 activities will be repaid from fees authorized under the AB 32 statute on or before June 30, 2012.

3910 Integrated Waste Management Board

- Approved \$26 million over three years from special funds and five positions to implement the Waste Tire Recycling Management program activities intended to increase the diversion rate of waste tires from landfills.
- Approved \$750,000 in reimbursement authority for the Education and Environment Initiative curriculum printing and dissemination.
- Approved \$800,000 redirection of special fund funding for six positions to implement programs that minimize methane emissions from landfills.
- Approved \$500,000 in one-time special funds for the Used Oil Block Grant program. These additional funds bring the 2009-10 Used Oil Block Grant program funding to \$5.6 million.
- Approved \$100,000 in federal funds for the National Environmental Information Exchange Network.
- Approved \$26,000 in federal funds for the Education and Environment Initiative.
- Abolished the Integrated Waste Management Board and established the Department of Resources Recycling and Recovery.

Budget Bill Language

1. Approved budget bill language authorizing the Integrated Waste Management Board to use no less than half of the funds remaining in the Used Oil Recycling Fund after certain expenditures for the Used Oil Block Grant. Without this budget bill language the mandatory Used Oil Block Grant would have been \$10 million, an amount that would have rendered the fund insolvent.

Trailer Bill Language

1. Approved trailer bill language that authorizes the Integrated Waste Management Board for two years to allocate block grant funding in a manner that distributes reductions equitably among all grantee operations.

Supplemental Report Language

1. Approved supplemental report language requiring the Integrated Waste Management Board to report to the Legislature by March 1, 2010, on its activities to reduce greenhouse gas emissions from solid waste.

3930 Department of Pesticide Regulation

- Approved \$404,000 from special funds to conduct a permanent Pesticide Pollution Prevention Alliance Grant program.
- Approved \$201,000 in reimbursements and two positions to oversee monitoring of the California Department of Food and Agriculture's Light Brown Apple Moth eradication program.
- Approved \$48,000 from special funds and 0.5 positions to administer a Pesticide Container Recycling and Certification program pursuant to SB 1723 (Maldonado, 2008).

3940 State Water Resources Control Board

- Approved \$16.24 million in federal funds for water quality planning and leaking underground petroleum storage tank cleanup projects.
- Approved a redirection of \$20 million from the Underground Storage Tank Cleanup Fund for orphan underground storage tank cleanup.
- Approved a redirection of \$10 million from the Underground Storage Tank Cleanup Fund for cleanup of underground storage tanks at school sites.
- Approved \$1.85 million in reimbursement authority to implement pilot studies on groundwater quality in the Tulare Lake Basin and Salinas Valley.
- Approved \$1 million (on-going) from special funds for local assistance to small and/or disadvantaged communities to meet their wastewater treatment obligations and improve water quality.

- Approved \$723,000 from special funds and five positions to eliminate the pending application backlog for waste dischargers.
- Approved \$719,000 from special funds and five positions to review claims for the Underground Storage Tank Cleanup Fund program that have been active for more than five years.
- Approved \$480,000 from federal funds and two limited-term positions to provide additional regulatory oversight at the Edwards Air Force Base.
- Approved \$397,000 from special funds and 0.5 positions to lead an interagency effort and report to the Legislature on the communities that rely on contaminated groundwater.
- Reduced Proposition 99 expenditure authority by \$303,000 to reflect decreased revenues in the fund.

Trailer Bill Language

1. Approved trailer bill language that allows the transfer of American Recovery and Reinvestment Act of 2009 (ARRA) funds into the Orphan Underground Storage Tank Cleanup Fund and allows those ARRA funds to be used in lieu of state funds for orphan site cleanup.

Supplemental Report Language

1. Approved supplemental report language requiring the State Water Resources Control Board to report to the Legislature by March 30, 2010 recommendations for creating greater efficiency in administering and enforcing water rights in the state. The report shall include a cost estimate for implementation of the recommendations.

3960 Department of Toxic Substances Control

- Approved \$5,752,000 from federal funds and \$500,000 from reimbursements for navy military base oversight as contaminated properties are transferred to a responsible party. Also, reduced state special fund spending for the same purpose by \$3,625,000.
- Approved \$501,000 from special funds and five positions to inspect aboveground storage petroleum tanks to protect groundwater, as well as to promote public health from toxic harm in Imperial County.
- Approved \$452,000 from special funds and three limited-term positions for the Santa Susana Field Laboratory clean-up.
- Approved \$242,000 from special funds for laboratory equipment to test electronic devices for toxic content so that non-compliant electronics are not sold in California.

- Approved a redirection of \$2.1 million in special funds for implementation of AB 1879 (Feuer and Huffman, 2008) to establish Green Chemistry procedures in regulation to evaluate alternatives to chemicals of concern in products, and to specify the regulatory responses when chemicals of concern are found in products.
- Approved a redirection of \$233,000 in special funds for implementation of SB 509 (Simitian, 2008) to create an online Toxics Information Clearinghouse.

Trailer Bill Language

1. Approved trailer bill language that provides technical clarifications to the Toxic Substances Control Account and Hazardous Waste Control Account funding for pollution prevention programs.

3980 Office of Environmental Health Hazard Assessment

- Approved \$675,000 from special funds and 4.5 positions to work on hazard identification activities related to Proposition 65 and to provide legal support for Office of Environmental Health Hazard Assessment (OEHHA).
- Approved \$665,000 in reimbursement authority and three positions to support the California Department of Food and Agriculture in its efforts to combat the Light Brown Apple Moth and other invasive species.
- Approved \$245,000 in reimbursement authority and one position to develop guidelines to assess the cumulative impacts of multiple environmental contaminants.
- Approved \$125,000 from special funds and one position to assess public health and fishing closures following oil spills.
- Redirected three existing positions to work on the Green Chemistry toxics information clearinghouse.
- Shifted \$5,797,000 from GF to special funds in order to continue fully funding OEHHA's operations.

ENERGY AND UTILITIES

3360 California Energy Commission

- Approved \$113 million in federal American Recovery and Reinvestment Act of 2009 (ARRA) funds for the State Energy Program.
- Approved \$101.3 million from the Alternative and Renewable Fuel and Vehicle Technology Program to implement AB 118. The approved funding includes three new positions and \$101 million in one-time funding for projects. See budget bill language below.
- Approved \$49.6 million in federal funds and five positions for energy efficiency and conservation block grants pursuant to AB 2176.
- Approved \$10.2 million (\$9.5 million in federal funds and \$703,000 from the Public Interest Research, Development, and Demonstration Fund) and five positions for the West Coast Regional Carbon Sequestration Partnership demonstration project.
- Approved \$2.25 million from the Energy Resources Programs Account for 18.5 positions to process an increased number of siting applications for energy projects.
- Approved \$2.6 million from the Energy Resources Programs Account for contracts and ten positions to site renewable energy generation and transmission.
- Approved \$1.4 million from the Energy Resources Programs Account to accelerate building energy efficiency standards development.
- Approved \$409,000 from the Energy Resources Programs Account for three positions to accelerate the appliance energy efficiency standards development.

Budget Bill Language

1. Approved budget bill language stating that the Alternative and Renewable Fuel and Vehicle Technology Program (AB 118) funds could not be used for hydrogen refueling stations during 2009-10.
The Governor vetoed this budget bill language.

Trailer Bill Language

1. Approved trailer bill language allowing the Energy Commission to award grants from ARRA funds consistent with the Commission's energy efficiency and conservation programs, as well as for green jobs. The trailer bill sets a cap on funds that can be used for administration.

2. Approved trailer bill language establishing the State Property Revolving Fund for use of ARRA funds to conduct energy efficiency retrofits on state buildings.

3860 Department of Water Resources (California Energy Resources Scheduling Division)

- Approved as budgeted

8660 Public Utilities Commission (PUC)

- Approved \$50 million from the California Advanced Services Fund for two positions and payments to telephone corporations to deploy additional broadband infrastructure in unserved and underserved areas in California as required under SB 1193 (Padilla, 2008).
- Approved \$3.4 million in reimbursement authority per year for eight years for the California Solar Initiative monitoring, evaluation, and consultants.
- Approved \$2.5 million per year for two years from the PUC Utilities Reimbursement Account for outside legal counsel and economic consultants in ongoing litigation by the PUC before the Federal Energy Regulatory Commission (FERC) to seek refunds for California consumers for overcharges exceeding \$1.4 billion during the 2000-01 energy crisis.
- Approved \$1.4 million from special funds and one position to implement an up-to-date integrated database system maintaining large inventories of rail inspection, accident, infrastructure, security, complaint, formal proceeding, and historical data.
- Approved \$1 million from California High Cost Fund B (CHCF-B) for a study on the affordability of telephone service in areas receiving CHCF-B support.
- Approved \$553,000 total, including (\$415,000 from the PUC Ratepayer Advocate Account) and three positions to provide legal support for staffing cases for the Division of Ratepayer Advocates and (\$138,000 from the PUC Utilities Reimbursement Account) one position to provide legal services for the PUC litigation at the FERC to pursue refunds from the 2000-01 energy crisis.
- Approved \$461,000 from the PUC Utilities Reimbursement Account and four positions for the Statewide Energy Efficiency Strategic Plan implementation, coordination, and ongoing revisions and updates; as well as evaluation, measurement, and verification of energy savings.
- Approved \$417,000 from the PUC Utilities Reimbursement Account and four positions to implement the Waste Heat and Carbon Emissions Reduction Act of 2007 (AB 1613, Blakeslee), and to establish a program for the purchase of excess electricity generated by combined heat and power units up to 20 megawatts.
- Approved \$238,000 from the PUC Ratepayer Advocate Account and two positions to accommodate new applications for major transmission projects.

FOOD AND AGRICULTURE

7300 Agricultural Labor Relations Board

- Approved as budgeted.

8570 Department of Food and Agriculture

- Approved \$16.2 million in federal funds and seven positions for enhancing awareness, consumption, and competitiveness of specialty crops.
- Approved \$1 million in federal funds and two temporary position to detect and eradicate the Asian Citrus Psyllid.
- Approved \$810,000 in federal funds to permanently transfer the Senior Farmer's Market Nutrition program from the California Department of Aging to the Department of Food and Agriculture.
- Approved \$565,000 in federal funds for the National Organic Certification Cost-Share program to assist organic producers and handlers with costs of certification for production and processing of organic agricultural products.
- Approved \$500,000 from special funds for the maintenance and equipment replacement at the Center for Analytical Chemistry.
- Approved a one-time augmentation of \$1,350,000 from the Agricultural Building Fund for relocation of department staff to another building.

- Approved \$138,000 from the PUC Utilities Reimbursement Account and one position to enforce prepaid calling cards.
- Rejected \$322,000 from the PUC Utilities Reimbursement Account and three positions for implementation of a 33 percent Renewable Portfolio Standard (RPS) and renewable transmission.
- Rejected \$174,000 from the PUC Utilities Reimbursement Account and two positions to monitor the California Independent System Operator (CAISO) market after the implementation of a new market design.

Budget Bill Language

1. Approved budget bill language stating that the Public Utilities Commission shall not directly engage in workforce education and training curriculum development as part of the Commission's energy efficiency programs.

Supplemental Report Language

1. Approved supplemental report language requiring the PUC to report to the Legislature semiannually on its outside legal contracts in litigation before the Federal Energy Regulatory Commission to seek refunds for California consumers for overcharges exceeding \$1.4 billion during the 2000-01 energy crisis.

8770 Electricity Oversight Board

- Budgeted at zero dollars.

TRANSPORTATION

2600 CALIFORNIA TRANSPORTATION COMMISSION

- Approved as budgeted – no budget changes were requested for the Commission. Budget funding is \$3.7 million from various special funds, 21 positions for operations, and \$25 million in Proposition 116 bond funds.

2640 STATE TRANSIT ASSISTANCE

- Approved Proposition 1B (Prop 1B) Public Transportation Modernization, Improvement, and Service Enhancement Account (PTMISEA) funding of \$350 million for transit capital investments.
- Local transit entities will receive about \$1 billion in American Recovery and Reinvestment Act (ARRA) federal stimulus funds, but no state legislation was necessary to allocate these funds.

Trailer Bill Language

Adopted trailer bill language to implement the Governor's proposal to suspend state funding for local transit operations; however, made the suspension temporary (through 2012-13) instead of permanent. The amount suspended is directed to General Fund relief via reimbursement of bond debt service and other mechanisms. Using July 2009 revenue assumptions, the amount shifted in 2009-10 from local transit agencies to state General Fund relief is approximately \$600 million. (Additional detail on GF relief from transit funds is included in the Department of Transportation summary below).

2660 DEPARTMENT OF TRANSPORTATION

Transportation Revenue and Finance

- Approved \$2.6 billion in American Recovery and Reinvestment Act (ARRA) federal stimulus funds for expenditure by the California Department of Transportation (Caltrans) and local transportation entities. Enactment was not in a budget trailer bill, but rather in ABX3 20 (Bass). Of the \$2.6 billion, \$935 million is directed to the State Highway Operations and Protection Program (SHOPP); however, up to \$310 million of that amount can be loaned to continue Proposition 1B bond projects that were affected by bond cash flow issues. \$1.6 billion in ARRA funds were directed to local transportation entities and \$77 million is directed to transportation enhancement projects such as bicycle and pedestrian facilities. Additionally, local transit entities will receive about \$1.0 billion in ARRA funds, but no state legislation was

necessary to allocate these funds. The state hopes to successfully obtain future ARRA funds from competitive programs in areas including highways and high-speed rail. The July budget package included the following additional actions to implement the ARRA program:

- Reduced the Governor's limited-term funding request from \$8.6 million to \$7.0 million, and approved 67 positions for new Local Assistance staff to fulfill federal oversight and reporting requirements for ARRA funds allocated to local governments.
- Approved one-time funding of \$29.9 million for the Maintenance Program to implement pavement projects that qualify for ARRA funds. An additional \$31.9 million was approved by the Legislature for 2008-09 via the Section Letter process.
- Approved limited-term funding for Capital Outlay Support (COS) resources to implement ARRA projects. Embedded in the COS May Revision letter was the assignment of 328 positions/contractors to work on ARRA-funded projects.
- Approved Proposition 1B bond funding of \$2.8 billion for the following bond categories that are budgeted directly in the California Department of Transportation (Caltrans) budget (figures include state operations, local assistance, and capital outlay):
 - \$1,368 million for the Corridor Mobility Improvement Account (CMIA)
 - \$57 million for the State Transportation Improvement Program (STIP)
 - \$490 million for the Trade Corridors Improvement Fund (TCIF)
 - \$75 million for the State Highway Protection and Preservation Program (SHOPP)
 - \$200 million for the State Local Partnership (SLP)
 - \$1 million for Grade Separation
 - \$433 million for State Route 99
 - \$31 million for Local Bridge Seismic Retrofit
 - \$126 million for Intercity Rail

Other Prop 1B bond appropriations are in the budgets of State Transit Assistance (Transit); the California Emergency Management Agency (Transportation Security); Shared Revenue (Local Streets and Roads); and the Air Resources Board (Air Quality and School Bus Retrofit). Included in the above numbers is limited-term funding of \$515,000 in 2009-10 and \$530,000 in 2010-11 for audit and investigation activities. Excluded from these numbers is any savings resulting from the Governor's furloughs – Caltrans indicates furlough savings associated with Proposition 1B funds may be about \$19 million.

- Approved full Proposition 42 funding of \$1.4 billion in 2009-10. A portion of this revenue is from the temporary 1-cent increase in the sales tax. The budget also includes an \$83 million Proposition 42 loan repayment per the requirements of Proposition 1A of 2006.
- Approved \$1.0 billion in GF relief from "spillover" and other transit funds. The spillover revenue is about \$650 million of this total and is gasoline sales taxes above Proposition 42 revenue. General Fund relief is achieved by using transit funding for purposes that would otherwise be funded by the GF. Expenditures are as follows:
 - \$876 million to reimburse the GF for transportation-related general obligation bond debt.
 - \$138 million for regional center transportation budgeted in the Department of Developmental Services.

To achieve this level of GF relief, the State Transit Assistance transfers to local transit agencies were suspended through 2012-13 (see also the State Transit Assistance item).

- Loaned \$135 million from the State Highway Account to the General Fund. This loan is subject to the Constitutional requirements in Article XIX and must be repaid within three years. Legislative budget reductions and furlough savings exceed the amount loaned, so highway funding is not reduced below that proposed in the January budget.
- Approved the use of Grant Anticipation Revenue Vehicle (GARVEE) bond funding of \$675 million to move forward on critical State Highway Operations and Protection Program (SHOPP) projects. GARVEEs are a federal program and the bonds are repaid with future federal funds.
- Approved a funding shift from State funds to federal funds for \$85 million in pavement maintenance work. This change does not produce any net gain in federal funds but may accelerate the receipt of federal dollars.

Highway Transportation

- Approved the Governor's budget reduction of \$13.2 million for Capital Outlay Support (COS) engineering workload. Approved an additional reduction of \$10.2 million, which was recommended by the Legislative Analyst. The allocation of the funding cut maintained the historic workload split with 90 percent of workload addressed by state staff and ten percent of the workload addressed by contractors.
- Approved funding of \$880,000 in 2009-10, \$605,000 in 2010-11, and \$200,000 in 2011-12 and thereafter (special funds) to develop, implement, and maintain a new Pavement Management System information technology project. As part of the 2008 Budget Act, the Legislature approved a related \$19.6 million (special funds) over three years to implement the Pavement Management Program, which will improve data and forecasting of pavement deficiencies and allow Caltrans to make better investment decisions. Over an 8-year period, cumulative savings from better pavement planning and investments are expected to be \$118 million.
- Approved an April Finance Letter for the Legal Division to permanently increase funding for tort obligations by \$20.0 million – to a new total of \$68.6 million. Additionally, approved a one-time increase of \$8.0 million for legal consultants and professional services to defend the State Route 125 lawsuit.
- Approved a budget reduction of \$12.3 million (special fund) to adjust the budget for updated forecasts of fuel prices. Note, the 2008 Budget Act permanently increased the Caltrans budget by \$21.3 million (special funds) for higher fuel prices.

Rail, Aeronautics, Bicycle and Environmental Mitigation

- Approved total funding of \$13.2 million (a \$7.4 million increase from base funding) for rail heavy equipment overhaul and, additionally, total funding of \$90.3 million (a \$4.0 million increase) for operating costs related to the three intercity passenger rail services that Caltrans

operates in cooperation with Amtrak. These activities are funded from the Public Transportation Account. Rejected a May Revision funding request for an additional \$1.2 million operations augmentation, because the final cost of the Amtrak payment was still pending.

- Approved funding of \$7.2 million (special fund) for Bicycle Transportation Account grants – this is the same level of funding provided in 2008-09.
- Approved the following in the area of environmental mitigation:
 - Approved \$48 million (special funds) to replace and retrofit equipment to conform to air quality requirements. This amount conforms to a revised Administration funding request – the January budget request was \$53.4 million, but further analysis suggested a lower 2009-10 cost.
 - Approved three-year limited-term funding of \$330,000 (special funds) in Capital Outlay Support for a consulting contract to assess and develop training and guidance for compliance with federal and state air quality mandates on highway projects.
 - Approved two-year limited-term funding of \$603,000 (federal funds) for six positions in Local Assistance to implement federal environmental requirements resulting from changes in federal law and regulations.
 - Approved funding of \$10 million (special fund) for the Environmental Enhancement and Mitigation Program – this is the same level of funding provided in 2008-09.

Approved-as-Proposed January Budget Requests

- Approved with the February budget package the following Governor’s Budget Change Proposals, which are not otherwise mentioned in the above bullets:
 - Approved permanent funding of \$6.1 million, special funds, for lease expenses at the new District 3 Office Building in Marysville.
 - Approved an extension of funding for 26 three-year limited-term positions and two permanent positions for a total of \$2.4 million (special fund) for federal-required activities in the administration of Safe, Accountable, Flexible, Efficient Transportation Equity Act – a Legacy for Users (SAFETEA-LU).
 - Approved \$1.1 million in permanent funding and \$1.4 million in one-time funding (special funds) for the new Southern Regional Lab in District 8 (San Bernardino) and for new leased office space in District 2 (Redding).
 - Approved a \$263,000 fund shift for three positions involved in Federal Transit Administration (FTA) grant administration – positions will now be funded from federal funds instead of from the state Public Transportation Account.
 - Approved a permanent increase of \$1.8 million in operating expenses to address increased material costs associated with maintaining the Department’s equipment fleet.
 - Approved a two-year limited-term extension of five positions and \$442,000 in federal funds to continue administration of the Job Access Reverse Commute (JARC) and New Freedom mass transportation grant programs.

- Approved 2009-10 funding of \$2.7 million (federal funds) for federally-required indirect cost / incurred cost audits. Of this amount \$1.6 million will be paid to the State Controller via interagency agreement for audit services.
- Approved a technical correction to convert \$2.3 million from operating expenses to personal service in the Maintenance Program – this relates to a 2007-08 budget change.
- Approved a permanent increase of \$40,700 (local reimbursements) to continue to conduct Federal Aviation Administration airport safety inspections at State-permitted airports.
- Approved a two-year limited-term increase of \$86,000 (federal funds) and two part-time positions to identify and address federally-required Disadvantaged Business Enterprise (DBE) requirements.
- Approved \$695,000 (special funds) for the preliminary plans phase of the Eureka District Office building safety and infrastructure repairs project.

All Caltrans Areas

Budget Bill Language

1. Adopted language requiring Caltrans to convene a workgroup with local agencies to improve the Project Initiation Documents (PIDs) process and report recommendations to the Legislature. Approved a reduction of \$18 million and 137 position to rebase staffing for the PIDs workload. Rejected a proposal to shift \$12.5 million from state funds to local reimbursements.
2. Added language requiring Caltrans to explain and justify the workload for the department's legal, information technology, administrative and civil rights activity for all department programs. Related budget action adjusted the scheduling of expenditure to better tie the budget display to the area of actual expenditure. Caltrans has previously shifted funding across scheduled items without Section 26.00 approval in a process they labeled "cross allocation."
3. Added language to require reporting and allow a funding augmentation of up to \$6.9 million if individual projects are identified to be advanced in the Public Private Partnership (P3) program. Funding of \$2.5 million was included in the budget to implement the base P3 program.
4. Added language to implement a two-year workforce development pilot program. Each year the program would receive \$1 million – half from the State Highway Account and half from federal funds. A report is due to the Legislature no later than March 1, 2011.
5. Amended language to improve budget transparency by specifying the budgeted amount in the Capital Outlay Support Program for state staff, external engineering consultants (also known as 232 contracts) and other operating expenses.

Trailer Bill Language

1. Approved a shift of \$100 million in tribal gaming revenue from transportation loan repayment to the General Fund. This shift occurs in both 2008-09 and 2009-10 for a total of \$200 million in General Fund relief. In 2010-11 and thereafter, the tribal funds will again flow to Caltrans to repay prior transportation loans to the General Fund (SBX3 7).
2. Approved language implementing about \$1 billion in General Fund relief from transit funds for 2009-10. Approved language to make technical fixes to the 2008-09 transit allocation (SBX3 7 and ABX4 10).
3. Suspended local airport grants for 2009-10 and transferred \$4 million from the Aeronautics Account to the General Fund (ABX4 10).
4. Approved language to extend the period for which cities can encumber Proposition 1B bond funds appropriated in the 2008 Budget Act. This language provides an additional year – to June 30, 2010 (ABX4 10).
5. Approved economic stimulus legislation associated with the February budget package to exempt specified transportation projects from the California Environmental Quality Act (CEQA) requirements, as specified (ABX2 8).
6. Approved economic stimulus legislation associated with the February budget package to streamline and expand design-build and public private partnerships, as specified (SBX2 4).

2665 HIGH SPEED RAIL AUTHORITY

- Approved total budget funding of \$139.2 million for the High Speed Rail Authority (Authority) all from Proposition 1A of 2008 bond funds (the Safe, Reliable High-Speed Train Bond Act for the 21st Century). Budget funding was approved for the following:
 - Design/Project-Level Environmental Review: \$105.3 million.
 - Program Management Services: \$26.6 million.
 - Ridership/Revenue Forecast: \$2.0 million.
 - Financial Plan and Public Private Partnership (P3) consulting services: \$2.0 million.
 - Right-of-Way Plan development: \$750,000
 - Program Management Oversight consulting: \$350,000.
 - Visualization Simulation Plan Development: \$255,000.
 - Department of Justice services: \$136,000.
 - Base department staffing and operations: \$1.9 million.

Budget Bill Language

1. Adopted language specifying that State bond funds may be reduced and replaced with federal funds. The Authority is required to notify the Legislature within 30 days of such a fund shift.
2. Adopted language requiring the Authority to post its budget on its Internet Web site in order to insure public access and transparency.
3. Adopted language that restricts use of \$69.6 million in budget funding until after submittal and review of a revised business plan.

2670 BOARD OF PILOT COMMISSIONERS FOR THE BAYS OF SAN FRANCISCO, SAN PABLO, AND SUISUN

- Approved \$242,000 (special funds) to support a new Assistant Director position and to fund a six-month limited-term attorney position. These budget changes relate to reforms and legal issues associated with the November 2007 collision of the COSCO BUSAN tanker with a tower of the San Francisco Oakland Bay Bridge, which resulted in an oil spill.

2700 OFFICE OF TRAFFIC SAFETY

- Approved as budgeted – expenditures of \$96.3 million federal funds.

2720 CALIFORNIA HIGHWAY PATROL

- Approved revised funding of \$24.3 million (special fund) to add 240 new uniformed positions over two years and eight Automotive Technicians. The original request was for \$34.9 million, but this was reduced to account for staggered hiring and cadet attrition.
- Approved 2009-10 funding of \$101.9 million (special fund) for the five-year \$500 million public safety radio system approved with the 2006 Budget Act. The project will enhance radio interoperability with other public safety agencies and provide additional radio channels for tactical and emergency operations.
- Approved \$11.9 million (special fund) to replace the existing Computer Aided Dispatch (CAD) system. This is a three-year information technology project with a total cost of \$27.8 million. The CHP indicates the existing system was no longer dependable and lacked new technology to improve response times and otherwise improve public safety.
- Approved three new Attorney positions which will be funded within existing budget resources. The CHP will reduce legal services contracted to the Department of Justice and perform the legal work in-house.
- Approved \$109,000 (special fund) and two positions to assist with the increase in workload at the Academy Food Services Unit due to an increase in cadet and in-service training population and emergency operations.

- Approved \$279,000 in federal funds to purchase and install two Adaptable Radiation Area Monitor detectors and the Tecate Commercial Vehicle Inspection Facility.
- Approved a request to add one position to administer various statewide driving under the influence enforcement-related traffic safety projects. The position is funded within existing budget resources with federal funds awarded by the Office of Traffic Safety.
- Approved \$253,000 (special fund) to accommodate an increase in the demand for motorcycle safety training. This program is funded by motorcycle users through an existing \$2 fee on motorcycle registrations.
- Rejected funding of \$13.4 million for four capital outlay projects to renovate or build new CHP Area Offices. These projects have a total multi-year cost of approximately \$50 million. The Administration may resubmit these projects in future years, when the budget situation is more favorable.

2740 DEPARTMENT OF MOTOR VEHICLES

- Approved funding of \$6.6 million (special funds) for first-year costs to replace the aging Department of Motor Vehicles (DMV) driver license and identification card information technology system and vendor. Adopted related budget bill language (see below).
- Rejected the Governor's January Budget request for \$4.2 million (special funds) to implement the federal REAL ID Act.
- Approved a one-time transfer of \$70 million from the Motor Vehicle Account to the General Fund for the purpose of General Fund relief. The funds transferred are not subject to the expenditure restrictions in Article XIX of the Constitution and the transfer is not considered a loan.
- Approved a permanent augmentation of \$5.1 million (special funds) to pay credit card fees that have increased due to increased customer use of on-line payment options.
- Approved \$11.6 million and 108.6 positions in 2009-10 to move in-house the information technology solution related to SB 1500 (Chapter 920, Statutes of 2004). This legislation requires each insurer that issues private passenger automobile liability policies to electronically report to the DMV all issued policies, changes, and terminations; and requires DMV to suspend vehicle registrations if insurance is not in force. The 2008 Budget Act also included funding to move the SB 1500 application in-house.
- Approved \$2.1 million (special funds) and 20 new information-technology positions to promote information privacy and security protection while improving and maintaining customer service applications.
- Approved \$8.4 million (special funds) and 20 new information-technology positions, as well as data center costs, in association with the ongoing information Technology Modernization project.

- Approved \$793,000 in federal funds from the Federal Motor Carrier Safety Administration and eight new positions to perform additional analysis and programming necessary to comply with federal rules in the area of commercial licensing.
- Approved \$189,000 (special funds) and three positions to better manage and maintain DMV's existing office facilities.
- Approved the conversion of 225 permanent-intermittent personnel years into permanent positions. This is a truth-in-budgeting action, as these positions are already filled with permanent state staff. This adjustment does not change the level of funding in the DMV budget.
- Implementation of new legislation – approved funding for the following recent legislation. All costs are covered by new fees included in the same prior legislation.
 - AB 2241 (Chapter 451, Statutes of 2008, Saldana): approved \$378,000 and seven positions to issue temporary operating permits when a certificate of smog compliance is required.
 - AB 2522 (Chapter 677, Statutes of 2008, Arambula): approved \$173,000 for implementing an air quality fee imposed on specified motor vehicle registration in the San Joaquin Valley Unified Air Pollution Control District.
 - AB 1388 (Chapter 404, Statutes of 2008, Torlakson): approved \$1.5 million and 26 positions to administer the program requiring installation of ignition interlock devices when a person is convicted of driving while under the influence of alcohol or drugs.
- Rejected funding of \$21.6 million (special funds) for eight capital outlay projects to renovate or build new DMV facilities. These projects have a total multi-year cost of approximately \$63 million. The Administration may resubmit these projects in future years, when the budget situation is more favorable.

Budget Bill Language

1. Adopted language to prohibit DMV from purchasing, installing, or using the biometric technology of facial-recognition software.

Trailer Bill Language

Adopted language to increase driver license fees by \$2, which will increase revenue by about \$16 million per year to support DMV operations. These fees are typically paid once every 5 years. The Governor had requested a \$3 increase, but the Legislature's rejection of new spending related to the federal REAL ID Act reduced the amount of new revenue needed.

9350 SHARED REVENUE

- Approved \$700 million in Proposition 1B bond funds to cities and counties for local streets and roads. This funding represents the remaining Proposition 1B funding available for this purpose.

Budget Bill Language

1. Adopted language specifying that of the \$700 million, \$258 million is for cities, or a city and county and \$442 million is for counties and a city and county. The language also specifies the requirements and timeline for allocation and encumbrance of these funds.

SUBCOMMITTEE 3

FINAL ACTION REPORT

Senate Budget and Fiscal Review Committee

Members

Mark Leno, Chair
Elaine Alquist
Roy Ashburn

Consultants

Jennifer Troia
Diane Van Maren

SUBCOMMITTEE No. 3

HEALTH and HUMAN SERVICES

Health

Secretary of Health & Human Services	3-1
Emergency Medical Services Authority.....	3-1
Department of Health Care Services	3-1
Department of Public Health.....	3-6
Managed Risk Medical Insurance Board	3-7
Department of Developmental Services.....	3-8
Department of Mental Health.....	3-14

Human Services

Office of Statewide Health Planning and Development	3-16
Department of Aging.....	3-16
Commission on Aging.....	3-17
California Senior Legislature	3-17
Department of Alcohol and Drug Programs.....	3-17
Department of Community Services and Development.....	3-18
Department of Rehabilitation	3-18
State Independent Living Council.....	3-18
Department of Child Support Services.....	3-18
Department of Social Services	3-19

HEALTH

0530 Secretary of Health & Human Services

Office of Systems Integration (OSI):

- Shifted \$15.3 million in funds for the Case Management, Information and Payrolling System Replacement Project (CMIPS II) from 2008-09 to 2009-10 to accommodate delays in project development.
- For actions impacting OSI's project management for other systems managed on behalf of the Department of Social Services (DSS), please see the DSS section beginning on page 3-19.

Other Issues:

- Adopted budget bill language to allow the Department of Finance to augment the budget for health privacy enforcement costs commensurate with the collection of administrative fines.

4120 Emergency Medical Services Authority

- **Poison Control Center.** Reduced by \$2.95 million (General Fund) state support for the California Poison Control Center. The state will continue to provide \$3 million (General Fund) to the Center. It should be noted that funding for the Center is discretionary and that other sources of funding are available for its support, including industry contracts, philanthropic endeavors, foundations, in-kind support from UC San Francisco, and the California Children and Families First Commission and other relevant entities.
- **Stand-By Pharmaceutical Cache.** Rejected an augmentation of \$448,000 (General Fund) for "stand-by" pharmaceutical caches for the Mobile Field Hospitals since these drugs can be readily obtained in the event of an emergency if they are needed. The state has a considerable stockpile of supplies, as does the federal government in addition to local county assistance. Due to the fiscal crisis, funds are not available for this "stand-by" purpose.

4260 Department of Health Care Services

Highlights for the Medi-Cal Program

- **Enhanced Federal Funds from ARRA.** Reduced by about \$2.8 billion (GF) to reflect receipt of enhanced federal funds as provided under the American Recovery & Reinvestment Act

(ARRA). The enhanced Medicaid funding under ARRA of 61.59 percent for California is to continue until December 2010.

- **Additional Federal Funds.** Assumed receipt of \$1 billion in federal funds for repayment to California for expenditures made within the Medi-Cal Program which should have been funded by the federal government.
- **Unallocated Reduction.** Adopted the Governor's unallocated reduction of \$323.3 million (GF) to Medi-Cal which reflects the DHCS' estimated range of variance in its budget calculations.
- **Plan for Expansion of Medi-Cal Managed Care and Use of Medical Homes.** Adopted legislation, as proposed by the Governor and as contained in ABX4 6, for the Administration to obtain a Waiver from the federal Center for Medicare and Medicaid (CMS) to expand the enrollment of Medi-Cal enrollees into some form of an organized delivery system for health care services. Potential savings would not be recognized for several years.
- **No Medi-Cal Eligibility Reductions.** Rejected the Governor's entire January proposal to eliminate over 500,000 people from receiving vital health care services within the Medi-Cal Program. This includes: (1) rolling back eligibility for working families eligible under the 1931 (b) program; (2) rolling back eligibility for aged, blind and disabled individuals; (3) changing to a month-to-month eligibility for individuals without documentation; and (4) rolling back eligibility for legal immigrants and individuals permanently residing under the color of law (PRUCOL). This action, enacted in February, restored \$485.1 million (General Fund) to the program to continue eligibility. With the approval of the federal American Recovery and Reinvestment Act (ARRA) by President Obama in late February, it was clear that eligibility reductions would be precluded in order to receive enhanced federal funds.
- **Children's Eligibility.** Restored 12 month continuous eligibility in the Medi-Cal program for children from birth to 18 years through the period of the American Recovery & Reinvestment Act enhanced federal financial participation (through December 2010).
- **State Only Programs.** Rejected the Governor's May Revision proposal to eliminate non-emergency services, including breast and cervical cancer treatment, postpartum care, dialysis, and non-digestive nutrition for individuals without documentation status.
- **Restrict Medi-Cal Services for Newly Qualified Legal Immigrants and PRUCOL Individuals.** Rejected the Governor's May Revision which would have restricted Medi-Cal services for legal immigrants residing in California to emergency services only.
- **Eliminates Certain Medi-Cal Optional Benefits for Adults.** Deleted \$258.8 million (\$129.4 million General Fund) as proposed by the Administration to eliminate ten benefits provided under the Medi-Cal Program, including Adult Dental, Optometry services, Optician and Optical Laboratory Services, Audiology Services, Speech Therapy, Incontinence Creams and Washes, Acupuncture Services, Podiatry Services, Chiropractor Services, and Psychology Services effective as of July 1, 2009. This action occurred since the trigger established in SBX3 1 (Chapter 1), Statutes of 2009, for receipt of federal stimulus funds to offset General Fund

support was not met as specified. It should be noted that services to children will continue since federal law requires it. Services provided to individuals with developmental disabilities who receive Regional Center services will also continue to receive these benefits which will be funded under the Department of Developmental Services (DDS). Further, comprehensive mental health services provided under the Mental Health Managed Care Waiver through the Department of Mental Health is not affected by this Medi-Cal change.

- **Adult Day Health Centers.** In lieu of eliminating the Adult Day Health Center benefit as proposed by the Governor, several actions were taken for a savings of \$26.8 million (GF). First, trailer bill language was adopted to: (1) limit the maximum participation rate for enrollees to three days as of August 1, 2009 and until a higher threshold for medical necessity/medical acuity is established by the Department of Health Care Services; (2) establish definitions of medical acuity; and (3) engage a stakeholder workgroup process to proceed with implementation aspects of the definition for a phase in period. Savings attributable for this action are \$36.6 million (\$18.3 million GF) for 2009-2010.

Second, the rates reimbursed for ADHC services were frozen at 2008-09 levels as proposed by the Governor for a savings of \$3.7 million (GF). Third, provided seven nurse evaluator positions to the department for a cost of \$736,568 (\$184,000 GF) to conduct on-site treatment authorization reviews of ADHCs, and reduced by \$5 million (GF) from this increased review of ADHCs.

- **Public Hospitals.** Deleted \$54.2 million (federal funds), or ten percent, from public hospitals and uses these funds to backfill for General Fund expenditures in the California Children Services Program, the Medically Indigent Adult-Long Term Care Program, and the Genetically Handicapped Persons Program as proposed by the Governor.
- **Distressed Hospital Fund.** Reduced payments to hospitals by sweeping the Distressed Hospital Fund for a savings of \$23 million (GF).
- **Private Hospitals.** Reduced payments to private hospitals by \$23.9 million (GF) to reflect a ten percent reduction in disproportionate share hospital funding for certain private hospitals who participate in the Hospital Financing Waiver as proposed by the Governor.
- **Small and Rural Hospitals.** Reduced by ten percent the reimbursement paid to small and rural hospitals that are *not* contracting with the California Medical Assistance Commission (CMAC), except for those hospitals designated by the federal Medicare Program to be “critical access” or “rural referral” sites for savings of about \$7 million General Fund.
- **Medi-Cal Managed Care Plans.** Adjusted the rates paid to Medi-Cal Managed Care Plans to reflect caseload adjustments and estimated capitation payments. About \$161 million (General Fund) was provided for increased caseload and \$27.8 million (General Fund) for a rate adjustment in order to be actuarially sound as required by federal law.

- **Payment Deferral.** Provided for the deferral of Medi-Cal reimbursements made to Medi-Cal Managed Care organizations and entities that contract with the department in order to provide assistance with the state's cash management as proposed by the Governor.
- **Medi-Cal Eligibility Processing by Counties.** The Legislature eliminated the cost-of-doing-business provided to counties for them to conduct Medi-Cal eligibility processing as an agent for the state as proposed by the Governor for a reduction of \$49.4 million (\$24.7 million General Fund) in 2009-10. However, the Governor vetoed an additional \$60 million (GF) from this appropriation.
- **Plan for Centralized Eligibility.** Adopted legislation, as proposed by the Governor and as contained in ABX4 7, for the Administration to develop a plan for conducting statewide eligibility processing and enrollment for Medi-Cal, CalWORKs, and SNAP. This plan would have to be reviewed and approved by the Legislature, and an appropriation would have to be provided, prior to any implementation.
- **Freestanding Nursing Homes and Quality Assurance Fee.** Increased fees paid by certain skilled nursing facilities by expanding the amount of revenue upon which the AB 1629 fee is based, to include Medicare revenue, for increased revenue to the State of \$18 million as proposed by the Governor.
- **Nursing Homes and Other Long-Term Care Facilities.** Suspended cost-of-living increases effective August 1, 2009, for skilled nursing facilities *and* other long-term care for a General Fund savings of \$75.8 million in 2009-10 as proposed by the Governor.
- **Pharmacy Reimbursement.** Reduced by \$22.5 million (GF) by requiring pharmacies to bill Medi-Cal at a rate that is comparable to private third-party payers as specified in trailer bill language and as proposed by the Governor.
- **Acquisition Cost of Drugs.** Reduced by \$37 million (GF) by making changes in the Medi-Cal reimbursement made to pharmacies as it pertains to the estimated acquisition cost of drugs as proposed by the Governor.
- **Generic Drugs.** Assumed implementation of a Maximum Allowable Ingredient Cost for Generic Drugs for savings of \$2 million (\$1 million General Fund) as proposed by the Governor.
- **Therapeutic Category Review of Antipsychotics.** Assumed implementation of a therapeutic category review of antipsychotic drugs for a reduction of \$1.5 million (General Fund) as proposed by the Governor. Therapeutic Category Reviews have been done for many years on several categories of drugs according to specified protocols as contained in Section 14105.37 of Welfare and Institutions Code.
- **Drug Rebates.** Assumed implementation of mandatory drug rebates for drugs used to treat Cancer and HIV/AIDS for a savings of \$1.25 million (General Fund) as proposed by the Governor.

- **Entities Designated as “340B” under Federal Law.** Required eligible entities to use “340B” Drug pricing for Medi-Cal enrollees for a savings of \$3.750 million (General Fund) as proposed by the Governor.
- **Supplemental Mental Health Payments.** Adopted statutory changes to provide for a Mental Health Services Supplemental Payment Program to be administered by the Department of Health Care Services (DHCS). This program will enable local government to submit certified public expenditures to the DHCS for the purpose of claiming additional federal funds to reimburse counties for the cost of certain mental health services provided to Medi-Cal enrollees. It is anticipated that over \$50 million in additional federal funds can be obtained by counties through this effort.
- **Ancillary Health Services in IMD Facilities.** Reduced by \$14 million (GF) to reflect the elimination of the state-only payment for ancillary health services provided in Institutions for Mental Disease (IMDs) as proposed by the Governor. County indigent health programs will need to provide reimbursement for these services as presently required under existing law.
- **Prospective Payment Reimbursement for Community Clinics.** Provided an increase of \$42.7 million (\$21.4 million General Fund) as proposed for Federally Qualified Health Centers and Rural Health Clinics to reflect the Medicare Economic Index adjustment.

4260 DEPARTMENT OF HEALTH CARE SERVICES

Highlights for Children’s Medical Services & Primary Care and Rural Health

- **Community-Based Clinics.** Rather than eliminating all General Fund support as proposed by the Governor, the Legislature reduced community-based clinic programs by about one-third, or \$14 million (\$10 million General Fund and \$4 million Proposition 99 funds), including the following:
 - Rural Health Services reduced by \$2.2 million, which left \$6 million (GF);
 - Seasonal Migratory Worker Clinics reduced by \$1.9 million, which left \$5 million (GF); and
 - Expanded Access to Primary Care Clinics reduced by \$8.4 million (total funds), which left \$19 million (\$9 million GF and \$10 million Proposition 99 funds).

However, the Governor vetoed all of the remaining General Fund support for these important clinic programs, or about \$20 million (GF).

- **California Children’s Services Program.** Adopted the Governor’s May Revision to increase by \$7.1 million (\$5.1 million Safety Net Care Pool Funds) to fund caseload adjustments.
- **Genetically Handicapped Persons Program (GHPP)—Program Premiums.** Adopted the Governor’s proposal to reduce by \$1.8 million (General Fund) by increasing enrollment fees to:

(1) 1.5 percent of Adjusted Gross Income for families with incomes greater than 200 percent but not more than 300 percent of the federal poverty level; and (2) three percent of Adjusted Gross Income for families with incomes greater than 300 percent of the federal poverty level.

- **Genetically Handicapped Persons Program (GHPP)—Insurance Premiums.** Assumes savings of \$600,000 (General Fund) in the GHPP through the state's assistance in coordinating enrollment of GHPP eligibles into commercial insurance product lines and fund their premium payments.
- **Maternal and Child Health Programs.** Decreased by a total of \$11.6 million (GF) several maternal and child health programs as follows:
 - **Adolescent Family Life.** Reduced by \$1.7 million (GF), leaving \$9 million (GF).
 - **Black Infant Health.** Reduced by \$900,000 (GF), leaving \$3 million (GF).
 - **Other Programs.** Adopted the Governor's May Revision to eliminate General Fund support for county positions, provider training, and state operations, including the Birth Defects Monitoring Program, and shifted \$3 million in Title V reserve funds to the California Children's Services Program.

However, the Governor vetoed the remaining \$12 million in General Fund support in the Adolescent Family Life Program and the Black Infant Health Program.

4265 Department of Public Health

- **AIDS Drug Assistance Program (ADAP).** Rejected the Governor's proposal to reduce the ADAP formulary and to require a premium payment for clients making less than 200 percent of poverty, and instead, increased funding from the AIDS Drug Rebate Fund and made conforming technical adjustments for a savings of \$25.5 million (GF). This action maintained full funding for ADAP, as well as a prudent reserve of \$24.4 million in the special fund.
- **AIDS Therapeutic Monitoring Program.** Reduced by \$714,000 (GF) from this program that provides T-Cell monitoring for individuals with AIDS to track the effectiveness of drug therapies, in lieu of elimination as proposed by the Governor. *However, the Governor vetoed the remaining amount of \$7.3 million (GF).*
- **HIV/AIDS Education and Prevention Programs.** Reduced by \$2.2 million (GF) in lieu of eliminating these extremely cost-beneficial programs as proposed by the Governor. *However, the Governor vetoed the remaining \$22.4 million (GF).*
- **HIV/AIDS Counseling and Testing Program.** Rejected the Governor's proposal to eliminate this program for a reduction of \$8.2 million (GF). *However, the Governor vetoed the program anyway.*
- **AIDS Early Intervention Projects.** Rejected the Governor's proposal to eliminate this cost-beneficial program for a reduction of \$7.4 million (GF). *However, the Governor vetoed the program anyway.*

- **AIDS Home and Community-Based Care.** Reduced by \$538,000 (GF) in lieu of elimination as proposed by the Governor. *However, the Governor vetoed the program..*
- **HIV/AIDS Surveillance & Epidemiologic Studies.** Reduced by \$1 million (GF) in lieu of elimination as proposed by the Governor. This reduction leaves a total of \$7.6 million (GF) for the studies.
- **HIV/AIDS Housing.** Reduced by \$101,000 (GF) in lieu of elimination as proposed by the Governor. *However, the Governor vetoed the program.*
- **Domestic Violence Shelters.** Reduced by 20 percent, or \$4.1 million (GF) support for Domestic Violence Shelter Program which left a total of about \$16.3 million (GF) for the program. *However, the Governor vetoed this remaining amount.*
- **County Health Services.** Eliminated \$25.6 million in Proposition 99 funds used for reimbursing certain emergency services at the county level and redirected these funds to backfill for General Fund support within the Medi-Cal Program as proposed by the Administration.
- **Immunization Assistance Program.** Adopted LAO recommendation to reduce by \$18 million (GF) the Immunization Assistance Program since California was receiving \$23 million (federal funds) in federal ARRA funds specifically for this purpose.
- **Alzheimer's Research Centers.** Reduced by 50 percent, or \$3.1 million (GF), the amount provided for these centers.
- **Children's Dental Disease Prevention Program.** Adopted the Governor's proposal to suspend this program for a reduction of \$2.9 million (GF).
- **Safe Drinking Water.** Increased by \$74.9 million (federal funds) to reflect receipt of federal ARRA funds.
- **Valley Fever Research.** Provided an increase of \$1 million (General Fund) for Valley Fever research and related activities to the Department of Public Health.

4280 Managed Risk Medical Insurance Board

- **Healthy Families Program (HFP).** The Legislature rejected the Governor's proposal to eliminate the program and instead, reduced by \$124 million (GF) by establishing a waiting list for enrollment unless funds are provided by third-party philanthropic organizations, foundations, the California First Five Commission, donations or other sources to continue enrollment of children throughout the year. *However, the Governor vetoed another \$50 million (GF) from the program which created a funding gap of about \$174 million (GF).*

Presently, the California First Five Commission has pledged to provide \$81 million (special funds) to Healthy Families to reduce the waiting list. In addition, AB 1422 (Bass), as amended,

is proceeding through the Legislature to establish a Medi-Cal Managed Care Plan tax which would provide support to the Healthy Families Program, as well as the Medi-Cal Program. This pending legislation would also provide adjustments to the premiums paid by families for enrollment of their children, as well as other cost-saving adjustments.

In addition, as proposed by the Governor, payments made to certified application assistors to facilitate enrollment of children into the HFP were eliminated for a reduction of \$2.7 million (GF).

- **Access for Infants and Mothers (AIM) Program.** Adopted the Governor's May Revision to cap new enrollment into AIM as of January 1, 2010, due to a reduction in the transfer from the Cigarette and Tobacco Surtax Revenues (i.e., Proposition 99 Funds) to the Perinatal Insurance Fund. The reduction of \$33.4 million results in an annual enrollment decrease of 56 percent or 5,900 pregnant women.

4300 Department of Developmental Services

Summary of Reduction. In January, the Governor proposed to reduce the state's support for community-based services provided through the Regional Centers by \$334 million (GF). In lieu of the Administration's proposal, the Legislature enacted a \$100 million (GF) reduction as part of the February budget package and adopted trailer bill language to require the DDS to submit a plan to the Legislature to achieve this reduction. A key aspect of the legislation was to direct the DDS to use a comprehensive "stakeholder process" to include statewide organizations representing the interests of consumers, family members, service providers, and statewide advocacy organizations, to craft the components of the plan.

At May Revise, with the economy still soft and statewide voter rejection of \$6 billion in various budget solutions, the additional \$224 million (GF) reduction as proposed by the Governor was enacted as part of the budget revision in July. While members of the stakeholder process may not support the budget reduction, the final package reflects the valuable input of the workgroup.

Each of the adjustments to achieve the \$334 million (GF) reduction are discussed below. It should be noted that these adjustments do not change the Individualized Program Plan process, nor do they change existing appeal rights and processes which are available to clients and their families.

- **New Federal Funds to Offset General Fund Expenditures.** Identified a total of \$79.6 million in new federal funds, to backfill for General Fund support, is assumed through five actions as follows:
 - Receipt of \$60 million is assumed through an amendment to the state's Medi-Cal State Plan (i.e., a 1915(i) amendment) which will enable California to receive federal funds for services to DDS clients who are enrolled in Medi-Cal but are not eligible for the DDS' Home and Community-Based Waiver.

- Receipt of \$13 million is assumed by adding certain services, such as day care, to DDS' existing Home and Community-Based Waiver.
- Receipt of \$4.6 million by having the DDS become an Organized Health Care Delivery System which relates to Intermediate Care Facilities for the Developmentally Disabled (ICF-DD facilities) and the provision of certain services, such as transportation.
- Receipt of \$2 million by having 30 existing residents at Porterville Developmental Center entered into a specialized treatment area where their services will be eligible for federal financial participation.
- Enactment of legislation which directs Regional Centers to not newly vendor any licensed Community Care Facilities (CCFs) with a capacity of 16 or more beds which do not qualify for federal financial participation commencing as of July 1, 2012.
- **Transportation Reform.** Reduced by \$16.9 million (GF) from this service category by requiring Regional Center's to pursue lower cost transportation services as follows:
 - If a client can use public transportation, they will be assisted to do so, rather than purchase special transportation;
 - While still meeting the consumer's need, the least expensive transportation option will be used;
 - Regional Centers will purchase services near the client's home to save transportation costs when such service meets the client's needs as identified on their Individual Program Plan; and
 - When feasible, families will provide transportation for their children.
- **Establishment of General Standards for Authorizing Services.** Reduced by a total of \$45.9 million (GF) through a series of changes which pertain to the purchase of services as follows:
 - The Lanterman Act requires Regional Centers to utilize "generic services", such as Medi-Cal and In-Home Supportive Services, prior to purchasing a specialized service. Now if a client or family chooses not to access available generic services as identified on an Individual Program Plan, Regional Centers will not be able to pay for the service.
 - Medical and dental services covered by generic services, health plans or private insurance will not be purchased by Regional Centers for applicable clients aged three and over without proof of denial from the insurance provider. Services can be provided pending approval, initiation or denial of service.
 - Regional Centers shall not purchase experimental treatments, therapeutic services or devices that have not been clinically determined or scientifically proven to be effective or safe.

- Regional Centers will provide information to clients or applicable representative about the type and costs of services provided each year to the consumer.
- The cost of providing services by different service vendors, if available, shall be reviewed and the least costly vendor who is able to meet the consumer's needs as identified on the IPP shall be selected.
- **Holiday Schedule.** Reduced by \$16.3 million (GF) by standardizing the holiday schedule for day programs, look-alike day programs and work activity programs and increased the total number of holidays to 14. These programs will now have the same 14 holidays. The statute does provide flexibility to the Department of Developmental Services to make adjustments to this schedule when applicable.
- **Behavioral Services.** Reduced by \$19.3 million (GF) and established specific standards for Regional Centers to purchase behavioral services. Key aspects of these standards are as follows:
 - Regional Centers can purchase Applied Behavior Analysis or Intensive Behavior Intervention services if the service provider uses evidence-based practices and the services promote positive social behaviors and help address issues with learning and social interactions.
 - Parents of children receiving these services must participate, as specified, in the established intervention plan.
 - These services may not be used for purposes of providing respite, day care, or school services, or solely as emergency crisis services.
 - Regional Centers will discontinue purchasing services once a client's treatment goals as identified in their IPP are met. The IPP team must review progress regularly and change the service if it is not effective.
 - Regional Centers will evaluate these services for each client receiving them at least every six months.
- **Group Training for Parents on Behavior Intervention Techniques.** Saved \$6.4 million (GF) by requiring Regional Centers to consider, based on the IPP, proving group training to parents in lieu of proving some or all of the in-home parent training component of the behavior intervention services.
- **Use of Generic Service—In Home Supportive Services.** Required Supportive Living Providers to assist clients to obtain In Home Supportive Services within five days of moving into supported living. While the client is waiting for IHSS services, the Supported Living Provider will be paid the IHSS rate for IHSS type services provided to the consumer. This does not change the IPP process.

- **Supported Living Services.** Reduced by \$6.9 million (GF) expenditures for Supported Living Services through the following actions:
 - Regional Centers will strive to have clients who share a home use the same Supported Living Services provider to be more cost effective as long as it meets the clients' needs as identified.
 - Regional Center's will no longer pay a client's rent unless needed to implement a client's IPP in specified limited and unique circumstances.
 - Administrative costs for Supported Living Services must be reasonable and the rates of payment for services must be cost effective as specified.
- **Custom Endeavors Option.** Reduced by \$12.7 million (GF) by requiring existing Day Programs and work activity programs to offer a new "custom endeavor option" as a component of their current program design. This option would be provided based upon an IPP. The Custom Endeavors Option is less costly than Day Programs and work activity programs.
- **New Service for Seniors.** Reduced by \$1 million (GF) by requiring existing Day Programs to offer a senior component to their current program design for aging consumers who desire a less intensive Day Program structure. This option would be based upon an IPP.
- **Utilization of Neighborhood Preschools.** Recognized savings of \$8.9 million (GF) by using local neighborhood preschools in lieu of segregated infant development programs when applicable with the Regional Centers providing necessary supports.
- **Use of Private Insurance—Under 3 Years of Age.** Reduced by \$6.5 million (GF) by requiring parents of children under 3, where applicable, to ask their private insurance or health care service plan to pay for medical services covered by the insurance or health plan. Intake and assessment services provided by Regional Centers will still remain free of charge.
- **Early Start Program Changes.** A total of \$35 million (GF) was reduced from this program through a series of eligibility and services changes as follows:
 - **Eligibility.**
 1. Toddlers aged 24 months or greater with a delay currently can enter the program with a delay of 33 percent or greater in or of the five domains (i.e., cognitive, self-help, physical, communication and social-emotional). Beginning July 1, 2009, they will need to have a delay of 50 percent or greater in one domain or 33 percent or greater in two domains.
 2. As of October 1, 2009, infants and toddlers who are "at risk" will no longer be eligible for the Early Start Program. However, these infants and toddlers will be eligible for services in a new prevention program.

- **Services.**
 1. Effective October 1, 2009, discontinue provision of services in the Early Start Program that are not required by the federal government, with the exception of durable medical equipment. The services not to be included are child care, diapers, dentistry, interpreters, translators, genetic counseling, music therapy, and respite services not related to the developmental delay of the infant or toddler.
 2. As of July 1, 2009, families will be required to use their private insurance for medical services. Regional Centers will continue to pay for medical services that are required for the infant or toddler for those without insurance or for those services insurance does not cover.
- **Children’s Services—Governor’s Veto.** The Governor vetoed \$50 million (GF) from the Regional Centers for services provided to infants, toddlers, and children from birth to five years of age. The Governor contends that the First Five Commission has funds to provide to the Regional Centers for this purpose; however at this time, no action has been taken by the Administration or the Commission to obtain or provide this funding to the DDS for this purpose.
- **In-Home Respite Agency Worker Duties.** Recognized a reduction of \$3 million (GF) by allowing respite workers to assist clients with colostomies, catheters, and gastrostomies, consistent with the abilities of trained program staff. The respite worker must be trained by a licensed professional and will receive an increase in compensation for the time performing these duties.
- **Wellness Projects.** Suspended the Wellness projects and physician training programs for a reduction of \$1.3 million (GF).
- **Triennial Quality Assurance Reviews.** Eliminated these reviews conducted by Regional Centers for a savings of \$1 million (GF).
- **Reduction to Regional Center Operations.** A total of \$10.5 million (GF) was reduced from Regional Center Operations allocation directly. Of this amount, \$3.5 million pertains to one-time only costs and the remaining \$7 million pertains to case management and related expenditures.
- **Reduction to Developmental Centers.** In addition to employee furloughs and staff reductions, a total of \$25.2 million (GF) was reduced from the state-operated Developmental Centers and Community Facilities by taking the following actions:
 - Sierra Vista Community Facility will be closed effective as of December 2009 and the residents will relocate to living options based upon their needs for a savings of \$2 million (GF).
 - Elimination of about \$23 million (GF) by deleting certain capital outlay projects.

- **Parental Fee Program.** Obtained savings of \$900,000 (GF) by increasing the fee paid by parents of children under the age of 18 living in any out-of-home care arrangement (such as a community care facility). These fees had not been updated since 1989, except for an increase in the maximum fee amount in 2003. Parents with income below the current federal poverty level will not be assessed a fee. The fee increase for the maximum fee would increase from \$662 to \$1,875 per month for the highest income families.
- **Individual Choice Budget.** ABX4 9 provided a framework for a new service delivery model for the DDS, in consultation with stakeholders, to develop an “individual choice budget”. This new model will provide individuals with resources to obtain quality services and supports within a defined budget, while providing choice and flexibility that, in total, saves money in purchase of services expenditures. At such time as this model is implemented and is deemed by the DDS to be achieving specific levels of savings, some or all of the cost saving strategies in certain areas will sunset.
- **Respite Program—Temporary Service Standards Pending Individual Choice Budget.** Reduced by \$4.8 million (GF) by implementing standards to be used by Regional Centers in authorizing respite services as follows:
 - Regional Centers may purchase respite services when the needs of a client are greater than that of an individual of the same age without developmental disabilities. Exemptions to this rule can be provided under certain circumstances.
 - Consistent with the need for respite services established in an IPP, no more than 90 hours of in-home respite services in a three-month period, or no more than 21 days of out-of-home respite services in a fiscal year, may be purchased by a Regional Center. Exemptions to this rule can be provided under certain circumstances.
 - Day care services cannot be used in-lieu of respite services.

These respite program standards will be lifted upon certification of the Director of the DDS that the Individual Choice Budget has been implemented as specified.

- **Temporarily Suspend Certain Services.** Reduced by \$27.4 million (GF) by temporarily suspending certain services pending implementation of the Individual Choice Budget model. The services to be temporarily suspended include: camping services; educational services for minor, school-aged children, non-medical therapies (such as art and dance); and social/recreation activities, except those vendored as community-based day programs.
- **Quality Assurance Consolidation.** Reduced by \$2 million (GF) to reflect changes pertaining to the quality assurance system used in the community to be implemented in January 2010.
- **Payments to Providers in the Community.** Reduced by three percent, as proposed by the Governor in January, certain payments for services delivered from February 1, 2009 to June 30, 2010. This reduction results in a reduction of \$40.4 million (\$24.1 million General Fund) in

2008-09 and \$100.8 million (\$60.2 million General Fund) in 2009-10. This reduction is in addition to the \$334 million (GF) that was enacted in July.

- **Medi-Cal Optional Benefits.** Increased funding to provide Medi-Cal Optional Benefits to all individuals with developmental disabilities receiving services through the Regional Centers and are enrolled in Medi-Cal.

4440 Department of Mental Health

Community-Based Services

- **Early and Periodic Screening, Diagnosis and Treatment Program.** Adopted the Governor's May Revision for the Early and Periodic Screening, Diagnosis and Treatment (EPSDT) Program to provide a total of \$1.038 billion (\$364.8 million General Fund and \$674.1 million federal reimbursements). This reflects a net reduction of \$14.6 million (GF) as compared to the 2008-09, and includes the following adjustments:
 - Reduced by \$53.4 million (GF) to reflect elimination of state support for county programs developed using Mental Health Services Act (MHSA) funds that the department contends increased services within the EPSDT Program.
 - Increased by \$226.7 million (GF) to reflect the lack of passage of Proposition 1E and use of MHSA funds.
 - Increased by \$19 million (GF) to reflect Emily Q court order requiring the department to implement a nine point plan regarding certain services.
 - Decreased by \$4.9 million (GF) to reflect revised caseload and expenditures.
 - Decreased by \$122.1 million (GF) to reflect enhanced federal funds under the federal American Recovery & Reinvestment Act.
- **Deferral of Payment for EPSDT.** Deferred \$15.8 million (GF) in payments to counties to reimburse prior year cost settlement claims for the EPSDT Program. These claims are to be paid in future years.
- **Mental Health Managed Care Program.** Adopted the Governor's May Revision to reduce by \$113.4 million (GF) the Mental Health Managed Care Program. This reduction includes the following adjustments:
 - Reduced by \$64 million (GF) the amount of state support to reflect the level of state funding not being claimed under federal financial participation as identified by the department.
 - Provided an increase of \$9.2 million (\$4.1 million GF) for increases to patient caseload.

- Reduced by \$53.3 million (GF) to recognize increased federal funds as provided in the American Recovery & Reinvestment Act.
- **Special Education Students—AB 3632 Program.** Adopted the Governor's May Revision to defer 50 percent, or \$52 million (GF), of the state's payment for county claims for providing mental health services to students with serious emotional disturbances who are enrolled in special education. Budget Bill Language requires that first priority of these funds be used to offset the mandate reimbursement claims for 2006-07, with remaining funds used to offset the mandate for 2007-08, 2008-09, and 2009-2010.
- **Caregiver Resource Centers.** Reduced by \$3.5 million (GF) the Caregiver Resource Centers which provide services and supports to caregivers of family members with a cognitive impairment to enable those adults to remain in their homes for as long as possible. This reduction would have left \$7.6 million (GF) remaining for these centers. However, the Governor vetoed this remaining amount.

State Hospitals and Headquarters Support

- **Summary of State Hospital Appropriation.** Adopted the Governor's May Revision to provide a total of \$1.274 billion (\$1.090 billion GF) for a net increase of \$5 million (GF) over the February budget package.
- **Coleman Court.** Approved an increase of \$25.3 million (GF) to meet immediate Coleman Court needs of 162 beds, mainly at the acute psychiatric and Intermediate Care levels.
- **Psychological Evaluations.** Adopted the Legislative Analyst's Office recommendation to reduce by a total of \$8.3 million (GF) the amount appropriated for psychological evaluations on inmates who meet screening criteria as potential Sexually Violent Predators based on reduced caseload.

HUMAN SERVICES

4140 Office of Statewide Health Planning and Development

- Approved as budgeted.

4170 California Department of Aging

- Rejected the Governor's proposal to eliminate the **Multi-Purpose Senior Services Program (MSSP)**. The proposal would have eliminated case management services for 14,000 high-risk, Medi-Cal-eligible individuals who are also eligible for out-of-home care with skilled nursing or require constantly available nursing services.
- Adopted \$5.3 million GF savings in MSSP program by swapping GF resources for new federal funds under the American Recovery and Reinvestment Act (ARRA).
- Increased support for the **Senior Nutrition and Senior Community Employment Services programs** by \$8 million in federal ARRA funds, and adopted budget bill language to allow the funds to be available until September 30, 2010.
- Rejected proposal to eliminate all GF (\$405,000) for the **Brown Bag senior nutrition program CBSP** as of October 1, 2009. *Governor vetoed all GF support as of October 1, 2009.*¹
- Rejected proposal to eliminate the following programs, and instead adopted the reductions listed below:
 - \$2.4 million GF from the **Linkages** program, effective October 1, 2009. This program provides case management services to 5,500 adults with functional impairments who are at risk of institutionalization.
 - \$1.2 million GF from the **Alzheimer's Day Care Resource Center (ADCRC) Community Based Services Program (CBSP)**, effective October 1, 2009. ADCRCs provide support so that Adult Day Care and Day Health Centers can serve 3,200 individuals with dementia.
 - \$238,000 GF from the **Senior Companion CBSP**, which eliminated all GF support as of October 1, 2009. The program provides support services to 413 at-risk adults.
 - \$238,000 GF from the **Respite Purchase of Services CBSP**, which eliminated all GF support as of October 1, 2009. The program provides relief to caregivers of frail elderly or impaired adults at risk of institutionalization.

¹ As of the date of publication of this document, all reductions made by vetoes to programs within the Department of Aging are the subject of currently pending lawsuits that question their constitutionality. The final disposition of these budget items that the Governor attempted to alter by veto is thus in flux.

- \$117,000 GF from local administration of CBSPs.

The Governor further reduced the funding for Linkages by \$4 million, which eliminated all GF support for the program after that date. Similarly, the Governor further reduced funding for ADCRCs by \$1.6 million and for CBSP local and state administration by \$157,000 and \$106,000, which eliminated all GF support for those programs after that same date.

- Adopted trailer bill language to prioritize direct services and the provision of services to low-income individuals in Alzheimer’s Day Care Resource Centers and Linkages programs.
- Adopted proposed budget bill language to allow for use of specified “one-time only” federal funds in a subsequent state fiscal year in order to accommodate differences between the federal and state fiscal calendars.
- Approved the carry-over of \$410,000 in unspent 2008-09 federal funds to support the **Health Insurance Counseling and Advocacy Program**. Adopted budget bill language requiring the Department of Finance to notify the Joint Legislative Budget Committee within ten working days of its authorization of the adjustment.
- Increased by \$250,000 and \$17,000 the local assistance and state operations federal funds for use of a grant to the California Alzheimer’s Disease project’s **Savvy Caregiver program**.

4180 Commission on Aging

- Approved as budgeted.

4185 California Senior Legislature

- Approved as budgeted.

4200 Department of Alcohol and Drug Programs (ADP)

- Restored \$311.5 million GF to the ADP budget after rejecting the Governor’s proposed increase to the alcohol excise tax.
- Approved proposed reduction of \$90 million GF (all GF support) for **Substance Abuse and Crime Prevention Act (Proposition 36)** programs.
- Rejected proposal to eliminate \$18 million GF from **Offender Treatment Program (OTP)**, and augmented OTP funding with \$45 million in federal Byrne-JAG funds. Additionally approved the conversion of three previously limited-term OTP positions into permanent positions.
- Approved proposed reduction by ten percent of **Drug Medi-Cal rates** for all modalities.

- Reduced GF support for Regular and Perinatal Drug Medi-Cal by \$24.2 million, which was offset by an equivalent amount of federal stimulus funding.
- Eliminated remaining GF support of the Licensing and Certification Division and replaced those funds with additional expenditure authority from the Residential and Outpatient Program Licensing Fund.
- Approved contract authority of \$96,000 for research to support Driving Under the Influence programs.
- Approved another two-year term for five complaint investigation positions in LCD. Rejected proposal for eight additional, new positions to carry out post-service, post-payment reviews.

4700 Department of Community Services and Development

- Rejected proposal to eliminate the department and consolidate some of its functions into other state departments' responsibilities.
- Increased federal funding for the **Weatherization Assistance Program (WAP) and Community Services Block Grant (CSBG)** by \$148.6 million in local assistance and \$14.9 million in state operations due to ARRA. Separately increased, on a one-time basis, the baseline federal funding for WAP local assistance and state operations by \$6.7 million and \$1.2 million respectively.
- Adopted trailer bill language to expand eligibility criteria for CSBG federal funds, during the time specified stimulus funds are available, from 100 percent of the federal poverty level to 200 percent.

5160 Department of Rehabilitation

- Approved as budgeted.

5170 State Independent Living Council

- Approved as budgeted.

5175 Department of Child Support Services (DCSS)

- Approved an overall budget of \$118.6 million (\$40.3 million GF) for the recently completed **California Child Support Automation System (CCSAS)**, after taking these actions:
 - Reverted \$144.6 million (\$27 million GF) in unused funding from prior years for development of CCSAS;

- Removed \$27.1 million (\$9.2 million GF) in funding for project enhancements, subject to further justification of need;
 - Reduced local assistance budget by \$10.1 million GF and \$19.6 million federal funds to reflect updates in planning for system changes, procurements, and migrations;
 - Reduced state operations budget by \$3.2 million GF and \$6.3 million federal funds to reflect reduced contract staffing needs;
 - Further reduced overall project budget by \$500,000 GF and corresponding federal funds, to be apportioned among state operations, local assistance, and personnel by the Director of Finance in consultation with DCSS.
- Adopted trailer bill language to require the Office of the Chief Information Officer (OCIO) and the DCSS to jointly report annually, beginning March 1, 2010, on the implementation of CCSAS.
 - Reduced local assistance funding by \$27.7 million GF, offset by an equivalent amount of new federal funds due to changes in how the state can leverage federal performance incentive funds for purposes of state matching requirements.
 - Approved revenue stabilization funding increase of \$18.7 million (\$6.4 million GF) and related trailer bill and reporting language to allow for caseworker retention. The augmentation is expected to result in increased recoupment of \$14.4 million in public assistance costs (\$6.6 million GF), and an additional \$70 million in child support payments passed on to custodial parents and their children.
 - Approved proposal and trailer bill language to begin collection of federally-established \$25 fee from never-assisted parents as of October 1, 2010. Included \$2.6 million (\$900,000 GF) in one-time costs for related automation changes and \$116,000 (\$39,000 GF) for mailing notices to families in 2009-10. DCSS estimates annual fee revenue of \$5.8 million (\$2 million GF) in future years.
 - Approved shift of \$192,000 (\$65,000 GF) from interagency agreement with FTB to DCSS for three positions to enter information into the Child Support Enforcement System.

5180 Department of Social Services

CalWORKs

- Rejected the Governor's proposal to eliminate the entire CalWORKs program, which would have ended cash assistance and supportive services to over 546,000 families.
- Rejected proposal to shift \$216.9 million in federal funds from CalWORKs to the Department of Developmental Services and California Student Aid Commission.

- Authorized local partnership initiatives to provide subsidized employment, short-term non-recurring benefits, and supplemental basic assistance for TANF-eligible, low-income families with \$365 million in federal ARRA funding and funds that were previously used for AB 98 subsidized employment activities. Under ARRA’s Emergency Contingency Fund, the federal government pays 80 percent of the costs of specified expenditures.
- Approved proposed suspension of the July 2009 Cost of Living Adjustment (COLA), resulting in savings of \$79.1 million in 2009-10. Amended statutes so that annual COLAs are no longer automatically granted.
- Reduced 2009-10 funding for child care and employment services by \$375 million GF, and adopted corresponding trailer bill language to allow counties flexibility to temporarily exempt individuals with high supportive service costs, including parents of very young children, from work participation requirements. Stopped the 60-month time-clock of limitations on aid and services for individuals exempted under these policies.
- Reverted \$43 million of mid-year adjustment funding for 2008-09 eligibility and employment services and scored them as GF savings for 2009-10.
- Approved proposal to suspend the Pay-for-Performance program, which provides incentives for counties to improve work participation. Resulted in savings of \$40 million GF.
- Rejected the Governor’s proposal to reduce grants by 10 percent. Instead approved, in the absence of notice from the Director of Finance to the Joint Legislative Budget Committee of the receipt of sufficient federal stimulus funds², a reduction of maximum monthly aid payments by 4 percent (for \$146.9 million GF savings). For a family of three, this cut resulted in loss of \$29 monthly, reducing the average monthly grants from \$723 to \$694.
- Adjusted caseload estimates from proposed 15.5 percent to 13 percent anticipated growth, for savings of \$17.5 million GF.
- Transferred \$20 million from the Employment Training Fund to offset GF costs in CalWORKs.
- Adopted the following changes to the budget for the four Statewide Automated Welfare System (SAWS) consortia and the Welfare Data Tracking Implementation Project:
 - Increased by \$1.4 million the budget for ongoing maintenance and operations for the C-IV consortia;
 - Delayed by six months the replacement of Los Angeles County’s automated benefits and eligibility determination case management system, which resulted in savings of \$14.6 million GF;
 - Increased by \$2.9 million the budget for the Welfare Data System.

² This notice would have pulled the “trigger,” and this and other reductions referred to as subject to a “trigger” would not have taken place. Such notice was not given, and the reductions thus remained in effect.

- Reduced the overall maintenance and operations budget for SAWS by \$4.5 million, and adopted corresponding trailer bill language allowing flexibility for counties to implement the reductions; and
- Made corresponding changes to OSI's project management funding.
- Rejected \$1.8 million in requested funds for DSS and OSI to begin planning and procurement for the CalWORKs Business Analytics and Reporting System (CBARS).
- Rejected proposals to eliminate safety net or child-only benefits for families who do not meet work requirements; to impose a time-limit on grants for children whose parent or caretaker is not also assisted; and to limit aid to a lifetime limit of 24 months.
- Adopted future changes to CalWORKs program, effective July 1, 2011, to:
 - Require counties, with specified exceptions, to conduct and report on self-sufficiency reviews with recipients who are required to meet, yet are not meeting, work participation requirements;
 - Revise procedures for imposing sanctions on recipients by reducing, at specified intervals and up to a maximum of 50 percent of the child-only grant, the grant amount received by a family that includes an individual who is not in compliance with work requirements that apply to him/her;
 - Count a month in which an individual is in sanction status toward the 60-month limit on cash assistance, but not toward receipt of specified welfare-to-work services.
 - Revise the time limits applicable for receipt of aid so that adults may not receive aid for more than 48-months in any 60-month period. An adult who times off of aid after 48 months can return to the assistance unit 12 months later for up to an additional 12 months.
- Required, in trailer bill language, that DSS collaborate with specified stakeholders on the implementation of the above program changes.
- Adopted trailer bill language to delay to April 1, 2012 (from April 1, 2010) the deadline for implementation of the Governor's Work Incentive Nutritional Supplement (WINS) program and a Pre-Assistance Employment Readiness Program, and to April 1, 2010 (instead of April 1, 2009) the deadline for implementation of the Temporary Assistance Program.

Food Programs

- Rejected the Governor's proposal to eliminate the California Food Assistance Program (CFAP), which would have removed food benefits from approximately 30,000 non-citizen Californians who are legal immigrants.
- Increased funding for food stamp administration by \$22.1 million in federal ARRA funds.

Supplemental Security Income/State Supplementary Program (SSI/SSP)

- Approved the proposed suspension of the pass-through of the federal SSI COLA, effective May 1, 2009, resulting in \$79.8 million GF savings in 2008-09 and \$487.3 million GF savings in 2009-10. Suspended the June, 2010 state SSP COLA, resulting in additional savings of \$27 million in 2009-10.
- Amended statutes so that annual COLAs are no longer automatically granted, except for the pass-through of any increase in federal SSI benefits.
- Reduced, effective July 1, 2009 in the absence of notice from the Director of Finance of the receipt of sufficient federal stimulus funds³ and subject to some exemptions, maximum grants by 2.3 percent (by \$20 for individuals and \$35 for couples). This action resulted in savings of \$267.8 million GF in 2009-10.
- Rejected the Governor's proposal to reduce the maximum grants for individuals to the federal minimum level, and instead adopted a further reduction of .6 percent (\$5) to that maximum grant level (bringing it to \$845), effective October 1, 2009. Adopted the proposed reduction of the maximum grants for couples to the federal minimum amount of \$1,407 as of October 1, 2009, which represents an \$82 reduction.⁴ Combined savings of these actions were \$115.9 million in 2009-10.
- Rejected the Governor's proposal to eliminate the Cash Assistance Program for Immigrants (CAPI), which provides benefits equivalent to SSI/SSP to nearly 13,000 aged, blind, and disabled legal immigrants.

In-Home Supportive Services (IHSS) Program

- Rejected the Governor's proposals to eliminate all services for up to 387,259 or 90 percent of recipients. Instead made the following changes, effective September 1, 2009, which result in savings of \$53.2 million GF:
 - Eliminated domestic and related services for individuals with the lowest levels of need for each particular service. This action was anticipated to impact approximately 85,000 individuals.
 - Eliminated all services for individuals with the lowest levels of overall need, as measured by a standardized scoring system (a functional index score below two). This action was anticipated to impact 9.3 percent of recipients, or around 39,000 individuals.

³ See footnote 2.

⁴ Although the reduction made to the maximum grant for couples was larger in this instance than the reduction made in the maximum grants for individuals, it is also important to note SSI/SSP benefits for couples are higher when compared to the federal poverty line for couples than are grants for individuals when compared to the federal poverty line for individuals.

- Established exemptions to both of the above reductions for individuals who receive paramedical services, protective supervision, or more than a total of 120 hours of services per month. The exemptions may be waived by the Director of DSS if necessary to maintain federal funding.

The Governor further reduced the budget for IHSS services by \$28.9 million, in anticipation of the waiver of some or all of these exemptions.⁵

- Reduced funding for Public Authorities by 20 percent or approximately \$4.6 million GF.

The Governor further reduced the budget for the Public Authorities by \$8.7 million GF, leaving a total appropriation of \$27.1 million (\$10 million GF) statewide.

- Rejected the Administration's proposals to limit the state's participation in the cost of IHSS provider wages and benefits to the minimum wage of \$8.00 per hour, plus \$0.60 per hour for benefits. Instead approved, in the absence of notice from the Director of Finance to the Joint Legislative Budget Committee of the receipt of sufficient federal stimulus "trigger" funds, a reduction of \$74.2 million in savings from lowering state participation in worker wages and benefits. As a result, the law requires the state to pay its share of wages and benefits on up to \$10.10 per hour (reduced from a maximum of \$12.10 per hour).⁶
- Eliminated, subject to notice regarding the receipt of sufficient "trigger" funds, the state's share-of-cost contribution for newly enrolling IHSS recipients on or after July 1, 2009. This resulted in \$3.8 million GF savings in 2009-10. Later eliminated the state's share-of-cost contribution for all recipients as of October 1, 2009, resulting in additional 2009-10 savings of \$41.1 million GF. Consequently, as of October, recipients who have sufficient resources will pay a share-of-cost as determined by Medi-Cal policy.
- Approved the creation of one new position and extension of two additional positions, but rejected the request for a fourth position, to review recipients' claims for reimbursement under the *Conlan v. Shewry* court order.
- Adopted the following changes to further ensure program integrity and bolster fraud prevention efforts, anticipated by the Administration to save \$130 million GF in IHSS costs:
 - 25 additional staff at DSS and the Department of Health Care Services in 2009-10, at a cost of \$3 million (\$1.5 million GF), to focus on goals related to program integrity.
 - A \$10 million augmentation for county fraud investigation efforts, to be allocated by DSS in consultation with the counties and subject to approval of a county plan.

⁵ As of the date of publication of this document, all IHSS reductions made by veto are also the subject of currently pending lawsuits that question their constitutionality.

⁶ This change in state participation in IHSS providers' wages is also the subject of a pending lawsuit.

- The development of a process, by the end of 2011, for ensuring that IHSS providers receive a list specifying the approved duties to be performed for recipients under their care and the overall list of IHSS tasks.
- Criminal background checks for all providers (to be conducted on new providers as of October 1, 2009 and for providers offering care prior to that date by July 1, 2010).
- The development, by DSS in consultation with the counties, of protocols and \$8.2 million (\$4.4 million GF) in funding to obtain fingerprints of recipients for identification purposes.
- A requirement that providers turn in enrollment forms and documentation of their identity in-person.
- Timesheet-related reforms, including: 1) a certification, to be signed by the provider and recipient, verifying the accuracy of the information they contain; 2) effective July 1, 2011, a space for provider and recipient fingerprints, and 3) civil penalties for intentional deception or misrepresentation on timesheets that results in a conviction of fraud.
- Creation, by July 1, 2010, of a standardized curriculum and training materials for county social workers in order to prevent fraud.
- A prohibition on the use of post office boxes for providers to receive paychecks, unless a county approves a written or oral request for such use.
- The development, by DSS in consultation with the counties, of protocols for targeted mailings to inform providers and recipients of program rules and for unannounced home visits when there is cause for concern regarding program integrity.
- A report on quality assurance and fraud prevention efforts.
- Collaboration between DSS and specified stakeholders on the implementation of these changes.

Children and Family Services Programs

- Rejected the Administration's proposal to impose an unallocated reduction of \$70.6 million GF to the budget for child welfare services.

The Governor made an even larger reduction of \$80 million GF to these programs.⁷ It is not yet known how the vetoed funding would be allocated among various child welfare services programs.

⁷ \$19.1 million GF of the \$80 million GF in cuts are included in the lawsuit previously mentioned.

- Recognized \$51.6 million in savings to the state, as well as additional savings to the counties, due to enhanced 2009-10 federal financial participation (based on the Federal Medical Assistance Percentage or FMAP) in foster care and adoption assistance programs under ARRA.
- Rejected a proposal to realign \$550 million of costs of child welfare services and foster care from the state to the counties.
- Reduced by 10 percent the rates paid to group homes, foster family agencies, and other programs for which rates are tied to these, for care and services provided to foster children. Resulted in savings of \$26.6 million GF.
- Rejected proposals to eliminate, for \$765,000 in savings, the supplemental clothing allowance and a specialized care increment that is applied in cases when a child faces certain health or behavioral challenges.
- Increased funding and adopted trailer bill language to allow for implementation of the following new federal requirements under the Fostering Connections to Success and Increasing Adoptions Act (P.L. 110-351), including:
 - \$2 million GF and corresponding federal funds for enhanced oversight of foster children's health;
 - \$2 million (\$1.1 million GF) for notice to relatives within 30 days of a child's removal from his/her family;
 - \$6.6 million (\$1.3 million GF) for transportation to a child's school of origin;
 - \$369,000 (\$214,000 GF) for transition planning prior to youth emancipating from foster care.
- Increased funding and adopted trailer bill language, to allow for implementation of the state's Program Improvement Plan (PIP) resulting from the federal government's second Child and Family Services Review (CFSR). Funding for PIP goals included:
 - \$8.6 million GF and corresponding federal funds for the search for and engagement of relatives; and
 - \$4.1 million GF and corresponding federal funds for participatory case planning.
- Approved the following changes to the budget for the Child Welfare Services/Case Management System (CWS/CMS):
 - \$1.3 million augmentation to support full functionality of system after a relocation in May, 2010;
 - \$2.2 million for the CWS/CMS Web project;

- An increase of \$1.7 million for consultant and Data Center maintenance and operations services, with a corresponding impact on the budget for OSI's project management.
- A decrease of \$8.8 million (\$4 million GF) to the maintenance and operations budget, including a related decrease to the budget for OSI.
- Reduced by \$5 million GF the budget for the Transitional Housing Program Plus (THP+), which provides housing and supportive services to former foster youth between the ages of 18 and 24.
- Rejected proposal to opt state in to new federal policy that allows for federal financial participation in Kinship Guardianship Assistance Program (Kin-GAP). During the period of ARRA, it is more advantageous for the state to continue counting Kin-GAP expenditures as part of the state's maintenance of efforts for its Temporary Assistance for Needy Families (TANF) block grant.
- Reformed the adoption assistance program to better tie benefit levels to need by prohibiting automatic increases in payments based on a child's age, which resulted in anticipated savings of \$900,000 GF in 2009-10.
- Adopted trailer bill language to:
 - Ensure that children who are eligible for Kinship Guardianship Assistance Payments (Kin-GAP) and also consumers of regional center services receive a higher dual-agency rate (consistent with the higher dual agency rate paid to children in other placement types) under specified circumstances; and
 - Allow DSS to conduct group home program audits that cover a period of fewer than 12 months.

Community Care Licensing

- Rejected the Governor's proposal to eliminate \$19.5 million or all GF resources from the budget for CCL, raise fees for most facilities by 80 percent, and severely reduce licensing responsibilities.
- Approved increase in application and annual fees by 10 percent and offset \$5.3 million GF with other child care funding on a one-time basis, for total 2009-10 GF savings of \$7.4 million.
- Rejected request for \$3.5 million (largely from a 16 percent fee increase, proposed prior to the larger increase proposal mentioned above) and 30 positions to conduct criminal background checks and enhance existing safeguards against the presence of sex offenders in licensed facilities.
- Rejected request for \$97,000 increase to address new DSS workload from return of licensing responsibilities for 56 foster family homes and 107 family child care homes from Mendocino

County to the state. The workload amounts to less than one full position under DSS caseload standards.

Other Issues

- Adopted, subject to the approval of Proposition 1D by voters in a February, 2009 special election, the use of Health and Human Services Fund (known as Proposition 10) monies to fund \$343 million of the costs for social service programs in place of GF resources. The voters rejected Proposition 1D, and the GF resources were thus restored to DSS's budget.
- Approved funding for the **State Hearings Division** to hire four new Administrative Law Judges (ALJ) and one Office Technician to address growth in the hearings caseload. Rejected remainder of request for two additional ALJs.
- Approved request for \$3.7 million for new **Statewide Fingerprint Imaging System (SFIS)** vendor contract, and offset \$3 million GF in system costs with newly available federal funds.

SUBCOMMITTEE 4

FINAL ACTION REPORT

Senate Budget and Fiscal Review Committee

Members

Mark DeSaulnier, Chair
Tom Harman
Gloria Negrete McLeod
Roderick D. Wright

Consultants

Daniel Alvarez
Brian Annis
Brian Brown
Bryan Ehlers

SUBCOMMITTEE No. 4

STATE ADMINISTRATION, GENERAL GOVERNMENT, JUDICIAL AND VETERANS AFFAIRS

State Administration

Office of the Chief Information Officer	4-1
Secretary for State and Consumer Services	4-1
Secretary for Business, Transportation, and Housing	4-1
Office of Planning and Research	4-2
California Emergency Management Agency	4-2
State Controller	4-5
Department of Insurance	4-6
State Lottery Commission	4-7
Secretary of State	4-7
Citizens Redistricting Initiative	4-8
State Treasurer's Office	4-8
California Science Center	4-9
Department of Fair Employment and Housing	4-9
Fair Employment and Housing Commission	4-9
Department of General Services	4-9
State Personnel Board	4-10
Public Employees' Retirement System	4-10
State Teachers' Retirement System	4-11
Department of Technology Services	4-11
Alcoholic Beverage Control	4-12
Department of Financial Institutions	4-13
Department of Corporations	4-13
Department of Housing and Community Development	4-13
California Housing Finance Authority	4-15
Office of Real Estate Appraisers	4-15
Department of Real Estate	4-15
Department of Managed Health Care	4-16
California Arts Council	4-16
Public Employee Relations Board	4-16
Department of Personnel Administration	4-16
State Compensation Insurance Fund	4-17
Board of Chiropractic Examiners	4-17
Fair Political Practices Commission	4-17
Political Reform Act of 1974	4-17
Milton Marks "Little Hoover" Commission	4-17
Commission on the Status of Women	4-18
Bureau of State Audits	4-18
Department of Finance	4-18
Commission on State Mandates	4-18
Office of Administrative Law	4-20
Military Department	4-20
Tax Relief	4-21

SUBCOMMITTEE No. 4

(CONTINUED)

State Administration (continued)

Local Government Financing	4-22
Shared Revenues	4-23
Debt Service for General Obligation Bonds.....	4-23
Support for Health and Dental Benefits for Annuitants	4-24
Augmentation for Employee Compensation	4-24
Augmentation for Contingencies and Emergencies	4-24

Control Sections:

Preferred Provider Organization Premium Rebate.....	4-25
Contributions to Public Employee Retirement Benefits	4-25
Employee Compensation Reductions.....	4-25
Delete Price Increase	4-25
Lease Revenue Bond Debt Service Adjustments	4-25
Transfer Bond Proceeds to General Fund	4-26
Federal Economic Stimulus Funds That Offset General Fund.....	4-26
Restore GF Items If Discretionary Federal Funds Available.....	4-26
Federal Funds that Offset Any Funds.....	4-26
American Recovery and Reinvestment Act (ARRA) Oversight.....	4-26
Financial Information System for California (FI\$Cal).....	4-27
Payroll Accounting Methodology Adjustment.....	4-27
Reorganizations and Consolidations Reductions	4-27
Information Technology Savings	4-27
Proposition 1A Suspension/Redevelopment Shift	4-28
Program Change Notification.....	4-28
Budget Stabilization Account	4-28

Corrections and Rehabilitation

Department of Corrections and Rehabilitation.....	4-29
Office of the Inspector General	4-34

Judiciary

Judicial Branch.....	4-35
Commission on Judicial Performance.....	4-38
Contributions to Judges' Retirement System	4-38

Public Safety and Criminal Justice

Department of Justice	4-39
Gambling Control Commission.....	4-39
Alfred E. Alquist Seismic Safety Commission	4-40
Victim Compensation and Government Claims Board	4-40
Commission on Peace Officer Standards and Training.....	4-40
State Public Defender	4-40
Payments to Counties for the Costs of Homicide Trials	4-40
California Horse Racing Board	4-41

Veterans Affairs

Department of Veterans Affairs and Veterans Homes of California	4-42
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STATE ADMINISTRATION

0502 OFFICE OF THE STATE CHIEF INFORMATION OFFICER

- Implemented technical budget adjustments to reflect the Governor's Reorganization Plan Number One (GRP No. 1) which consolidated under the Office of the State Chief Information Officer (OCIO) the following: (1) the Department of Technology Services (DTS); (2) the Telecommunications Division within the Department of General Services (DGS), and (3) the Office of Information Security within the State and Consumer Services Agency (SSCA). See also Items 0510 (SSCA), 1760 (DGS), and 1955 (DTS).
- Authorized the OCIO to identify at least \$125 million GF in information technology (IT) and related savings achieved in association with GRP No. 1 (see also Control Sections 13.25 and 15.30).
- Rejected \$6.4 million (including \$3.7 million GF) and 27 positions for expansion of the OCIO. Approved six new positions (but no new funding) to enable the OCIO to better meet the state's IT needs pursuant to Chapter 183, Statutes of 2007 (SB 90).
- Rejected \$2 million GF and one position to support convening of a working group and drafting of a strategic plan pursuant to Chapter 561, Statutes of 2008 (SB 1298—Linked Education Data Systems).
- Approved \$900,000 federal funds to initiate development of a statewide Geographical Information System.

0510 SECRETARY FOR STATE AND CONSUMER SERVICES

- Appropriated \$971,000 GF for support of the Secretary's functions.

0520 SECRETARY FOR BUSINESS, TRANSPORTATION, AND HOUSING

- Reduced base funding for the Small Business Loan Guarantee Program by \$1.7 million, or half the 2008-09 level. See below for additional changes to the program through trailer bill.
- Rejected funding of \$221,000 (special fund) and two new positions at the Infrastructure Bank. Note, the 2008 Budget Act included permanent funding of \$446,000 (special fund) and five new positions for the Infrastructure Bank.

- Approved reduced funding of \$392,000 and three new positions for the Film Commission to implement the Film Tax Credits that were approved in the February budget package. The Administration had originally requested \$644,000 and five new positions.

Trailer Bill Language

1. Temporarily suspended the Small Business Loan Guarantee Program and reverted about \$8.3 million in program funds to the General Fund. With the budget reduction above, total General Fund relief from the program in 2009-10 is \$10 million.
2. Transferred all unencumbered funds and proceeds from future loan repayments from the Chrome Plating Pollution Prevention Fund to the General Fund. The amount of General Fund relief for 2009-10 was scored at \$3.5 million.

0650 OFFICE OF PLANNING AND RESEARCH

- Approved May Revise request for the Office of Planning and Research (OPR) to act as the pass-through agency for approximately \$2.1 billion in American Recovery and Reinvestment Act (ARRA) funds to be distributed to the California State University (CSU), the University of California (UC), the California Department of Corrections and Rehabilitation, and the California Department of Education. *The Administration subsequently requested a technical correction to address the fact that the OPR inadvertently requested approximately \$537 million too little in federal authority to pass-through all available dollars for UC and CSU.*
- Approved reappropriation of \$777,000 GF contained in the 2008-09 budget for the 2010 Census Program. Pursuant to prior approval in the 2008-09 budget, the 2009-10 budget also contains \$1 million GF in the OPR baseline budget for the same effort.

Trailer Bill Language

1. Suspended indefinitely the annual \$5 million GF appropriation for the Cesar Chavez Day of Service Learning Program (Chapter 4, Statutes of 2009; SX3 8). The program was suspended for three years in the 2008-09 budget.

0690 CALIFORNIA EMERGENCY MANAGEMENT AGENCY

- Denied various spending requests totaling \$17.8 million in 2009-10 which were requested to be funded primarily from the revenues generated from the Governor's Emergency Response Initiative proposal. This proposal would have generated an estimated \$119 million in revenue in 2009-10 (and \$479 million ongoing) from implementing a 4.8 percent surcharge on property

insurance. The specific Emergency Response Initiative requests proposed for funding in CalEMA's budget were the following:

- \$12.2 million annually for five years for the purchase of 131 additional fire engines.
 - \$3.2 million for additional positions in the regional offices to improve the state's response to emergencies.
 - \$650,000 in 2009-10 (and \$1.3 million ongoing) for additional administrative positions to collect and administer the new revenues generated by the proposed surcharge.
 - \$560,000 for four positions to act as coordinators with law enforcement agencies, as well as to improve planning and coordination with the Mass Fatality Management Program and the Search and Rescue Mutual Aid Program.
 - \$500,000 in one-time funding to hire a contractor to study how to store, manage, and transport critical goods immediately after an emergency or disaster event.
 - \$360,000 to add two limited-term positions to establish the Sacramento-to-San Joaquin Delta Multi-Hazard task force, as required by Chapter 608, Statutes of 2008 (SB 27, Simitian).
 - \$181,000 for an additional supervisory position in the California State Warning Center.
 - \$155,000 to reimburse CalFIRE for a full time fire captain position based out of the State Emergency Command Center.
- Approved \$786,000 in federal funds to establish the Office of Access and Functional Needs with the purpose of identifying the needs of people with disabilities before, during, and after a disaster and to integrate disability needs and resources into all aspects of emergency management systems.
 - Approved \$1.2 million (\$599,000 GF, \$598,000 Federal Trust Fund) to address the increase in workload related to the department's disaster recovery activities.
 - Approved reduction in expenditure authority of \$324,000 in the Equality in Prevention Services for Domestic Abuse Fund based on a reduction in revenues generated from same sex domestic partnership registrations.
 - Approved \$448,000 in Federal Trust Fund authority for additional positions to meet workload demands of the Public Assistance Program which provides technical assistance and administrative oversight of the federal grants to state and local agencies for disaster recovery activities.
 - Approved creation of two permanent positions for the California Specialized Training Institute's Hazardous Materials Training Program. Funding for the positions will be shifted from an existing contract for the same services at no additional costs to the state.

- Approved \$713,000 from the Nuclear Planning Assessment Special Account to comply with Chapter 292, Statutes of 2007 which set the budget for the Nuclear Power Plant Program. Also approved accompanying trailer bill language which changed the calculation of future adjustments based on the consumer price index from a calendar year to a fiscal year.
- Approved three administrative positions to be funded from existing resources in order to meet additional administrative workload associated with a 13 percent increase in agency workforce.
- Approved a reduction of \$614,000 in federal funds associated with the sunset of the Rural Domestic Violence and Child Victimization Program.
- Approved \$4.5 million in federal funds to complete six federally funded projects approved in the 2008 Public Safety Interoperability Communications Grant.
- Approved the merger of the budgets of the Office of Emergency Services and the Office of Homeland Security as required by AB 38 (Chapter 372, Statutes of 2008). The merger required an increase of \$5.8 million in Distributed Administration from existing appropriations.
- Approved \$1.9 million in federal fund authority for the development of preliminary plans for the construction of a southern regional facility.
- Approved \$603,000 in Federal Trust Fund authority from the national Oceanic and Atmospheric Administration for California's Tsunami Program.
- Approved \$1.1 million bond fund authority to administer the Transit System Safety, Security, and Disaster Response Account Highway Safety, Traffic Reduction, Air Quality, and Port Security Fund of 2006 to continue the administration of this grant program.
- Approved \$15.8 million in federal stimulus funds for the Victims of Crime Act and Violence Against Women Act funding for victim services.
- Approved increase of \$7.4 million in Federal Trust Fund authority to address the increased workload created by the projected increase in the ongoing Justice Assistance Grant (Byrne/JAG) program.
- Increased Governor's request for authority to spend one-time federal stimulus dollars for the Byrne/JAG to \$135 million in 2009-10. The Governor had proposed to spend the funds over two years. The Legislature further enacted budget bill language designating the specific programs for which funds were to be used.
- Approved trailer bill language that establishes that when funds for compensation for disaster service workers are temporarily unavailable for disbursement, the State Compensation Insurance Fund (SCIF) may provide compensation to, and benefits for, eligible claimants who have injuries that have previously either been accepted or found to be compensable by the Workers' Compensation Appeals Board.

0840 STATE CONTROLLER

- Deleted \$1 million GF for modular furniture replacement (Chapter 3, Statutes of 2009; SBX3 20). (See also budget bill language below.)
- Approved May Revise request for \$22.4 million (including \$7.2 million GF over and above the \$9.6 million GF contained in the 2009-10 budget adopted in February—see below; and \$15.2 million special fund contained in Control Section 25.25) and seven positions for re-procurement and continuation of the 21st Century Project. (See also budget bill language below.)
- Approved May Revise request to redistribute the (February) 2009 Budget Act Veto (see more below) and in order to restore \$987,000 GF. Amended Control Section 25.50 accordingly.
- Approved the Governor’s Budget as proposed January 10, including:
 - \$9.6 million GF for the 21st Century Project;
 - \$2.1 million (special funds and reimbursements) for increased lease costs for SCO facilities in Rancho Cordova and Culver City;
 - \$2 million (reimbursements) to address payments workload volume increases and other contractual responsibilities;
 - \$1.6 million (reimbursements) and 12.6 two-year limited-term positions to provide the California Department of Transportation (Caltrans) with indirect cost allocation plans for local transportation agencies; and
 - \$1.2 million (Unclaimed Property Fund) for two years to address lawsuits filed against the SCO for its Unclaimed Property Program.
- In signing SBX3 1 (the 2009-10 budget adopted in February 2009), the Governor vetoed 10 percent of the SCO’s personal services budget (across all items of appropriation, including \$4.7 million GF) in order to ensure equity with state employees in other departments receiving compensation reductions through furloughs, overtime reform, and elimination of two state holidays. At the time, the Controller refused to recognize the Governor’s furlough authority over his employees.
- Approved May Revise request to increase reimbursement authority by \$772,000 and provide 7.4 three-year limited-term positions to perform audits for Caltrans and the California Department of Public Health.
- Approved April Finance Letter to recognize reduced savings as a result of new requirements for the Unclaimed Property System. Accordingly, reduced the State Controller’s Office (SCO) budget by \$224,000 (Unclaimed Property Fund).

Budget Bill Language

1. Specified that no Controller funds could be used for modular furniture in order to supplant the above reduction.
2. Authorized budget adjustments (both GF and in various special and non government cost funds) to the 21st Century Project, consistent with the most recently approved Special Project Report, and pursuant to 30-day notification to the Legislature.

Trailer Bill Language

1. Adopted language to authorize discharge of a \$345,000 GF loan made by the state in 1986 to the Local Agency Self Insurance Authority because the agency was dissolved and there are no assets to pay back the loan.
2. Required, on a permanent basis, the State Controller to provide salaries for state workers paid through the Uniform State Payroll System, for the pay period ending June 30th, no sooner than July 1st. (See also Control Section 12.45.)

0845 DEPARTMENT OF INSURANCE

- Approved Governor's request to provide \$8.9 million (Insurance Fund) ongoing increase to District Attorneys (DAs) for workers' compensation fraud investigation workload increases.
- Approved Governor's request of one-time \$8.9 million (Insurance Fund) increase in local assistance to DA automobile insurance fraud investigation programs. Additionally, approved a \$2.2 million increase beginning in 2010-11 and ongoing.
- Approved Governor's request of one-time \$4.4 million (Insurance Fund) augmentation to fund workload increases in local DA Organized Automobile Fraud Activity Interdiction Program (Urban Grant Program). Additionally, approved a \$907,000 million increase beginning in 2010-11 and ongoing.
- Approved Governor's request of \$2.5 million (Insurance Fund) and 2 two-year limited-term positions to complete the second-year implementation of an enterprise electronic management "paperless" workflow system.
- **In signing SBX3 1 (the 2009-10 Budget adopted in February 2009), the Governor vetoed ten percent of all Department of Insurance appropriation authority (including the above), resulting in an overall reduction of \$17.4 million to state operations and \$6.6 million to**

local assistance. No subsequent restorations or augmentations were made in the amendments to the 2009-10 budget enacted in July 2009.

0850 STATE LOTTERY COMMISSION

Trailer Bill Language

1. Adopted technical clarifications (Chapter 8, Statutes of 2009; ABX3 12) to the lottery modernization trailer bill for the 2008-09 budget (Chapter 764, Statutes of 2008; AB 1654). Among other things, the language made clear that GF appropriated for K-12 education and community colleges under the lottery proposal would be in addition to the Proposition 98 minimum guarantee. ***The Lottery Modernization initiative (Proposition 1C) was subsequently defeated in the May 2009 special election.***

0890 SECRETARY OF STATE

- Approved Governor's request to increase expenditure authority by \$3.8 million (federal funds), consistent with the most recent Help America to Vote Act (HAVA) spending plan (which did not include funding for the HAVA VoteCal project).
- Approved Governor's request for \$2.8 million (federal funds) to implement the HAVA VoteCal project in anticipation of additional requests (pursuant to provisional language) following submission and approval of an updated Special Project Report containing costs for system integration, hardware, and software.
- **In signing SBX3 1 (the 2009-10 Budget adopted in February 2009), the Governor vetoed ten percent of the Secretary of State's personal services budget (including the above) in order to ensure equity with state employees in other departments receiving compensation reductions through furloughs, overtime reform, and elimination of two state holidays. At the time, the Secretary of State refused to recognize the Governor's furlough authority over her employees. The veto resulted in an overall reduction of \$3.4 million (including approximately \$1.3 million GF). No subsequent restorations or augmentations were made in the amendments to the 2009-10 budget enacted in July 2009.**

0911 CITIZENS REDISTRICTING INITIATIVE

- Approved Governor's request to provide \$3 million GF for costs associated with implementation of the Voters FIRST Act (Proposition 11).

Budget Bill Language

1. Adopted language making Voters FIRST Act funds available to the Citizens Redistricting Commission, the Secretary of State, and the Bureau of State Audits (BSA) for a three-year period (until the next round of redistricting is complete). Additionally, maintained the independence of the Auditor by specifying that the BSA must submit any request for funding to the Legislature who will then direct DOF to release the funds.

0950 STATE TREASURER'S OFFICE

- Approved most January Governor's budget proposals, including the following augmentations:
- Approved \$97,000 (\$36,000 General Fund) and one new position in the Securities Management Division to support three new program activities related to the payment of California Debt Service.
- Approved a net increase of \$93,000 (special fund) and one new position for the California Health Facilities Financing Authority to support new workload associated with Proposition 3 – the Childrens' Hospital Bond Act of 2008.
- Approved \$30,000 (special fund) for the California Debt and Investment Advisory Commission to meet the demand by local governments for services from the Commission. Participating local governments pay fees to fund the cost of the service.
- Approved \$360,000 (special fund) for two new positions for the California Tax Credit Allocation Committee to carry out federally-required compliance and monitoring activities.
- Approved \$517 million in federal stimulus funds for the California Tax Credit Allocation Committee for programs that stimulate the production of affordable rental housing for low-income families and households. An additional \$550 million was approved for 2008-09 through the Section Letter process. Approved an additional \$500,000 for the Committee's administrative costs. The Committee will work in cooperation with the Department of Housing and Community Development and the California Housing Finance Agency.
- **In signing SBX3 1 (the 2009-10 Budget adopted in February 2009), the Governor vetoed \$825,000 from the State Treasurer's Office budget to conform to his furlough proposal as it existed at that point in time.**

1100 CALIFORNIA SCIENCE CENTER

- Appropriated \$21.9 million GF for support of operations and programs within the jurisdiction of the California Science Center.
- Approved \$293,000 under Control Section 12.55, for the African American Museum.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING

- Approved as budgeted.

1705 FAIR EMPLOYMENT AND HOUSING COMMISSION

- Approved as budgeted.

1760 DEPARTMENT OF GENERAL SERVICES

- Approved May Revise request to: (1) suspend \$5.4 million GF for Capitol repair projects for one year; and (2) shift Capitol Security Barrier System funding (\$1.2 million) from GF to special fund.
- Implemented technical budget adjustments to reflect the IT reorganization set forth in GRP No. 1, including transfer of the Telecommunications Division within the DGS and approximately \$200 million in spending authority (primarily special fund) to the OCIO (see also 0502).
- Approved Governor's request for \$2.3 million (special funds) for energy efficiency improvements within DGS-owned buildings in the Los Angeles Department of Water and Power (LADWP) service territory. The funds are part of a \$9.7 million settlement with the LADWP for capital fees overcharges.
- Denied Governor's request for \$5 million (Service Revolving Fund) for implementation of energy efficiency retrofit projects at twelve state-owned facilities. The proposed expenditures were to be supported by rents from building occupants, approximately 75 percent of which was to be paid out of the GF. The estimated 5-year payback period was deemed inadequate to justify additional GF expenditures in view of the state's fiscal crisis.
- Approved April Finance Letter to reappropriate unencumbered balances of 2008-09 appropriations for the Library and Courts Building renovation project (\$59.6 million) and the structural retrofit of the Hospital Building at Deuel Vocational Institution in Tracy (\$3.7 million). The projects were delayed when the state's 2008-09 cash crisis required suspension of disbursements from the Pooled Money Investment Account.

- Approved Governor's request for \$278,000 (special fund) and three positions to address increased green building standards workload stemming primarily from enactment of Chapter 719, Statutes of 2008 (SB 1473).
- Approved Governor's request for \$2.5 million (Service Revolving Fund) and six positions to manage and operate the new Central Heating and Cooling Plant which supports the climate control needs of 22 downtown buildings.
- Approved Governor's request for \$90,000 (Schools Facilities Fund) and one position for the Office of Public School Construction (OPSC) to address increased School Facilities Program (SPF) workload associated with Chapter 691, Statutes of 2007 (AB 1014). The bill provided districts with additional options to project student enrollment, which is used to establish eligibility under the SFP.
- Approved Governor's request for \$132,000 (School Facilities Fund) and one position to address increased OPSC accounting workload resulting from various school facility bond funding measures passed in recent years.
- Approved Governor's request for \$469,000 (School Facilities Fund) for the OPSC to hire the Department of Finance's Office of State Audits and Evaluation, to perform departmental bond oversight audits of the Kindergarten-University Public Education Facilities Bond Act of 2006 (Proposition 1D).
- Approved Governor's request to redirect savings from the Fleet Asset Management System to: (1) fund one new analyst position to ensure data integrity, data analysis, and ultimate success of the project; and (2) provide \$250,000 savings to the Service Revolving Fund.

1880 STATE PERSONNEL BOARD

- Approved 10.5 new positions (and no new funding) to replace contracted psychological screening services for peace officer applicants with state psychologists.
- Approved \$507,000 (reimbursement authority) and two positions to establish a court-ordered concurrent medical quality and disciplinary hearings unit for physicians employed by the California Department of Corrections and Rehabilitation.

1900 PUBLIC EMPLOYEES' RETIREMENT SYSTEM

- Adopted the budget approved by the Public Employees' Retirement Systems' (PERS) board.
- Rejected the Governor's proposal to achieve \$132 million GF savings through lower cost health care coverage by transferring contracting authority from PERS to a state department within the Executive Branch.
- See also 9650 and Control Section 3.55 for additional actions related to public retirement.

1920 STATE TEACHERS' RETIREMENT SYSTEM

- Approved as budgeted, including the following augmentations:
- \$192,000 (Teachers' Retirement Fund—TRF) and three positions to address workload and improve efficiency in the Contract Services Office;
- One position (and no new funding) to replace consultant contracts in support of the Information Security Program;
- One position (with funding redirected from the elimination of contract consultants—see above) to support Legal Services workload;
- One position (with funding redirected from elimination of contract consultants—see above—as well as reduced contracts with the Attorney General and the Department of Personnel Administration) to represent the California State Teachers' Retirement System (STRS) in administrative hearings;
- \$10 million (TRF) for rent and operating expenses for the new headquarters in West Sacramento;
- \$1.2 million (TRF) for increased transaction costs associated with the State Controller's processing of STRS' monthly benefit payments;
- \$1.6 million (TRF) and nine positions in Investments Support to reduce risk and generate additional return to the investment portfolio;
- \$86,000 (TRF) and one position to provide vendor support and system administration for new IT systems designed to allow STRS to better serve its members;
- \$122,000 (TRF) and two positions to improve response time, reduce backlog, and increase customer satisfaction in the Correspondence Center;
- \$96,000 (TRF) and one position to serve as the Owner of the Master Calculator whose responsibility is the accuracy of all calculations in the Corporate Database; and
- \$61,000 (TRF) and one position to provide walk-in assistance and counseling to members who visit the front counter at the new headquarters.

1955 DEPARTMENT OF TECHNOLOGY SERVICES

- Approved as budgeted, including the following augmentations:
- \$4.3 million (Department of Technology Services (DTS) Revolving Fund) and one position to purchase and operate mainframe processing capacity in order to meet projected workload increases and upgrade software;

- \$7.2 million (DTS Revolving Fund) and four positions to purchase and operate midrange server capacity in order to meet customer-driven workloads;
- \$1.3 million (DTS Revolving Fund) to replace switches, routers, and network modules located at customer sites;
- \$3.8 million (DTS Revolving Fund) to purchase and upgrade existing enterprise data storage capacity and safeguard customer data in order to meet anticipated growth needs;
- \$353,000 (DTS Revolving Fund) and two positions to maintain compliance and certification with both the Payment Card Industry-Data Security Standard and the International Standards Organization; and
- \$743,000 (DTS Revolving Fund) for increased lease costs associated with consolidation of three existing leases into the new Administration Facility.
- Additionally, adopted the following reductions: (1) \$24.1 million to align appropriations with the ongoing costs of related projects; and (2) \$2.6 million (DTS Revolving Fund) stemming from lower lease costs associated with the relocation of Cannery and South Annex building operations.
- Implemented technical budget adjustments to reflect the IT reorganization set forth in GRP No. 1, including transfer of the DTS (henceforth to be known as the Office of Technology Services) and approximately \$240 million in spending authority (DTS Revolving Fund) to the OCIO (see also 0502).

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

- Approved as budgeted, including the following:
- Approved an administration request to increase fees by 3.49 percent, which ties to the Consumer Price Index (CPI) inflation from April 2007 to April 2008.
- Approved one-time funding of \$736,000 (special fund) to replace a portion of the department's laptop computers and other computing equipment.
- Approved \$169,000 (special fund) and one new attorney position. This new General Counsel position will act as a separate high-level legal advisor to the Director for enforcement cases where other departmental staff act as prosecuting attorneys. This new structure complies with the requirements of a recent California Supreme Court ruling.
- Approved \$331,000 (special fund) to adjust the department's budget for higher rental costs for some relocated office facilities.
- Approved \$71,000 (special fund) and one new position to address the new workload associated with Assembly Bill 2293 (Chapter 638, Statutes of 2008, DeLeon). AB 2293 established an

allowance for specific distilled spirits and wine suppliers to host events at which such suppliers may provide alcoholic beverages, food, and entertainment, free of charge, to invited consumers.

2150 DEPARTMENT OF FINANCIAL INSTITUTIONS

- Approved as budgeted, including \$546,000 (special fund) and four new positions to address the higher bank examination workload that is resulting from the economy and an increase in the number of banks in less-than-satisfactory condition.

2180 DEPARTMENT OF CORPORATIONS

- Approved as budgeted, including \$632,000 (special funds) in 2009-10 (a total of \$7.6 million over three years) and seven limited-term positions to replace the department's information technology (IT) system. This new system would partially address shortcomings outlined in a January 2007 Bureau of State Audits report. The current IT system is incapable of integrating its various licensing, examination, complaint, and other reporting systems.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

- Approved Governor's proposed baseline Proposition 1C (Housing and Emergency Shelter Trust Fund Act of 2006—Prop 1C) bond funding for the following bond categories that are budgeted directly in the Department of Housing and Community Development's (HCD's) budget (excluding support costs):
 - \$50 million for the CalHome Program.
 - \$40 million for the California Homeownership Program (BEGIN).
 - \$3 million for the Self-Help Housing Program.
 - \$61 million for the Affordable Housing Innovation Fund.
 - \$83 million for Supportive Housing.
 - \$19 million for Homeless Youths.
 - \$31 million for Serna Farmworker Loans/Grants.
 - \$27 million for Emergency Housing Assistance.
 - \$190 million for Infill Incentive Grants.
 - \$34 million for Transit-Oriented Development
 - \$10 million for Housing Urban-Suburban-Rural Parks.
- Restored \$231,000 in Employee Housing Program reimbursement authority originally deleted in the Governor's Budget and augmented that amount by an additional \$241,000. Denied the Governor's request to eliminate the HCD/state responsibility for employee housing inspections, and instead adopted trailer bill language (see below) to generate an estimated \$472,000 annually in order for the HCD to maintain 3.5 positions and conduct inspections of at least 25 percent of

all state-supervised employee housing. (Historically, HCD inspected approximately 75 percent of all state-supervised employee housing annually, but the Governor's 2008-09 budget veto deleted \$761,000 GF support for the program.)

- Approved May Revise request for \$500,000 (reimbursement authority) to underwrite and provide loan origination services for the Tax Credit Assistance Program administered by the Tax Allocation Credit Committee (see also 0950).
- Approved April Finance Letter request for \$55.2 million (ARRA funds), including \$10.7 million for the Community Development Block Grant Program, and \$44.5 million for a Homeless Prevention and Rapid Re-Housing Program. Directed the Administration to submit notification to the Legislature via the Control Section 28.00 process when the federal government issues guidelines and the HCD has a detailed spending plan for approximately \$74 million the state expects to receive for the Neighborhood Stabilization Program.
- Approved April Finance Letter request for reappropriation of \$335 million Prop 1C funding. Expenditure of funding approved in the 2008-09 budget for the Infill Incentive Grant Program (Infill), the Transit-Oriented Development Program (TOD), and the Building Equity and Growth in Neighborhoods Program (BEGIN) was delayed when the state's 2008-09 cash crisis required suspension of disbursements from the Pooled Money Investment Account. Consistent with original appropriations, the HCD requested and was provided with a five-year liquidation period for the reappropriated funds which are as follows: Infill – \$200 million; TOD – \$95 million; BEGIN – \$40 million.
- Approved \$1.8 million in additional local assistance expenditure authority for rehabilitation and repair of Office of Migrant Services migrant centers. In late August 2008, the HCD was awarded \$3.6 million by the United State Department of Agriculture's Rural Development Agency for the above purposes, but this amount exceeded the \$1.8 million in authority originally contained in the HCD budget, thus requiring an augmentation.
- Approved Governor's request for trailer bill language (see below) and the following budget adjustments affecting oversight of the mobilehome parks and the manufactured housing/mobilehome industry: (1) a \$4.1 million and 18.6 position reduction to programs supported by the Mobilehome-Manufactured Home Revolving Fund (Mobilehome Fund), including the Factory-Built Housing Program, the Manufactured Housing Program, the Occupational Licensing Program, and the Registration and Titling Program; and (2) a \$0.1 million and 3.4 position reduction to the Mobilehome and Special Occupancy Parks Program supported by the Mobilehome Park Revolving Fund (Park Fund). Additionally, approved the following loans to ensure near-term solvency of funds impacted by the downturn in the economy: (1) \$2.1 million from the Mobilehome Park Purchase Fund (Purchase Fund) to the Mobilehome Fund; and (2) \$0.9 million from the Purchase Fund to the Park Fund.
- Approved Governor's request for \$222,000 (Building Standards Administration Special Revolving Fund) and two positions to develop and enhance the California Green Building Standards Code.

- Approved Governor's request for \$1 million (federal funds) and ten positions to administer the federal Neighborhood Stabilization Program.

Trailer Bill Language

1. Set minimum employee housing program fee levels, including \$200 for the permit to operate employee housing and \$27 for each bed/lot/site. Additionally, exempted the HCD through June 30, 2012, from current requirements to provide an annual employee housing report to the Legislature.
2. Increased the registration fee for manufactured housing, mobilehomes, and commercial modulars from \$11 to \$23; the permit-to-operate fee for mobilehome parks from \$25 to \$140; and the per-lot fee in mobilehome parks from \$2 to \$7.

2260 CALIFORNIA HOUSING FINANCE AUTHORITY

Trailer Bill Language

1. Authorized the California Housing and Finance Agency (CalHFA) to permit the down payment assistance loan to be subordinated to refinancing (refinancing may take place prior to loan repayment), if CalHFA determines the borrower has demonstrated hardship and is at risk of foreclosure.

2310 OFFICE OF REAL ESTATE APPRAISERS

- Approved as budgeted, including Governor's request for \$615,000 (special fund) and five positions to address enforcement program workload growth and complete licensee enforcement investigations within the 12-month timeframe specified in federal regulations.

2320 DEPARTMENT OF REAL ESTATE

- Denied Governor's request for \$1 million (special fund) to relocate and consolidate the Department of Real Estate's (DRE) downtown headquarters and examination center.
- Provided a \$500,000 loan from the Real Estate Fund to the Foreclosure Consultants Regulation Fund.

2400 DEPARTMENT OF MANAGED HEALTH CARE

- Approved as budgeted, including the following augmentations:
 - Approved \$355,000 (special fund) and three positions to address workload associated with the licensing of discount health plans for the Office of Health Plan Oversight.
 - Approved \$427,000 (special fund) and four positions to address the increase in consumer complaints, requests for regulatory assistance, and Independent Medical Reviews.
 - Approved \$1.4 million (special fund) to support four new positions and to fund a \$934,000 external contract. The positions will support increased audit and investigations, and licensing review, to ensure equitable health care to individuals with mental health conditions and Autism Spectrum Disorders. The contract will assist with non-routine surveys of health plans.
 - Approved \$465,000 (special fund) and three positions to address the increased enforcement legal workload.
 - Approved \$553,000 and five positions to review the provider contract terminations to ensure California consumers have access to adequate provider networks for their health care.

8260 CALIFORNIA ARTS COUNCIL

- Appropriated \$1.1 million GF for support of the Arts Council.

8320 PUBLIC EMPLOYEE RELATIONS BOARD

- Approved as budgeted.

8380 DEPARTMENT OF PERSONNEL ADMINISTRATION

- Deleted \$14.6 million GF from the Rural Health Care Equity Program (RHCEP), and adopted trailer bill language to eliminate the program (see below).
- Approved the Governor's request for \$193,000 (special fund and reimbursements) and two positions to provide employer training and consulting for the state's 401(k) and 457 Defined Contribution Plans, the Part-Time, Seasonal, and Temporary Employees Retirement Program, and the Alternate Retirement Program.
- Approved the Governor's request for \$845,000 (special fund) to fund increased costs to the Third Party Administrator for providing recordkeeping and trustee services to the state's 457 and 401(k) Defined Contribution Plans.
- Approved the Governor's request for \$186,000 GF and two positions to address increased workload associated with grievances and arbitrations for the Department of Corrections and Rehabilitation.

Trailer Bill Language

1. Effective July 1, 2009, eliminated the RHCEP for all bargaining units (BU) except BU 5 (CHP Officers), which is currently under contract until July 2, 2010. Eliminated the RHCEP for BU 5 upon expiration of the current contract.

8420 STATE COMPENSATION INSURANCE FUND

- Approved sale of a portion of the State Compensation Insurance Fund's "book of business" (see below). Scored \$1 billion GF revenue.

Trailer Bill Language

1. Authorized the Director of Finance, in consultation with the State Treasurer, to sell assets, as deemed appropriate by the SCIF Board of Directors, so as to: (1) obtain the highest price or maximum value for the state; (2) assure the greatest security for the payment of the purchase price; and (3) provide for the continued satisfactory performance of the workers' compensation insurance services offered for sale or other disposition.

8500 BOARD OF CHIROPRACTIC EXAMINERS

- Appropriated \$3.95 million from State Board of Chiropractic Examiners Fund for support of the board.

8620 FAIR POLITICAL PRACTICES COMMISSION

- Approved as budgeted.

8640 POLITICAL REFORM ACT OF 1974

- Approved as budgeted.

8780 MILTON MARKS "LITTLE HOOVER" COMMISSION

- Appropriated \$946,000 GF for support of the commission.

8820 COMMISSION ON THE STATUS OF WOMEN

- Appropriated \$489,000 for support of the commission.

8855 BUREAU OF STATE AUDITS

- Approved \$1.6 million GF loan (to be repaid within the fiscal year) to support the Bureau of State Audits' (BSA) ARRA oversight efforts. The BSA anticipates receiving reimbursement from ARRA funds for these activities, but final clarification from the federal government was not available at the time of budget enactment. (See also Control Section 8.55 below).
- Reduced the BSA budget by \$514,000 GF (five percent). (Note: This reduction appears in Control Section 13.10 of the Budget Act of 2009.)

8860 DEPARTMENT OF FINANCE

- Appropriated \$19.4 million GF for support of the department.
- Approved one position and \$182,000 in reimbursement authority to address the increased workload associated with the upcoming 2010 census.

Trailer Bill Language

1. Required the Director of Finance to report to the Legislature on the Financial Information System for California (FI\$Cal) fit-gap analysis before executing the contract for the project's prime vendor.

Budget Bill Language

1. Provided direction on the expenditure of \$4.1 million in GF loan to insure compliance with federal AARA; the loan to be repaid with a like amount of federal funds. Also see Control Section 8.55.

8885 COMMISSION ON STATE MANDATES

- Approved a proposal to defer payment of \$75 million GF for old mandate claims (pre-July 2004 claims) in 2009-10.
- Suspended additional mandates that were not already suspended in the January Governor's Budget to achieve new 2009-10 GF savings of \$70.6 million. Generally, all reimbursable state mandates on local governments were suspended *except* those in the following categories:
 - Law enforcement and crime victim rights mandates.

- Voting procedure mandates (to maintain necessary uniformity across the state).
- Property tax administration mandates (to maintain necessary fiscal information).
- Medi-Cal beneficiary death notices (due to greater savings from fraud prevention).
- Brown Act / open meetings mandate (to maintain transparency and access to government).

The 2009-10 GF cost of those mandates left in force is \$76.4 million.

Budget Bill Language

1. Adopted language requiring the Department of Finance to consult with the California State Association of Counties concerning election-related mandates and to develop revised or simplified mandate reimbursement processes. The 2009-10 GF payment of election-related mandates is deferred until June 1, 2010, unless the above parties agree on an improved process. A report is due to the Legislature by October 1, 2009.
2. Adopted language requiring the Department of Finance and the Department of Justice to review the mandates funded under this item related to domestic violence and rape counseling. The above parties will submit a report to the Legislature by January 1, 2010, with recommendations regarding consolidating the mandated requirements, coordinating the mandated requirements with voter-approved measures, and, if appropriate, reallocating funding for these mandates to victims' assistance programs.
3. Adopted language requiring the Department of Finance to review the reimbursement process mandate and report to the Legislature by April 1, 2010, with recommendations for simplifying this process and reducing costs.

Trailer Bill Language

1. Authorized local fire authorities or the State Fire Marshall to charge fees adequate to cover their costs for pre-inspection of prospective community care facilities. This language will save the State about \$700,000 annually in GF costs (included in the above savings numbers).
2. Revised victim notification requirements to be consistent with the requirements of the voter-approved initiative Victims' Bill of Rights Act of 2008: Marsy's Law. Mandates imposed by voter-approved measures do not require state reimbursement. This language will save the State about \$580,000 in GF costs (included in the above

savings numbers).

3. Required the Director of Finance to identify those provisions of state law regarding sexually violent predators that are necessary to implement Jessica's Law (Proposition 83 of 2006). Sexually violent predators mandates were fully funded at \$17.2 million GF in this budget; however, some of the mandates associated with Jessica's Law would not require state reimbursement. The report will provide information for further discussion next year.
4. Explicitly recognized that the previous requirement for a 72-hour holding period for dogs and cats in animal shelters remains in effect during the suspension of the Animal Adoption Mandate. The suspension of the mandate saves \$24.6 million GF (included in the above savings numbers).

8910 OFFICE OF ADMINISTRATIVE LAW

- Approved as budgeted.

8940 MILITARY DEPARTMENT

- Approved \$1.8 million GF and two positions for the half-year costs of a new California National Guard Education Assistance Award Program (see below for trailer bill language).
- Denied \$1 million GF and eight positions to establish a full-time Service Member Care Team, and approved \$451,000 (Proposition 63 Mental Health Service Act Fund) and three positions to develop a county-based mental health services liaison pilot program.
- Denied Governor's request for \$2.3 million (special fund) for aerial firefighting equipment in support of the proposed Emergency Response Initiative.
- Denied Governor's request for \$2.8 million (\$1.2 million GF; and \$1.6 million federal funds) for capital outlay projects including: (1) latrine renovations; (2) kitchen renovations; and (3) advance plans and studies.
- Approved ongoing reimbursement authority of \$7.5 million and eight limited-terms positions (including extension of seven expiring limited-term positions originally established in 2006-07) for the Military Department (CMD) to continue to provide the necessary personnel to the Governor's Office of Homeland Security (OHS) for management of the statewide terrorism training and exercise programs for weapons of mass destruction. The amount requested will also fund 25 continuing CMD positions at OHS

- Approved Governor's request for \$500,000 (federal funds) and three positions to meet planning and management requirements for civil support planning/operations of emergency response capabilities in support of civil authorities during emergency events.
- Approved Governor's request for \$1.4 million (\$816,000 federal funds; and \$600,000 reimbursement authority) and ten positions to enable the CNG's two Youth Challenge Programs to annually host 50 Nevada high school drop outs each (100 total).
- Approved Governor's request for \$66,000 (\$49,500 federal funds; \$16,500 GF) and one position to staff the new Sacramento Readiness Center and Field Maintenance Shop.
- Approved Governor's request for \$90,000 (50 percent federal funds; 50 percent GF) and one position to support the new Consolidated Dining Facility at Camp San Luis Obispo.

Trailer Bill Language

1. Established the California National Guard (CNG) Education Assistance Award Program, under the administration of the Student Aid Commission, to provide qualifying members of the CNG, State Military Reserve, and the Naval Militia with financial assistance in pursuing higher education.

9100 TAX RELIEF

- Fully funded the constitutionally-required transfer of \$445 million GF to local governments to backfill for the homeowner property tax exemption on the first \$7,000 of the assessed value of their principal place of residence.
- Continued the suspension of the Senior Citizen Renters' Tax Assistance Program for GF savings of about \$150 million. For 2008-09, the Legislature had cut the program by ten percent, but the Governor vetoed all funding. This year, the Governor proposed to again suspend all program funding and that was adopted for 2009-10.
- Continued the suspension of the Senior Citizen Property Tax Deferral Program for GF savings of about \$26 million. For 2008-09, the Legislature had cut the program by ten percent, but the Governor vetoed all funding. This year, the Governor proposed to again suspend all program funding and that was adopted for 2009-10.
- Continued the suspension of the Senior Citizens' Property Tax Assistance Program for GF savings of about \$41 million. For 2008-09, the Legislature had cut the program by ten percent, but the Governor vetoed all funding. This year, the Governor proposed to again suspend all program funding and that was adopted for 2009-10.
- Approved a 20 percent GF cut to Subventions for Open Space / Williamson Act grants, which resulted in 2009-10 funding of \$27.8 million. This is in addition to a ten percent reduction implemented in 2008-09. *The Governor vetoed funding down to \$1,000 for William Act*

grants. Funding was set at \$1,000 to create an in lieu appropriation to the continuous appropriation in statute.

9210 LOCAL GOVERNMENT FINANCING

- Approved funding of \$5.3 million GF for disaster relief assistance associated with reimbursement to local taxing authorities for property tax revenue losses pursuant to Chapter 386, Statutes of 2008.
- Approved funding of \$500,000 GF for special subventions to redevelopment agencies (RDAs). This funding is allocated by the Controller to RDAs who lost revenue in the 1980s when the State eliminated personal property tax supplemental subventions, and who would otherwise not be able to meet debt service obligations funded by personal property tax supplemental subventions.

Trailer Bill Language

1. Suspended Proposition 1A of 2004. This Governor's proposal borrows \$1.9 billion, or eight percent of property tax revenues of cities, counties, and special districts, under the specifications of Proposition 1A. Pursuant to constitutional requirements, the loan must be fully repaid with interest within three years. However, the implementing legislation authorizes a joint powers authority to facilitate local government bonding against the state's repayment promise. The State will fund the costs of bond issuance, and if the bonding occurs on the anticipated timeline, locals will see no revenue impact from the suspension. (ABX4 14, Chapter 13; ABX4 15, Chapter 14; and SB 67, Chapter 634 – all Statutes of 2009)
2. Shifted \$1.7 billion in Redevelopment Agency (RDA) funds to the new Supplemental Education Revenue Augmentation Fund (SERAF) in 2009-10 to benefit the GF. An additional \$350 million is shifted in 2010-11. To help fund the shift, RDAs may borrow from their Low and Moderate Income Housing Fund, but the loan must be fully repaid within five years. A RDA that pays its full shift amount gets a one-year extension of its time limits, which will provide addition revenue to RDAs beyond the amount of the shift. A RDA that fails to pay its full shift amount must increase its set-aside for the Low and Moderate Income Housing Fund by five percent. (ABX4 26, Chapter 21; and SB 68 – both Statutes of 2009)
3. Eliminated \$503 million in General Fund support for various criminal justice local assistance programs and backfilled program funding on a two-year basis from an increase in the Vehicle License

Fee (VLF). Programs receiving funding from the VLF instead of the General Fund are the following: Citizens' Option for Public Safety (COPS); Juvenile Justice Crime Prevention Act grants; Booking Fees; Small and Rural Sheriffs grants; Juvenile Probation Funding; Juvenile Camp Funding; Cal-MMET; Vertical Prosecution Block Grants; Evidentiary Medical Training; Public Prosecutors and Public Defenders funding; the California Gang Violence Suppression Program; the Multi-Agency Gang Enforcement Consortium; the Rural Crime Prevention program; the Sexual Assault Felony Enforcement program; and the High Technology Theft Apprehension and Prosecution Program. (SBX4 8, Chapter 4, Statutes of 2009)

4. Redefined the tax increment limit for Glendora Community Redevelopment Agency, Project Area Number 3, and established a formula for increasing that limit on an annual basis. (SBX4 8, Chapter 4, Statutes of 2009)
5. Authorized a qualifying county to shift from that county's Educational Revenue Augmentation Fund (ERAF) to the county, an amount of \$35 million in both 2009-10 and 2010-11, and \$50 million in 2011-12 and thereafter. The state General Fund would backfill education for this shift. A qualified county is defined as a county that, of all the counties in the state, was allocated the lowest percentage of countywide ad valorem property tax revenue for 2006-07. The county that meets that criterion is Orange County. (SBX4 8, Chapter 4, Statutes of 2009).

9350 SHARED REVENUES

- Approved \$700 million in Proposition 1B of 2006 bond funds for cities and counties to invest in local streets and roads. Of this amount, \$258 million goes to cities and \$442 million goes to counties. Additional information on Proposition 1B funding is included in the Department of Transportation summary.

9600 DEBT SERVICE FOR GENERAL OBLIGATION BONDS

- Approved funding of \$4.8 billion GF for 2009-10 General Obligation (GO) bond debt service. In addition to the GF, GO debt service is funded from mass transportation funds (\$254 million), federal-stimulus Build America Bond interest subsidy payments (\$126.1 million), and funds received from county offices of education for state programs (\$120 million - this is related to the Proposition 1A of 2004 suspension).

9650 SUPPORT FOR HEALTH AND DENTAL BENEFITS FOR ANNUITANTS

- Approved funding of \$1.3 billion GF for the 2009-10 cost of health and dental benefits provided to annuitants. However, recognized health care rate and enrollment figures adopted by the PERS board in June 2009 that will result in costs of only \$1.2 billion. As a result, scored \$60.8 million GF savings to be achieved via executive order by the Governor (i.e., the savings does not appear in the final 2009-10 budget). (Note, over \$500 million of the GF cost in Item 9650 is recovered from special funds and federal funds through the pro-rata / SWCAP process.)

9800 AUGMENTATION FOR EMPLOYEE COMPENSATION

- Approved May Revision adjustments to the original cost estimates for this item, including \$3.8 million GF reduction to original appropriation level (\$44.5 million) adopted in the February-approved 2009-10 budget. *The Governor vetoed \$25 million GF and ordered affected departments (who would have received funding from this item for increased employee compensation costs) to absorb the costs through redirection of existing resources.*
- Scored \$16.1 million GF savings to reflect health care rate and enrollment figures adopted by CalPERS in June 2009. Savings are not reflected in the final 2009-10 budget, but will be achieved via executive order by the Governor.

9840 AUGMENTATION FOR CONTINGENCIES AND EMERGENCIES

- Approved funding for contingencies at \$44.1 million GF – this was the level requested by the Governor. The Governor vetoed funding down to \$20.1 million. The veto message indicated a desire to create a reasonable reserve and that the reduced funding level is consistent with the amount of unanticipated expenses funded by this Item in the previous fiscal year.

CONTROL SECTIONS

3.55 PREFERRED PROVIDER ORGANIZATION PREMIUM REBATE

- Scored \$100 million GF savings based on the PERS board decision to recognize “excess reserves” and provide a Preferred Provider Organization rebate (equivalent to a two-month payment holiday).

3.60 CONTRIBUTIONS TO PUBLIC EMPLOYEE RETIREMENT BENEFITS

- Adopted revised rates for the six retirement classes, in light of the PERS board adoption of new rates in June 2009. Although the board recognized total state retirement contributions of \$3.3 billion in 2009-10, the budget is based on a slightly lower estimate (approximately \$3.1 billion, including \$1.8 billion GF) due to the three-day furlough ordered by the Governor (equivalent to a 13.85 percent employee compensation reduction) and an overall reduction in the state workforce.

3.90 EMPLOYEE COMPENSATION REDUCTIONS

- Reduced each item of appropriation in the 2009-10 budget, except those items for the California State University, the University of California, Hastings College of Law, the Bureau of State Audits the Legislature (including the Legislative Council Bureau), and the judicial branch, to reflect a reduction in employee compensation achieved through the collective bargaining process for represented employees or through existing administration authority (e.g., furloughs) and a proportionate reduction for nonrepresented employees (utilizing existing authority of the administration to adjust compensation for nonrepresented employees) in the total amounts of \$1.5 billion from GF items and \$973 million from items relating to other funds. Authorized the Director of Finance to allocate the reductions to each item of appropriation as necessary.

4.04 DELETE PRICE INCREASE

- Adopted budget control section to delete the Governor’s proposal to augment all Executive Branch budgets by 3.2 percent for inflation. Scored \$136 million GF savings.

4.30 LEASE REVENUE BOND DEBT SERVICE ADJUSTMENTS

- Adopted Governor’s May Revise proposal to decrease GF expenditures by \$51.4 million (and

other fund expenditures by \$31.8 million) to reflect revised debt service payments on lease revenue funded construction projects. A portion of the savings resulted from identification of certain excess construction funds that can be used to pay debt service.

4.85 TRANSFER BOND PROCEEDS TO GENERAL FUND

- Approved May Revision request to adopt new control section to allow transfer to the GF of energy-related bond proceeds for which authorization has expired. Scored \$12.5 million GF revenue.

8.25 FEDERAL ECONOMIC STIMULUS FUNDS THAT OFFSET GENERAL FUND

- Authorized the Director of Finance, notwithstanding Control Section 28.00, but with 30-day notice to the Legislature, to: (1) authorize expenditure of federal stimulus funds received in either the 2008-09 or 2009-10 fiscal year that offset GF expenditures otherwise authorized in the budget; and (2) reduce, by a like amount, any GF items of appropriation due to receipt of federal funds as described above.

8.30 RESTORE GF ITEMS IF DISCRETIONARY FEDERAL FUNDS AVAILABLE

- Required restoration of specified budget items, if the amount of discretionary federal stimulus funding pursuant to Government Code Section 99030 is sufficient to offset GF expenditures.

8.52 FEDERAL FUNDS THAT OFFSET ANY FUNDS

- Authorized the Director of Finance, with 30-day notice to the Legislature and subject to the provisions of Control Section 28.00, to: (1) reduce items of appropriation upon receipt or expenditure of federal funds in lieu of the amount appropriated for the same purpose; and (2) make allocations for the purpose of offsetting expenditures (with each allocation applied as a negative expenditure to the appropriation where the expenditure is charged).

8.55 AMERICAN RECOVERY AND REINVESTMENT ACT (ARRA) OVERSIGHT

- Identified the Bureau of State Audits (BSA) as the central, independent auditing and oversight agency required under various provisions of ARRA and provided a funding mechanism to support the BSA in this capacity. Additionally, recognized the role of various state agencies in ARRA coordination and administration activities and provided a funding mechanism to support the Administration in this capacity. Specifically, authorized cash flow loans of \$1.6 million GF and \$4.1 million GF to the BSA and the Department of Finance, respectively, to begin ARRA

activities with the expectation that the loans will be repaid when the federal government clarifies guidance for the use of ARRA funds to reimburse states for their administration, oversight, and audit costs. Additionally, provided for release of additional amounts to the BSA and the Administration subject to various criteria, including submission to the Legislature of detailed spending plans.

8.88 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI\$CAL)

- Denied Governor's request for a new control section granting the Director of Finance broad authority to establish positions and increase reimbursement authority for FI\$Cal's partner organizations.

Trailer Bill Language

1. Required the Director of Finance to report to the Legislature on the Financial Information System for California (FI\$Cal) fit-gap analysis before executing the contract for the project's prime vendor.

12.45 PAYROLL ACCOUNTING METHODOLOGY ADJUSTMENT

- Authorized the Director of Finance to reduce items of appropriation to conform to new accounting method in which state employee salaries for June 30 are paid no earlier than July 1 (in the subsequent fiscal year). Scored one-time GF savings of \$860 million. (See also 0840 above.)

13.25 REORGANIZATIONS AND CONSOLIDATIONS REDUCTIONS

- Authorized the Director of Finance to reduce any item of appropriation to reflect reorganizations and consolidations of departments or functions of departments approved by the Legislature. Scored \$50 million GF savings, including \$25 million associated with the IT consolidation pursuant to GRP No. 1 (see also Control Section 15.30 below).

15.30 INFORMATION TECHNOLOGY SAVINGS

- Authorized the Director of Finance to reduce items of appropriation by at least \$100 million GF to reflect IT and related savings achieved by state agencies as identified by the State Chief Information Officer pursuant to GRP No. 1 (see also 0502 and Control Section 13.25 above).

15.45 PROPOSITION 1A SUSPENSION / REDEVELOPMENT SHIFT

- Authorized the Controller to offset GF expenditures with any funds received from county offices of education (about \$3.6 billion) for state program costs under the provisions of the Proposition 1A suspension and the Redevelopment Agency fund shift (these are also discussed above in Budget Item 9210).

28.00 PROGRAM CHANGE NOTIFICATION

- Adopted amendments to identify any federal funds received as a result of federal legislation enacted after January 1, 2009, as unanticipated for the purposes of this section.

35.50 BUDGET STABILIZATION ACCOUNT

- Via Executive Order S-07-09, dated May 29, 2009, the Governor suspended the September 30, 2009, transfer from the General Fund to the Budget Stabilization Account (BSA). Absent this suspension, \$2.8 billion would be transferred from the GF to the BSA with half of that amount used for early repayment of Economic Recovery Bonds. The Constitution grants the Governor authority to suspend this transfer by executive order. The Legislature approved this control section that provides technical definition of the BSA.

CORRECTIONS AND REHABILITATION

5225 Department of Corrections and Rehabilitation

Corrections Reform Highlights

- Rejected Governor's January proposals to (1) directly discharge (no parole) all inmates released from prison who have no current or prior serious, violent, or sex offenses, (2) allow certain inmates to earn additional credits that would reduce the time they would otherwise serve in prison, and (3) update property crime thresholds for inflation. These proposals, including some additional ancillary savings and costs associated with implementing these changes, would have saved the state \$598 million GF in 2009-10.
- Approved net budget reductions totaling \$1.2 billion in CDCR from various corrections reforms. (This total includes implementation of \$400 million vetoed from the department's budget within the state budget approved in February.) The changes resulting in this budget reduction are described below.
- Approved reduction of \$179 million GF by putting parolees who have no current or prior serious, violent, or sex offenses and who are not evaluated as high risk to reoffend on banked caseloads.
- Approved increase of \$72.9 million GF for increased supervision of higher risk parolees, including reducing general parole agent caseloads from 70 parolees to 45 parolees, adding 1,000 GPS units in the field to enhance supervision, and expand parolee apprehension teams that search for parole absconders.
- Approved reduction of \$42.1 million GF by allowing inmates to earn additional credits that would reduce the time they would otherwise serve in prison. Most of the savings would result from two specific changes: (1) allowing many inmates to earn the same level of credits while in local jails, awaiting transfer to state prison, that they can already earn in state prison (one day of credit for each day served) and (2) allowing many inmates to earn additional credits for completing rehabilitation programs, including academic or vocational education and substance abuse treatment.
- Approved reduction of \$34.2 million GF from updating the dollar value thresholds for various property crimes, such as grand theft, for inflation.
- Approved Governor's proposal to reduce \$182.1 million GF to commute the sentences of inmates serving time in state prison but who have been identified by the Federal government for deportation. Also approved reduction of \$6.8 million GF to remove deported parolees from parole agent caseloads.

- Approved trailer bill language to implement the California Community Corrections Incentives Act of 2009 which is designed to provide greater resources to counties for the successful supervision and rehabilitation of probationers. Approved reduction of \$30 million GF associated with an anticipated reduction in the number of probationers sent to prison.
- Approved trailer bill language to implement reentry courts designed to provide parole violators with substance abuse problems or mental illness with greater supervision and treatment in the community rather than returning them to prison. Approved reduction of \$10 million GF associated with an anticipated reduction in the number of parolees sent to prison.
- Approved reduction of \$16.2 million GF from expanding the use of GPS technology to supervise parole violators instead of sending them back to prison.
- Approved unallocated budget reductions totaling \$115 million GF. The Governor proposed that \$15 million of these savings would come from position reductions in headquarters. At least an additional \$20 million of the savings is to come from headquarters operations.
- Rejected the Governor's proposal to change all "wobblers" – crimes that can be prosecuted as felonies or misdemeanors – to misdemeanors. This proposal would have saved \$99.9 million GF in 2009-10. These estimated savings were included in the total reduction to CDCR's budget. However, enacting trailer bill language was not approved.
- Rejected the Governor's proposal to allow the Secretary of CDCR to place specified inmates on alternative custody in the community before the conclusion of their prison term. Under this proposal, specified inmates who had less than 12 months to serve, were elderly, or who were medically infirm could be placed onto parole supervision early and would be supervised with GPS technology. This proposal would have saved \$120.5 million GF in 2009-10. These estimated savings were included in the total reduction to CDCR's budget. However, enacting trailer bill language was not approved.
- Approved net reduction of \$157.2 million GF from various ancillary savings and additional costs associated with implementing the above corrections reforms. This includes savings from reduced usage of local jails to house parole violators, cuts to inmate and parolee programs, a reduction in the hiring and training of new officers, and the one-time elimination of the department's special repairs budget.

Adult Population Highlights

- Approved reduction of \$57.9 million GF to support the projected decline in the adult inmate and parolee population for 2009-10. These reductions also reflect rejections of the Governor's population-based budget adjustments to increase spending related to administrative segregation, parole revocation hearings, and a cost of living increase provided to local jails for the costs of housing state parole violators.

- Approved budget bill language requiring the department to continue its efforts to revise its methodology for developing its population budget request for caseload-related funding in order to create a more accurate and transparent process.

Juvenile Justice Highlights

- Approved total reductions of \$31.5 million GF to reflect the reduction of department positions and contracts, reflecting the reduction in the state ward population.
- Approved budget bill language that allows the department, upon notification of the Joint Legislative Budget Committee, to reduce its budget in 2009-10 related to implementing reforms to the Division of Juvenile Justice.
- Approved trailer bill language establishing annual county reporting requirements on the expected uses of Youthful Offender Block Grant funds provided by the state, as well as the outcomes associated with those uses.
- Approved trailer bill language specifying that Youthful Offender Block Grant funds will be provided to counties on a quarterly basis, rather than in a single annual payment.

Rehabilitation Program Highlights

- Rejected the Governor's proposal to assess a "nickel-a-drink" excise tax on alcoholic beverages and use a share of the projected revenues – \$219 million GF – to offset existing state spending on inmate and parolee substance abuse treatment programs.
- Approved reduction of \$175 million GF from inmate and parolee rehabilitation programs.
- Approved budget bill language requiring that in the process of enacting budget cuts to rehabilitation programs, the department prioritize the preservation of those programs with evidence demonstrating their effectiveness at reducing recidivism, as well as other factors. The budget bill language further requires CDCR to report to the Legislature twice during the year on its progress identifying and implementing program cuts.
- Approved \$3.3 million GF for the ongoing implementation of risk and needs assessments of all state inmates.
- Approved \$631,000 for transportation costs associated with the expansion of Female Rehabilitative Community Correctional Center beds.
- Approved proposal to realign CDCR's existing funding authority for various inmate and parolee rehabilitation programs funded as part of the Recidivism Reduction Strategies proposals of past years to be consistent with adjustments made through previous notifications of changes made to the Joint Legislative Budget Committee.

Inmate Health Care Highlights

- Approved an unallocated reduction of \$180 million GF reducing the department's inmate health care budget by ten percent.
- Approved a reduction of \$50 million GF based on the enactment of maximum allowable reimbursement rates for health care services provided to inmates outside of prisons. The maximum allowable rates are specified in trailer bill language and vary depending on the type of health care service and whether the service is provided by an entity under contract with CDCR.
- Approved \$1 million GF from the conversion of 12 limited-term positions to permanent positions to continue in department recruitment efforts to fill vacancies in CDCR's inmate dental and mental health programs in accordance with the *Perez v. Schwarzenegger* and *Coleman v. Schwarzenegger* lawsuits.
- Approved \$13.3 million to convert 134 positions from limited-term to permanent in order to permanently staff two mental health crisis bed units at the California Medical Facility (CMF) in Vacaville in accordance with the *Coleman v. Schwarzenegger* lawsuit.
- Approved \$4.6 million for additional staffing at the mental health crisis bed facility at CMF.
- Approved \$3.6 million to staff the mental health crisis bed unit at San Quentin State Prison.

Other Highlights

- Rejected Governor's proposal for \$35.7 million GF for costs associated with correctional officer overtime.
- Approved budget bill language requiring the department to report to the Legislature on the causes of high correctional officer overtime costs, as well as a plan for how CDCR would control those costs in the future. ***The Governor vetoed this provisional language citing additional workload on the department. However, the Governor's veto message also specifies that his instructions to the department to comply with the language to the extent their existing resources permit.***
- Approved redirection of \$5.6 million in existing resources within CDCR for the ongoing development and implementation of the Business Information System (BIS) IT project.
- Approved \$7.7 million GF for additional staffing, training, and travel costs required to comply with a recent Federal court injunction in the *Armstrong v. Schwarzenegger* case requiring the state to make state prisons compliant with the Americans with Disabilities Act.
- Approved \$2.2 million GF related to additional workload and transportation costs needed to implement parolees into the In-Custody Drug Treatment Program within five days of referral, in order to be in compliance with Federal court requirements in the *Valdivia v. Schwarzenegger* case related to parole revocation procedures.

- Approved \$394,000 from the Restitution Administrative Fee Fund for four additional positions to identify victims for whom restitution has been collected by CDCR and ensure that collections are distributed to those victims.
- Approved a redirection of \$186,000 GF from CDCR to the Department of Personnel Administration for workload associated with CDCR employee grievances and arbitration matters.
- Approved technical adjustment that redirects \$10.2 million GF within the department's budget to align the spending authority with the correct budget program. The adjustments were related to the department's out-of-state inmate housing program and tuberculosis testing of staff.
- Approved the creation of a Division of Litigation Prevention within CDCR to preemptively identify fixes to class action lawsuits. The new office would be funded through the redirection of \$7.3 million GF and 13 positions from CDCR's Office of Court Compliance.
- Approved budget bill language specifying that if the budgeted amounts for specified department programs and operations are not fully expended in the budget year, any unspent funds must revert to the GF. *The Governor vetoed this provisional language citing its restrictive nature.*

Infrastructure Highlights

- Reduced a reduced amount of \$2 million for statewide budget packages and planning. The Governor proposed \$3 million for this purpose.
- Approved \$5 million GF to complete site evaluation activities related to the construction of reentry facilities.
- Approved \$278,000 GF to fund preliminary plans and working drawings for the construction of 100 small management yards to ensure that all inmates in administrative segregation get at least ten hours of out of cell time weekly in order to comply with department regulations.
- Denied a total of \$6.6 million GF for projects designed to replace barred cell doors in administrative segregation units at three prisons with solid cell fronts.
- Approved \$1.8 million GF to mitigate fire, life, and safety issues at the California Institution for Men as identified by the State Fire Marshall.
- Approved a total of \$6.4 million GF to convert an existing unit to a Psychiatric Services Unit at the California Institution for Women.
- Approved \$15 million lease-revenue bond authority for construction of dormitories at the California Rehabilitation Center to replace existing facilities.
- Approved Governor's request to remove previously approved funding of \$959,000 GF to install a bar screen and pumps in the sewer discharge line at the California Rehabilitation Center.

- Approved \$4.9 million GF for an effluent disposal system at the Sierra Conservation Center. This project will be funded from previously appropriated funds authorized under AB 900 (Solorio, Chapter 7, Statutes of 2007).
- Approved \$5.1 million GF for waste water treatment plant improvements at the Mule Creek State Prison. This project will be funded from previously appropriated funds authorized under AB 900 (Solorio, Chapter 7, Statutes of 2007).
- Approved Governor's proposal to remove previously approved funding of \$9.2 million GF to improve the heating, ventilation, and air conditioning systems at Ironwood State Prison.
- Approved \$1.1 million GF for the working drawings phase of building office and treatment space for seriously mentally ill inmates housed at the California State Prison, Sacramento. The Legislature denied the Governor's request to fund the construction phase in 2009-10.
- Approved a total of \$750,000 in existing general obligation bond authority for planning and construction of a new dining facility for the minimum support facility at Deuel Vocational Institution.
- Approved \$3.8 million for 13 minor capital outlay projects. About half of the funding was for planning and construction of multiple medical and recreation units at Herman G. Stark Youth Correctional Facility.
- Approved a reduction of \$20 million GF by allowing funds designated for prison infrastructure projects in AB 900 (Solorio, Chapter 7, Statutes of 2007) to be used for existing GF infrastructure construction projects.
- Approved budget bill language restricting the ability of the department to encumber additional funds for the Condemned Inmate Complex project until three specified conditions had been met. *The Governor vetoed this provisional language citing the possibility of construction delays among the reasons for his veto.*

0552 Office of the Inspector General

- Approved \$3.3 million GF within the Bureau of Audits to annually perform medical inspections at all 33 CDCR adult institutions, as well as to perform follow-up inspections at selected institutions. The audits will provide information to the federal court, state, and other stakeholders regarding the level of medical care provided to inmates, consistent with the requirements of the *Plata v. Schwarzenegger* lawsuit.

JUDICIARY

0250 Judicial Branch

- Approved \$393 million in budget reductions, special fund transfers, and additional revenues to offset the administration's proposals for unallocated reductions to the trial courts. These include the following:
 - Approved one day per month court closures, estimated to save \$102 million.
 - Approved use of \$71 million in trial court reserves to offset commensurate budget reductions.
 - Approved transfer of \$130 million from various special funds to offset commensurate budget reductions.
 - Approved a \$10 increase in the court security fee charged to criminal defendants. This increase is projected to generate an additional \$40 million in revenues to offset court security costs.
 - Approved increases of \$5 in court reporter fees and \$10 in various post judgment fees, estimated to generate \$18 million in additional court revenues.
 - Required the Judicial Branch to absorb a \$32 million funding increase associated with the State Appropriations Limit (SAL).
- Approved a \$21.3 million unallocated reduction for state operations in the Judicial Branch which include the Supreme Court, Courts of Appeal, Judicial Council, Judicial Branch Facility Program, and the California Habeas Corpus Resource Center.
- Rejected a \$56 million special fund augmentation for the continuation of the deployment of the California Court Case Management System IT project.
- Approved \$1.7 million from the State Court Facilities Construction Fund for annual lease payments for the construction of the New Fresno Area Juvenile Delinquency Courthouse.
- Approved \$5 million from the State Court Facilities Construction Fund to accommodate an increase in workload due to the transfer of additional trial court facilities from the counties to the state.
- Approved \$15 million from the State Court Facilities Construction Fund, Immediate and Critical Needs Account to support renovations, repairs, and modifications at various court house facilities.

- Approved \$2.6 million from the State Court Facilities Construction Fund for additional staff resources to support the court construction projects funded through the enactment of SB 1407 (Perata) (Chapter 311, Statutes of 2008).
- Approved \$1.5 million from the GF to fund facility operations costs for four trial court facilities transferred to the state.
- Approved \$570,000 from the Mental Health Services Fund to address increased workload relating to mental health issues in the areas of prevention and early intervention services for juveniles.
- Approved \$64.8 million from the Court Facilities Trust Fund for ongoing maintenance and operations costs associated with court facilities transferred to state responsibility in accordance with the Trial Court Facilities Act (Chapter 1082, Statutes of 2002).
- Approved technical adjustments creating a new budget fund for the Immediate and Critical Needs Account for construction projects associated with SB 1407 (Perata) (Chapter 311, Statutes of 2008).
- Rejected budget bill language which would have provided additional allowance for the Judicial Branch to submit deficiency requests for the Courts of Appeal Court Appointed Counsel program.
- Approved budget bill language to provide authority for the Judicial Council to recover costs related to the administration of the Dependency Representation, Administration, Funding and Training (DRAFT) Program related to the court appointed juvenile dependency counsel program.
- Rejected a \$13 million reduction associated with expanded use of electronic court reporting.
- Approved trailer bill language allowing the courts to use electronic recording equipment for the internal personnel purpose of monitoring judicial officer performance.
- Approved reductions of \$4.1 million to reflect a one percent increase in judges' salaries that had been previously budgeted but not approved by the Department of Personnel Administration.
- Approved trailer bill language requiring that the court reimburse Sheriffs for the costs of providing court security based on the average compensation cost of the security classifications used in providing that security.
- Approved trailer bill language requiring that all Judicial Branch projects estimated to cost more than \$5 million be reviewed by the State Chief Information Officer who shall be required to submit her findings and recommendations to the Joint Legislative Budget Committee.
- Approved trailer bill language specifying that any person shall have the right to obtain specified budget, expenditure, and other fiscal information of the courts.

- Approved trailer bill language requiring the Judicial Council to provide annual reports to the Legislature regarding all approved allocations and reimbursements to the trial courts.
- Approved a total of \$175 million for construction of 20 new court facilities. Funding for these projects is proposed from various special funds. Specific projects include the following:
 - New Madera Courthouse (Madera), \$4.9 million State Court Facilities Construction Fund (SCFCF) – working drawings;
 - New San Bernardino Courthouse (San Bernardino), \$17.3 million SCFCF – working drawings;
 - New Stockton Courthouse (San Joaquin), \$13.2 million SCFCF – working drawings;
 - New Riverside Mid-County Region Courthouse (Riverside), \$3.1 million SCFCF – working drawings;
 - New Porterville Courthouse (Tulare), \$4.6 million SCFCF – working drawings;
 - New Susanville Courthouse (Lassen), \$33.9 million Public Buildings Construction Fund – construction;
 - New Woodland Courthouse (Yolo), \$8.1 million SCFCF – site acquisition;
 - New North Butte County Courthouse (Butte), \$14.5 million SCFCF – site acquisition;
 - New Red Bluff Courthouse (Tehama), \$16.3 million SCFCF – site acquisition;
 - New Southeast Los Angeles Courthouse (Los Angeles), \$22.7 million SCFCF – site acquisition;
 - New Indio Juvenile and Family Courthouse (Riverside), \$4.4 million SCFCF – site acquisition;
 - New Sacramento Criminal Courthouse (Sacramento), \$3.1 million SCFCF – site acquisition;
 - New South Monterey County Courthouse (Monterey), \$686,000 SCFCF – site acquisition;
 - New El Centro Family Courthouse (Imperial), \$2.7 million SCFCF – site acquisition;
 - New Yuba City Courthouse (Sutter), \$1.1 million SCFCF – site acquisition;
 - New Redding Courthouse (Shasta), \$7.0 million SCFCF – site acquisition;
 - New Lakeport Courthouse (Lake), \$2.6 million SCFCF – site acquisition;
 - New Santa Rosa Criminal Courthouse (Sonoma), \$14.7 million SCFCF – site acquisition.

- New East County Courthouse (Alameda), involves capitalized lease purchase agreement with county rather than requiring the state to pay construction costs;
- New Family Justice Center (Santa Clara), involves capitalized lease purchase agreement with county with most construction costs born by the county and no state costs in 2009-10.
- Approved \$1.7 million from the SCFCF for the acquisition and preliminary plan phases of a construction project to renovate the Fairfield Old Solano Courthouse (Solano).
- Approved reauthorization of funding for six previously approved construction projects. Specific projects include the following:
 - New San Andreas Courthouse (Calaveras), \$2.4 million SCFCF – working drawings;
 - New Susanville Courthouse (Lassen), \$2.1 million SCFCF – working drawings;
 - New Madera Courthouse (Madera), \$3.7 million SCFCF – preliminary plans;
 - New Hollister Courthouse (San Benito), \$3.3 million SCFCF – preliminary plans and working drawings;
 - New Stockton Courthouse (San Joaquin), \$9.9 million SCFCF – preliminary plans;
 - New Mammoth Lakes Courthouse (Mono), \$18.5 million SCFCF – construction.

0280 Commission on Judicial Performance

- Approved as budgeted.

0390 Contributions to the Judges' Retirement System

- Approved as budgeted.

PUBLIC SAFETY AND CRIMINAL JUSTICE

0820 Department of Justice

- Approved a \$575,000 GF request for additional staff to investigate and prosecute underground economy operations.
- Denied a \$3.2 million GF request to enhance the state's legal defense on class action lawsuits.
- Denied a \$4.5 million request for additional staffing to support the growing correctional habeas corpus workload.
- Approved \$537,000 of one-time GF to fund maintenance and repair projects for state owned forensic laboratories.
- Approved Attorney General's request to restructure and consolidate the Divisions of Civil Law, Criminal Law, and Public Rights into the Division of Legal Services. No additional resources were requested or approved for this consolidation.
- Approved \$2.2 million GF and \$168,000 from the Central Services Cost Recovery Fund to continue funding for a specialist counsel with expertise in insurance-coverage litigation for the *Underwriters* litigation.
- Approved \$2.3 million in federal funds and \$780,000 from the False Claims Fund for additional positions in the department's Bureau of Medical Fraud and Elder Abuse to address backlogged cases that are anticipated to result in recoveries for the Medi-Cal system and the GF.
- Approved \$2.4 million from the DNA Identification Fund for additional positions to address an anticipated increase in workload due to requirements of Proposition 69 that a DNA sample be taken from all adults arrested for, or charged with, any felony offense beginning January 1, 2009.
- *In signing SBX3 1 (the 2009-10 Budget adopted in February 2009), the Governor vetoed \$23.7 million from DOJ's GF budget in order to ensure equity with state employees in other departments receiving compensation reductions through furloughs, overtime reform, and elimination of two state holidays. At the time, the Controller refused to recognize the Governor's furlough authority over his employees.*

0855 Gambling Control Commission

- Approved \$789,000 from the California Bingo Fund on a two-year limited-term basis for licensing, regulatory, and other responsibilities related to the California Remote Caller Bingo Act (SB 1369, Chapter 748, Statutes of 2008).

- Approved provisional language to update references to certain approved tribal-state compacts.
- Approved trailer bill language specifying that moneys allocated from the Indian Gaming Special Distribution Fund to Individual Tribal Casino Account but not spent by the end of the 2008-09 fiscal year shall be available for expenditure through December 31, 2009.

1690 Alfred E. Alquist Seismic Safety Commission

- Approved trailer bill language reauthorizing the Commission's funding source from the Insurance Fund through July 1, 2012.

1870 California Victim Compensation and Government Claims Board

- Approved \$8.1 million in one-time federal stimulus funds for the Victim Compensation Program designed to provide assistance to victims of crime for purposes such as medical expenses, mental health counseling, and funeral expenses.

8120 Commission on Peace Officer Standards and Training

- Approved \$425,000 for two years from the Peace Officers Training Fund to develop online courses, as well as provide other educational resources, for California law enforcement.
- Approved an additional position to support and maintain the department's Learning Portal, a secure website for California law enforcement to receive online training. The position will be funded from within the department's existing budget.
- Approved \$125,000 from the Peace Officers Training Fund to contract with a vendor to redesign the department's online course catalog.

8140 State Public Defender

- Denied request for additional provisional language allowing the Office to request deficiency funding if the Supreme Court makes specified orders resulting in additional workload related to habeas corpus legacy cases.

8180 Payments to Counties for Costs of Homicide Trial

- Approved as budgeted.

8550 California Horse Racing Board

- Approved \$300,000 from the Fair and Expositions Fund to conduct a study of racetracks to develop safety standards in accordance with Business and Professions Code Section 19481(a).
- Approved \$150,000 from the Fair and Expositions Fund for the Equine Medical Director program and UC Davis.
- Approved trailer bill language requiring the Board to develop a new method of funding the Board and the establishment of the Horse Racing Fund. Further approved trailer bill language requiring racing association and fairs to pay \$5.5 million to the Fair and Expositions Fund over the next six years in lieu of payments owed prior to the adoption of the Board's new funding methodology.

VETERANS AFFAIRS

8955 DEPARTMENT OF VETERANS AFFAIRS

- Approved May Revise request, with amendments, to: (1) revise member fees at the Veterans Homes of California by removing the dollar caps; (2) increase the income percentage rate for the Residential Care for the Elderly; and (3) revise the fee structure for non-veteran spouses (but only for spouses of prospective members). Scored \$2.7 million GF revenue. (See trailer bill language below.)
- Suspended opening of Adult Day Health Care services at the Greater Los Angeles/Ventura County (GLAVC) veterans homes and scored \$1.8 million GF savings.
- Reduced the Governor's \$18.5 GF (and 181.6 position) request for GLAVC Activation Phase III by \$5 million GF in recognition of an approximately three-month delay in construction and associated delays in hiring for various levels of care at the homes.
- Approved the Governor's request for \$1.3 million GF and 11 positions to convert expiring limited-term positions to permanent status in order to support the ongoing needs of the Ew-VHIS Project. Additionally, approved the Governor's request for \$878,000 GF and conversion of eight limited-term information technology (IT) positions to permanent status to support the Project Management Office and the department's ongoing and future IT projects.
- Approved the Governor's request for conversion of overtime funding to five full-time civil service positions to support the Dietary and Food Service program in order to meet mandates from the Department of Public Health, the United State Department of Veterans Affairs, the Occupational Safety and Health Administration, and the Environmental Protection Agency.
- Approved the Governor's request for conversion of contracted custodial services at Chula Vista to 29 full-time civil service positions (no new funding.)
- Approved the Governor's request to transfer \$1.5 million (federal funds) and 12 positions associated with the California State Approving Agency for Veterans Education from the Department of Consumer Affairs to the Department of Veterans Affairs.
- Approved the Governor's request for the following capital outlay projects: (1) \$2.2 million (\$691,000 GF; and \$1.5 million federal funds) for the construction phase of the Yountville fire alarm system upgrade; (2) \$945,000 GF for the construction phase of a new emergency generator and kitchen cooling improvement at Barstow; and (3) \$658,000 (federal funds) for the working drawings and construction phase of the Northern California Veterans Cemetery expansion.

Trailer Bill Language

1. Removed the income caps on member fees for all levels of care at California Veterans Homes. Established a separate fee structure for the Residential Care for the Elderly level-of-care in which the member income contribution percentage is set to 55 percent. Set a new level of member fees, based on the federal monthly per diem for a veteran, for non-veteran spouses who enter veteran's homes on or after July 1, 2009, with the fee not to exceed 90 percent of total income.

SUBCOMMITTEE 5

FINAL ACTION REPORT

Senate Budget and Fiscal Review Committee

Members

Denise Moreno Ducheny, Chair
Robert Dutton
Alex Padilla

Consultants

Daniel Alvarez
Brian Annis
Bryan Ehlers

SUBCOMMITTEE NO. 5

REVENUES, THE ECONOMY AND LABOR

Revenues

Temporary Tax Increases	5-1
Tax Cuts and Tax Credits	5-2
Tax Administration and Revenue Acceleration	5-3
Board of Equalization.....	5-4
Franchise Tax Board.....	5-6
Augmentation for Statewide Accounts Receivable	5-7

Cash Management

Interest Payments on General Fund Loans	5-9
Improvements to Cash Management	5-9

Labor

Labor and Workforce Development Agency.....	5-11
Employment Development Department	5-11
Workforce Investment Board	5-12
Department of Industrial Relations	5-13

REVENUES

TEMPORARY TAX INCREASES

Trailer Bill Language

The following temporary tax increases were enacted as part of the February 2009 budget package and were contained in ABX3 3 (Chapter 18, Statutes of 2009). The duration of the tax increases was dependent on voter action on Proposition 1A (State Budget. Changes California Budget Process. Limits State Spending. Increases “Rainy Day” Budget Stabilization Fund) in the May 19, 2009, special election. The level of the Personal Income Tax surcharge was dependent on a trigger mechanism relating to the level of federal stimulus funds received by the State to offset GF expenditures. Proposition 1A failed at the polls and federal stimulus funds were less than the trigger level. The tax rates and duration of the temporary taxes outlined below are consistent with the outcome of the special election and the federal funds trigger mechanism. At the time of enactment of ABX3 3, the total revenues raised from these temporary taxes was estimated at \$1.6 billion in 2008-09 and \$11.4 billion in 2009-10.

1. Increased the rate of the GF portion of the state Sales and Use Tax (SUT) by one percent—from the current rate of five percent to a rate of six percent. The increase became effective April 1, 2009, and will sunset on June 30, 2011. Increased GF revenue by \$1.2 billion in 2008-09 and \$4.6 billion in 2009-10.
2. Added a Personal Income Tax (PIT) surcharge of 0.25 percent—each existing PIT tax rate (base rates ranging from one percent to 9.3 percent) are increased by 0.25 percent (so the one percent rate would change to 1.25 percent, the 9.3 percent rate would change to 9.55 percent, etc.). Under Proposition 63 of 2004, there is an additional one percent tax applied to incomes over \$1 million. The increase became effective with the 2009 tax year and will sunset at the conclusion of the 2010 tax year. No GF revenue was scored in 2008-09 and the GF revenue gain in 2009-10 was scored at \$3.7 billion.
3. Rolled back the dependent credit amount under the Personal Income

Tax (PIT) from \$309 per dependent to \$99 per dependent. The change became effective with the 2009 tax year and will sunset at the conclusion of the 2010 tax year. No GF revenue was scored in 2008-09 and the GF revenue gain in 2009-10 was scored at \$1.4 billion.

4. Increased the rate of the Vehicle License Fee (VLF) by 0.5 percent—from the current rate of 0.65 percent of a vehicle's value to 1.15 percent of a vehicle's value. The increase became effective May 19, 2009, and will sunset on June 30, 2011. Revenue from the portion of the increase from 0.65 percent to one percent will be retained by the GF (\$121 million in 2008-09 and \$1.2 billion in 2009-10) and revenue from the additional increase of 0.15 percent is transferred to the newly created Local Safety and Protection Account, which is continuously appropriated for specific local public safety programs (\$82 million in 2008-09 and \$502 million in 2009-10). More information on expenditures from the Local Safety and Protection Account is included in the Subcommittee #4 section of this summary under budget Item 9210, Local Government Finance.

TAX CUTS AND TAX CREDITS

Trailer Bill Language

The following tax expenditures (tax cuts or tax credits) were enacted as part of the February 2009 budget package. At the time of enactment, the total revenue loss from these tax expenditures was estimated at about \$15 million in 2008-09 and about \$360 million in 2009-10. The GF revenue loss increases in the out-years and was estimated at over \$900 million in 2011-12.

1. Created a permanent elective single sales factor for apportionment of business income across states. In contrast, prior law averaged a business's proportion of sales, property, and payroll in California (with the sales factor double-weighted) to apportion the California share of multi-state business income. Businesses that proportionally have fewer sales in California relative to property and payroll will see their taxable income in California fall. No GF revenue loss in 2008-09 or 2009-10, but decreases GF revenue by \$225 million in 2010-11, with the annual revenue loss increasing to \$750 million GF by 2012-13. (ABX3 15, Chapter 17, Statutes of 2009)

2. Established a motion picture production tax credit. The issuance of the film credit is capped at \$100 million per year during a five-year period (2009-10 through 2013-14). The credit can be claimed beginning in the 2011 tax year. No GF revenue loss in 2008-09 or 2009-10, but decreases GF revenue by \$60 million in 2010-11, increasing to \$175 million in 2011-12. (ABX3 15, Chapter 17, Statutes of 2009)
3. Established a small business jobs tax credit. The issuance of the jobs credit is capped at a total of \$400 million. Each qualified new hire at a small business (businesses with 20 or fewer employees) results in a \$3,000 tax credit. The GF revenue loss is estimated at \$15 million in 2008-09 and \$330 million in 2009-10. (ABX3 15, Chapter 17, Statutes of 2009)
4. Established a personal income tax credit for purchasers of a qualifying new home. The issuance of the housing credit is capped at a total of \$100 million. Each qualified homebuyer can receive a tax credit up to \$10,000, which can be claimed over three tax years in equal amounts up to \$3,333 annually. The GF revenue loss is estimated at up to \$33 million in tax years 2009 through 2011. (ABX2 15, Chapter 11, Statutes of 2009)

TAX ADMINISTRATION AND REVENUE ACCELERATION

Trailer Bill Language

The following changes to the administration of taxes do not increase any tax, but do increase revenue from tax compliance and/or accelerate the collection of tax revenue. These trailer bills were enacted as part of the July 2009 budget package. At the time of enactment, the total GF revenues gain for 2009-10 was estimated at about \$2.4 billion. Most of this revenue benefit is one-time; however, about \$350 million is on-going.

1. Approved the Governor's proposal to increase personal income tax withholdings by ten percent—increasing GF revenue by \$1.7 billion in 2009-10. This does not change the final tax liability as taxpayers will either be due a larger refund or have a small amount due when they file their tax returns. Taxpayers also can adjust their withholding amount if they believe the recalculated withholding is not reflective of their anticipated tax liability. There is an ongoing

GF benefit of about \$98 million. (ABX4 17, Chapter 15, Statutes of 2009).

2. Approved the Governor's proposal to accelerate personal income and corporate income quarterly prepayments such that 30 percent is paid in each April, 40 percent is paid each June, and the remaining 30 percent is paid in December—increasing GF revenue by \$610 million in 2009-10. This does not change the final tax liability but rather moves more of the prepayment into the first half of the calendar year, which accelerates tax revenue by state fiscal year. There is an ongoing GF benefit of about \$95 million. (ABX4 17, Chapter 15, Statutes of 2009).
3. Adopted language to generally conform to federal income backup withholding, which is additional wage withholding when risk factors are present such as prior underreporting of wages. The revenue gain was estimated at \$32 million in both 2009-10 and 2010-11. (ABX4 18, Chapter 16, Statutes of 2009).
4. Adopted language to require non-retailer registration with the Board of Equalization, which should increase compliance with use tax payment. The revenue gain was estimated at \$26 million in 2009-10, growing to \$123 million in 2010-11. (ABX4 18, Chapter 16, Statutes of 2009).

0860 STATE BOARD OF EQUALIZATION

- Approved as proposed most augmentations in the January Governor's Budget, including the following:
 - Approved \$5.7 million (\$3.3 million GF, \$894,000 special funds, and \$1.6 million reimbursements) and six new positions to mitigate problems at the Board of Equalization (BOE) headquarters (HQ) building. The funding will support reducing staff at the HQ to the designed capacity, ongoing repair for mold and other problems at the HQ, and study of a replacement facility.
 - Approved \$856,000 (special fund) and five new positions. The funding will support the implementation of SB 1040 (Chapter 17, Statutes of 2008), which requires BOE to impose the 911 surcharge on Voice over Internet Protocol (VoIP), a technology that allows voice calls using a broadband internet connection instead of regular phone lines. New revenue of \$4.3 million is scored for 2009-10.

- Approved \$258,000 (\$190,000 GF, \$68,000 reimbursements) and two new positions. The funding will support the implementation of AB 2047 (Chapter 222, Statutes of 2008), which creates a new mandated workload for the BOE's Offer-in-Compromise program. New revenue of \$2.2 million is scored for 2009-10.
- Approved \$545,000 (\$306,000 GF, \$75,000 special funds, and \$164,000 reimbursements) and three new positions to provide additional legal resources to effectively litigate the growing tax refund and related damage claims being made against the State.
- Approved \$1.5 million (\$1.4 million GF, \$43,000 special funds, and \$94,000 reimbursements) and ten new positions to accelerate the collection of tax, interest, and penalty revenue represented by increased workload and inventory of unassigned appeals.
- Approved \$8.5 million (\$936,000 GF, \$7.6 million special funds) and 96.9 positions (most of which are re-classified limited-term positions to permanent) to continue to administer and enforce the Cigarette and Tobacco Products Licensing Act. A revenue benefit of \$74.4 million is scored for 2009-10.
- Approved \$815,000 (\$595,000 GF, \$220,000 reimbursements) and 11.5 positions (all of which are re-classified limited-term positions to permanent) to continue to address the workload associated with the U.S. Customs Program. A revenue benefit of \$9.2 million is scored for 2009-10.
- Approved \$2.8 million (\$1.9 million GF, \$852,000 reimbursements) and 23 positions to address the out-of-state workload currently not being met and to help close the tax gap. A revenue benefit of \$8.3 million is scored for 2009-10.
- Approved \$938,000 (\$563,000 GF, \$375,000 reimbursements) and 13.1 positions (all of which are reclassified limited-term positions to permanent) to continue to administer workload related to the expansion of the Environmental Fee Program, the Electronic Waste Recycling Fee Program and the Underground Storage Tank Maintenance Fee Program. A revenue benefit of \$11.3 million is scored for 2009-10.
- Approved \$257,000 (special funds) and two limited-term positions to address workload consisting of identifying, registering, auditing and verifying Natural Gas, Public Purpose Programs Surcharge payments required from natural gas utilities. A revenue benefit of \$4.4 million is scored for 2009-10.
- Rejected funding of \$1.3 million GF and 5.9 positions to address workload associated with new regulations that would clarify the definition of a "distilled spirit" to include flavored malt beverages. In the January Governor's budget, a GF revenue benefit of \$38.3 million was scored. However, manufacturers re-formulated their beverages to avoid the higher tax rate and no new GF revenue will be realized.
- Rejected funding of \$126,000 (\$87,000 GF, \$39,000 reimbursements) and one position. The funding was requested to support the implementation of SB 3079 (Chapter 306, Statutes of 2008), which re-establishes the in-state voluntary disclosure program. A revenue benefit of

\$2.5 million was scored for 2009-10. Given this high revenue benefit to cost ratio, the BOE should use existing authority to shift existing staff to this high-revenue-producing activity.

- Rejected funding of \$1.2 million (\$880,000 GF and \$342,000 reimbursements) and 13.3 positions to address workload associated with the temporary 1-cent increase in the sales and use tax. The BOE will have to absorb this workload. Rejected a reallocation of base costs between locals and the State due to the new temporary tax that would have increased GF costs by \$1.2 million in 2008-09 and by \$6.4 million in 2009-10. Trailer bill language was included ABX4 12 (Chapter 12, Statutes of 2009) to exclude the temporary sales tax increase from the calculation of cost allocation between locals and the State.
- Reduced by half a requested augmentation of \$2.3 million (\$570,000 GF and \$1.7 million reimbursements) and 22.5 positions to administer new Special Taxing Jurisdictions. Instead approved a net augmentation of \$1.2 million (a GF reduction of \$411,000 and a reimbursement increase of \$1.6 million) and 11 positions.
- Rejected a redirection of \$965,000 in anticipated e-file savings (\$454,000 GF) to implement the Return Process Efficiencies information technology project. Instead, reduced the GF budget by the amount of the e-file savings (\$454,000). The IT project had a modest GF benefit in the out-years – about \$464,000 in increased interest earnings in 2010-11.
- Approved a request to reduce baseline operating expenses and equipment funding by \$286,000 (\$130,000 GF, \$55,000 special funds, and \$101,000 reimbursements). The BOE double-counted some operating expenses in the January Budget request.
- Added funding of \$13.5 million (\$9.6 million GF and \$3.9 million reimbursements) and 123.5 new positions to implement non-retailer registration. The revenue gain from non-retailer registration was estimated at \$26 million GF in 2009-10, growing to \$123 million GF in 2010-11. Non-retailer registration was implemented by ABX4 18 (Chapter 16, Statutes of 2009).
- *In signing SBX3 1 (the 2009-10 Budget adopted in February 2009), the Governor vetoed \$9.9 million GF from the Board of Equalization budget to conform to his furlough proposal as it existed at that point in time. Similar reductions were made for other departments led by Constitutional Officers, due to the Constitutional Officers declining to participate in the Governor's furlough plan.*

1730 FRANCHISE TAX BOARD

- Approved as proposed most augmentations in the January Governor's Budget, including the following:
 - Approved \$1.4 million (\$1.3 million GF, \$76,000 special funds, and \$9,000 reimbursements) primarily for computer hardware and software to increase the processing capacity and storage for both the Mainframe and the Enterprise Customer, Asset, Income and Return (ECAIR) data warehouse.

- Approved \$1.1 million GF and the conversion of ten limited-term positions to permanent to continue to investigate cash-pay / underground economy cases. A revenue benefit of \$3.8 million in 2009-10 is associated with this proposal.
- Approved \$1.5 million (special funds) and the conversion of 24 limited-term positions to permanent to address the continuing workload in the Vehicle Registration Collection program. Under this program, the Franchise Tax Board (FTB) performs collection activity on behalf of the Department of Motor Vehicles related to delinquent vehicle registration taxes and fees. A revenue benefit of \$162.0 million in 2009-10 is associated with this proposal. About six percent of that revenue benefit, or about \$10 million, is GF.
- Approved \$3 million GF and 14 new positions to implement and administer the provisions of SB 1146 (Chapter 345, Statutes of 2008). This legislation requires cities that administer a business tax program to provide specific data to FTB, upon request. New revenue of \$4 million is scored for 2009-10, growing to \$40 million by 2013-14.
- Approved \$24,000 (special funds) to establish and maintain four new voluntary contribution check-offs on tax forms. The four new charitable check-offs are: (1) ALS/Lou Gehrig's Disease Research Fund; (2) California Ovarian Cancer Research Fund; (3) Northern California Cancer Research Fund; and (4) Low Cost/Free Spay-Neuter Fund.
- Reduced funding by \$4.8 million GF to reflect administrative savings from the suspension of the Homeowners and Renters Assistance Programs. The programs were suspended by Governor's veto in the 2008 Budget Act, and no funding was included for these programs in the 2009 Budget Act.
- Approved a revised Administration request of \$5.2 million GF and 57 positions to begin implementation of the Enterprise Data to Revenue information technology project. The total cost over the multi-year implementation of this project is \$300 million; however, a revenue gain of \$2.8 billion is anticipated over the project timeline. The proposed procurement methodology is benefit-fund approach, such that the vendor will not be paid until the project benefit of increased revenues are realized.
- Approved a reduced augmentation of \$265,000 GF and three positions for new staff to implement new tax credits included in the February 2008 budget package (the homebuyers' tax credit, the small business hiring credit, and the film production credit). The Administration had requested \$663,000 GF and eight positions.

9655 AUGMENTATION FOR STATEWIDE ACCOUNTS RECEIVABLE

- Approved a reduced augmentation of \$1.1 million GF to implement a new accounts receivable strategy that sets aside \$1.1 million GF to fund successful debt collection by private collection agencies. No new authority is authorized for private debt collection; however, this item will allow departments to utilize collection services without having to absorb the cost within their

existing budget authority. The Administration had requested \$3.3 million GF, but the Legislature determined the Board of Equalization had sufficient expertise in-house collection expertise and dropped that portion of the funding.

Trailer Bill Language

1. Authorizes state agencies to impose a reasonable fee for the actual cost of its collection of past due accounts. Increases the amount of debt that state agencies can discharge from collections activity from \$250 to \$500. The Administration estimates these changes will increase annual GF revenues by \$4.4 million. (SBX4 16, Chapter 23, Statutes of 2009)

CASH MANAGEMENT

9620 INTEREST PAYMENTS ON GENERAL FUND LOANS

- Approved \$150 million GF to cover anticipated *internal* cash flow borrowing costs. Funding for *external* cash-flow borrowing, such as a Revenue Anticipation Notes (RANs), is continuously appropriated and the Department of Finance estimates 2009-10 costs of \$390 million GF. This item funds interest costs for cash-flow borrowing within the fiscal year. This borrowing is necessary because of uneven receipt and uneven expenditure of General Fund revenue during the fiscal year.

IMPROVEMENTS TO CASH MANAGEMENT

Trailer Bill Language

The following language reduced the needed level of more-costly *external* cash-flow borrowing, or otherwise improved cash management.

1. Added additional special funds to those available for General Fund cash-flow borrowing, which expands the pool of such funds by approximately \$2 billion. (ABX3 13, Chapter 9; and SBX4 16, Chapter 23; - both Statutes of 2009)
2. Specified that registered warrants (or “IOUs”) can have fixed maturity dates. (ABX3 13, Chapter 9, Statutes of 2009)
3. Clarified statute related to Revenue Anticipation Notes (RANs) to provide greater assurance to financial markets concerning the State’s ability to manage cash and repay RANs.
4. Approved non-education payment deferrals in the February budget package (in SBX3 8, Chapter 3, Statutes of 2009):
 - Permanently rescheduled annual mandate payments to local governments from August to October.
 - Deferred payment of local gasoline excise tax revenue to cities and counties for the months of February, March, and April of 2009, to be fully repaid in May of 2009.
 - Deferred payments to counties for benefits or aid grants, administration, and for employment and supportive services for the months of July and August of 2009, to be fully repaid in

- September 2009.
- Deferred payments to Medi-Cal program providers on a one-month rolling cycle through June 30, 2009.
 - Deferred payments to health benefit plans for State annuitants in February and March 2009, to be fully paid in April 2009.
5. Approved payment deferrals in the July budget package (in SBX4 16, Chapter 23, Statutes of 2009):
- Deferred certain K-12 education payments, including \$1.7 billion deferred from 2009-10 to 2010-11, and various deferrals within 2009-10.
 - Deferred certain higher education payments, including \$750 million for the University of California and \$290 million for the California State University – all deferred amounts are fully repaid within 2009-10.
 - Deferred quarterly payment of Proposition 42 transportation payments to cities and counties in October 2009 and January 2010, to be fully repaid in May 2010.
 - Deferred payment of local gasoline excise tax revenue to cities and counties for the months of July through December of 2009, to be fully repaid after January 1, 2010.
6. Approved additional cash management changes in budget cleanup legislation enacted in October (in SB 65; Chapter 633, Statutes of 2009):
- Deferred additional higher education payments, including \$250 million for the University of California, \$400 million for the California State Universities, and \$100 million for community colleges—all deferred amounts are fully repaid within 2009-10.
 - Modified the existing deferral schedule for local gasoline excise tax apportionments and excluded small counties.
 - Deferred Supplemental Security Income / State Supplementary Payment (SSI/SSP) payments to the federal government in February and March 2010 until after April 20, 2010, but no later than May 31, 2010.
7. Increased the cap from 2 percent to 3 percent on expenses the State can incur in connection with letters of credit. According to the Treasurer, this produces a cost avoidance of \$150 million in 2009-10. (AB 189, Chapter 646, Statutes of 2009)

LABOR

0559 LABOR AND WORKFORCE DEVELOPMENT AGENCY

- Transferred \$6 million from the Labor and Workforce Development Fund (LWDF) to the GF.
- Approved in concept the Governor's request for a heat-related illness prevention campaign, but instead of \$1.4 million requested from the LWDF, shifted the campaign to the Department of Industrial Relations and provided \$1.5 million from the Occupational Safety and Health Fund (see Item 7350 below).

7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

- Approved an April Finance Letter to acknowledge a \$20.2 million benefit to the GF (relative to the February-approved 2009-10 budget) as a result of the American Recovery and Reinvestment Act (ARRA) deferment (until December 31, 2010) of interest payments and interest accrual on loans taken out from the Federal Unemployment Trust Account (FUTA). California's Unemployment Insurance (UI) program is currently relying on loans from the FUTA to bridge the gap between the amount of money coming into the program from employers and the amount going out to the record-high number of unemployed.
- Approved May Revise request (via budget bill language below) to provide ARRA funding for UI modernization projects, including implementation of an Alternate Base Period and conversion of the Single Client Database (to a relational database management system).
- Approved May Revise projected increases in Workforce Investment Act (WIA)—including additional ARRA funds; however, reapportioned WIA discretionary funds, including \$15 million for Department of Corrections and Rehabilitation and job-training programs and \$3 million for new Academic Bridge Summer Employment Curriculum. (See also trailer bill language below.)
- Approved Governor's request to augment baseline Employment Training Panel (ETP) funding by \$20 million GF (for a total of \$76 million GF), and transferred \$20 million GF from the ETP to CalWORKS.
- Approved Governor's request (including May Revise Letter) to appropriate approximately \$200 million Wagner-Peyser and Reemployment Services funds (including \$36 million provided under ARRA).
- Approved Governor's request (including May Revise Letter) for fourth-year funding of the Automated Collection Enhancement System (ACES) project—\$10.3 million (including \$8 million GF) and 76.2 positions. ACES is a new collection system that will increase the effectiveness of the Employment Development Department (EDD) tax collection operations.

- Approved Governor's request for fourth-year funding for the Disability Insurance Automation (DIA) project—\$11.3 million (special fund) and 28.1 positions. DIA will provide greater access to services for claimants, medical providers, and employers. (See also budget bill language below.)
- Approved May Revise request to reimburse the EDD \$4.5 million from the Energy Resources Conservation and Development Commission's Alternative and Renewable Fuel and Vehicle Technology Program for Workforce Training Program funds distributed through the WIA program.
- Approved May Revise Letter adjustments to state operations and benefit payments, to reflect the May 2009 forecast of increased claims for the Unemployment Insurance Program, the Disability Insurance Program, and the School Employees Fund Program.

Budget Bill Language

1. Authorized the Director of Finance, subject to 30-day notification to the Legislature, to increase expenditure authority for UI modernization projects funded by ARRA.
2. Authorized the Director of Finance, subject to 30-day notification to the Legislature, to increase or decrease expenditure authority for the DIA project upon approval of a post-vendor procurement Special Project Report.

Trailer Bill Language

1. Specified that the EDD must coordinate with the California Workforce Investment Board to ensure Green Collar Job funds are spent consistently with the green collar strategic initiative.
2. Required entities and their subcontractors receiving WIA discretionary funds identified for veterans demonstrate: (1) knowledge, experience, and capacity to provide the desired veteran services; and (2) that a majority of their WIA resources are dedicated to serving the needs of veterans and their families.
3. Authorized the ETP to accept and expend funds other than the Employment Training Tax.

7120 WORKFORCE INVESTMENT BOARD

- Approved May Revise request to provide \$290,000 in additional ARRA WIA discretionary funds for regional planning and an evaluation of the EDD's One-Stop Career Center costs.

7350 DEPARTMENT OF INDUSTRIAL RELATIONS

- Provided \$1.5 million (Occupational Safety and Health Fund) for the Department of Industrial Relations (DIR) to conduct a targeted outreach campaign to reduce the incidence of heat-related illness in the California workplace. (See also budget bill language below.)
- Approved May Revise request to shift GF costs of the Labor Standards Enforcement and the Occupational Safety and Health Programs (\$15.2 million and \$24.8 million, respectively) to fees. The increased assessments for the Occupational Safety and Health fee and the new Labor Enforcement and Compliance fee will be assessed based on the size of the employer. (See also budget bill language below.)
- Denied May Revise request to provide augmentations to the Labor Standards Enforcement Program (\$13.5 million and 131.5 positions—to be phased in over three years) and Occupational Safety and Health Program (\$7.8 million and 50 positions). Additionally, denied Governor’s proposal to modify existing statutes “that encourage lawsuits, rather than administrative remedies, and inhibit job creation.”
- Approved April Finance Letter to provide \$1.3 million for the Public Works Labor Compliance Program established pursuant to Chapter 7, Statutes of 2009, Second Extraordinary Session (SB 9)—part of the February 2009 budget deal. The program will receive initial funding via a GF loan (to be repaid no later than June 30, 2012), but will thereafter be fee-supported.
- Approved May Revise request for \$844,000 GF and eight positions to allow the Prevailing Wage Program to conduct a survey of the prevailing wages paid to workers on residential construction projects in the 18 Central Valley counties. The data will allow the program to make residential prevailing wage determinations for use in residential public works projects.
- Approved Governor’s request for \$3.6 million (special fund) and 12 positions to meet the initial maintenance and operation costs of the Electronic Adjudication Management System, which was implemented in August 2008. Future funding requests will address the issue of access (as appropriate) once stress/load testing of the system is complete.
- Approved Governor’s request for \$795,000 (special fund) and 12 positions to establish an Internal Audit Unit to provide executive management with skilled, independent personnel to monitor the utilization of resources and review the sufficiency of accounting and administrative controls.
- Approved Governor’s request for \$275,000 (reimbursement authority) and two limited-term positions for the State Mediation and Conciliation Services (SMCS) to replace GF reductions in the 2008-09 budget and allow the SMCS to meet historical demands for assistance in avoiding work stoppages and litigation. (See also trailer bill language below.)
- Approved Governor’s request for \$185,000 to assist any school or district that has high risk of occupational injury or illness and a need for establishing and maintaining effective occupational Injury and Illness Prevention Program pursuant to labor code.

- Approved Governor's request to shift \$2.5 million in GF expenditures to the Uninsured Employers Benefits Trust Fund to support workers' compensation enforcement activities within the Bureau of Field Enforcement.

Budget Bill Language

1. Required funds allocated for heat-related illness outreach to be focused on direct outreach to workers identified by the DIR as most at risk, and specified that no more than 50 percent of the funds could be expended on purchase of radio air time. Additionally, required the DIR to track and report to the Legislature on the air time purchased and the efficacy of the campaign.
2. Provided \$19 million GF cash flow loan (to be repaid before the end of the 2009-10 fiscal year) to the Occupational Safety and Health Fund to cover seven months of increased expenses until increased assessment revenues are sufficient to cover the day-to-day costs of the program.

Trailer Bill Language

1. Permitted the Department of Industrial Relations to be reimbursed for mediation services provided.
2. Created, until 2013, the Labor Enforcement and Compliance Fund, supported by revenue from surcharges on employers, not to be adjusted by more than the state-local government deflator, for support of the activities of the Division of Labor Standards Enforcement.
3. Effective July 1, 2013, returned the surcharge level for the Occupational Safety and Health Fund to the level in place on June 30, 2009, adjusted for inflation by the state-local government deflator.

GOVERNOR'S VETOES

SB 1, CHAPTER 1
(THIRD EXTRAORDINARY SESSION)
VETOES

State of California
Governor's Office

Item 0110-001-0001—For support of Senate

I am not reducing the Legislature's budget to reflect the \$24.9 million in cuts included in my proposed budget. While I am not reducing the Legislature's budget, I expect the Legislature to achieve savings that equal 10 percent of their budget, by taking action to offset General Fund expenditures in state programs and other areas of the budget.

Item 0120-011-0001—For support of Assembly

I am not reducing the Legislature's budget to reflect the \$24.9 million in cuts included in my proposed budget. While I am not reducing the Legislature's budget, I expect the Legislature to achieve savings that equal 10 percent of their budget, by taking action to offset General Fund expenditures in state programs and other areas of the budget.

I object to the following appropriations contained in Senate Bill 1 Third Extraordinary Session.

Item 0750-001-0001—For support of Office of the Lieutenant Governor. I reduce this item from \$2,778,000 to \$1,044,000.

I am reducing the Lieutenant Governor's budget by \$1,734,000 to ensure that sufficient resources are reserved for key programs within state government. In these tough times, we cannot continue to fund the Office of the Lieutenant Governor at the level provided in recent years.

Item 0820-001-0001—For support of Department of Justice. I reduce this item from \$369,594,000 to \$345,933,000 by reducing:

- (8) Amount payable from the Fingerprint Fees Account (Item 0820-001-0017) from -\$70,079,000 to -\$66,615,000;
- (10) Amount payable from the Motor Vehicle Account, State Transportation Fund (Item 0820-001-0044) from -\$25,109,000 to -\$23,834,000;
- (11) Amount payable from the Department of Justice Sexual Habitual Offender Fund (Item 0820-001-0142) from -\$2,321,000 to -\$2,218,000;
- (15) Amount payable from the Indian Gaming Special Distribution Fund (Item 0820-001-0367) from -\$15,636,000 to -\$14,080,000;
- (16) Amount payable from the False Claims Act Fund (Item 0820-001-0378) from -\$10,657,000 to -\$10,090,000;
- (17) Amount payable from the Dealers' Record of Sale Special Account (Item 0820-001-0460) -\$10,787,000 to -\$9,907,000;
- (19) Amount payable from the Gambling Control Fund (Item 0820-001-0567) from -\$8,050,000 to -\$7,271,000;

- (21) Amount payable from the Federal Trust Fund (Item 0820-001-0890) from -\$41,174,000 to -\$37,914,000;
- (25) Amount payable from the Missing Persons DNA Data Base Fund (Item 0820-001-3016) from -\$3,765,000 to -\$3,376,000;
- (26) Amount payable from the Public Rights Law Enforcement Special Fund (Item 0820-001-3053) from -\$5,957,000 to -\$5,615,000;
- (27) Amount payable from the Ratepayer Relief Fund (Item 0820-001-3061) from -\$5,463,000 to -\$4,896,000;
- (28) Amount payable from the DNA Identification Fund (Item 0820-001- 3086) from -\$32,144,000 to -\$29,267,000;
- (29) Amount payable from the Unfair Competition Law Fund (Item 0820-001-3087) from -\$3,475,000 to -\$3,247,000;
- (31) Amount payable from the Legal Services Revolving Fund (Item 0820-001-9731) from -\$122,601,000 to -\$114,653,000;

and by adding:

97.20.001-Unallocated Reduction -\$47,896,000.

I am reducing this appropriation by 10 percent of the Attorney General's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0820-001-0017—For support of Department of Justice. I reduce this item from \$70,079,000 to \$66,615,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0044—For support of Department of Justice. I reduce this item from \$25,109,000 to \$23,834,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0142—For support of Department of Justice. I reduce this item from \$2,321,000 to \$2,218,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0367—For support of Department of Justice. I reduce this item from \$15,636,000 to \$14,080,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0378—For support of Department of Justice. I reduce this item from \$10,657,000 to \$10,090,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0460—For support of Department of Justice. I reduce this item from \$10,787,000 to \$9,907,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0567—For support of Department of Justice. I reduce this item from \$8,050,000 to \$7,271,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-0890—For support of Department of Justice. I reduce this item from \$41,174,000 to \$37,914,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3016—For support of Department of Justice. I reduce this item from \$3,765,000 to \$3,376,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3053—For support of Department of Justice. I reduce this item from \$5,957,000 to \$5,615,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3061—For support of Department of Justice. I reduce this item from \$5,463,000 to \$4,896,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3086—For support of Department of Justice. I reduce this item from \$32,144,000 to \$29,267,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-3087—For support of Department of Justice. I reduce this item from \$3,475,000 to \$3,247,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0820-001-9731—For support of Department of Justice. I reduce this item from \$122,601,000 to \$114,653,000.

I am reducing this item to conform to the action I have taken in Item 0820-001-0001.

Item 0840-001-0001—For support of the Controller. I reduce this item from \$56,976,000 to \$52,264,000 by reducing:

- (1) 100000-Personal Services from \$111,076,000 to \$99,968,000;
- (3) Reimbursements from -\$51,348,000 to -\$48,353,000;
- (4) Amount payable from the Motor Vehicle Fuel Account, Transportation Tax Fund (Item 0840-001-0061) from -\$4,149,000 to -\$3,907,000;
- (5) Amount payable from the Highway Users Tax Account, Transportation Tax Fund (Item 0840-001-0062) from -\$1,184,000 to -\$1,115,000;
- (6) Amount payable from the Local Revenue Fund (Item 0840-001-0330) from -\$600,000 to -\$565,000;
- (7) Amount payable from the Federal Trust Fund (Item 0840-001-0890) from -\$813,000 to -\$766,000;
- (8) Amount payable from the State Penalty Fund (Item 0840-001-0903) from -\$1,332,000 to -\$1,254,000;
- (9) Amount payable from the Unclaimed Property Fund (Item 0840-001-0970) from -\$28,250,000 to -\$26,602,000;
- (10) Amount payable from various other unallocated nongovernmental cost funds (Retail Sales Tax Fund) (Item 0840-001-0988) from -\$242,000 to -\$228,000;
- (11) Amount payable from the 2006 State School Facilities Fund (Item 0840-001-6057) from -\$978,000 to -\$921,000;
- (12) Amount payable from the Central Service Cost Recovery Fund (Item 0840-001-9740) from -\$19,098,000 to -\$17,984,000;
- (13) Amount payable from other unallocated special funds (Item 0840-011-0494) from -\$96,000 to -\$90,000;
- (14) Amount payable from unallocated bond funds (Item 0840-011-0797) from -\$631,000 to -\$594,000;
- (15) Amount payable from various other unallocated nongovernmental cost funds (Item 0840-011-0988) from -\$90,000 to -\$85,000;
- (16) Amount payable from the Public Transportation Account, State Transportation Fund (Section 25.50) from -\$18,000 to -\$17,000;
- (17) Amount payable from the Highway Users Tax Account, Transportation Tax Fund (Section 25.50) from -\$289,000 to -\$272,000;

- (18) Amount payable from the Motor Vehicle License Fee Account, Transportation Tax Fund (Section 25.50) from -\$16,000 to -\$15,000;
- (20) Amount payable from the Trial Court Trust Fund (Section 25.50) from -\$165,000 to -\$155,000;
- (22) Amount payable from the Public Safety Account, Local Public Safety Fund (Section 25.50) from -\$255,000 to -\$240,000; and
- (23) Amount payable from the Local Revenue Fund (Section 25.50) from -\$95,000 to -\$90,000.

I am reducing this appropriation by 10 percent of the State Controller's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0840-001-0061—For support of the Controller. I reduce this item from \$4,149,000 to \$3,907,000.

I am reducing this item by \$242,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0062—For support of the Controller. I reduce this item from \$1,184,000 to \$1,115,000.

I am reducing this item by \$69,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0330—For support of the Controller. I reduce this item from \$600,000 to \$565,000.

I am reducing this item by \$35,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0890—For support of the Controller. I reduce this item from \$813,000 to \$766,000.

I am reducing this item by \$47,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0903—For support of the Controller. I reduce this item from \$1,332,000 to \$1,254,000.

I am reducing this item by \$78,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0970—For support of the Controller. I reduce this item from \$28,250,000 to \$26,602,000.

I am reducing this item by \$1,648,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-0988—For support of the Controller. I reduce this item from \$242,000 to \$228,000.

I am reducing this item by \$14,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-6057—For support of the Controller. I reduce this item from \$978,000 to \$921,000.

I am reducing this item by \$57,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-001-9740—For support of the Controller. I reduce this item from \$19,098,000 to \$17,984,000.

I am reducing this item by \$1,114,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-011-0494—For support of the Controller. I reduce this item from \$96,000 to \$90,000.

I am reducing this item by \$6,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-011-0797—For support of the Controller. I reduce this item from \$631,000 to \$594,000.

I am reducing this item by \$37,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0840-011-0988—For support of the Controller. I reduce this item from \$90,000 to \$85,000.

I am reducing this item by \$5,000 to conform to the action I have taken in Item 0840-001-0001.

Item 0845-001-0217—For support of Department of Insurance. I reduce this item from \$174,200,000 to \$156,780,000 by adding:

97.20.001-Unallocated Reduction -\$17,420,000.

While the budget bill provides for a modest reserve, constitutional requirements, federal law and court required payments drive the majority of spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently, I am taking the action reflected in this veto to further control state spending.

Item 0845-101-0217 – For local assistance, Department of Insurance. I reduce this item from \$65,601,000 to \$59,041,000 by adding:

97.20.001-Unallocated Reduction -6,560,000.

While the budget bill provides for a modest reserve, constitutional requirements, federal law and court required payments drive the majority of spending in any budget, and limit my ability to reduce spending. As a result, I have an obligation to reduce spending when my veto power is adequate to do so. Consequently, I am taking the action reflected in this veto to further control state spending.

Item 0860-001-0001—For support of State Board of Equalization. I reduce this item from \$255,493,000 to \$245,549,000 by reducing:

- (1) 100000-Personal Services from \$340,997,000 to \$327,541,000;
- (4) Amount payable from the Breast Cancer Fund (Item 0860-001-0004) from -\$696,000 to -\$662,000;
- (5) Amount payable from the State Emergency Telephone Number Account (Item 0860-001-0022) from -\$1,527,000 to -\$1,459,000;
- (6) Amount payable from the Motor Vehicle Fuel Account, Transportation Tax Fund (Item 0860-001-0061) from -\$22,636,000 to -\$21,068,000;
- (7) Amount payable from the Occupational Lead Poisoning Prevention Account (Item 0860 001-0070) from -\$736,000 to -\$668,000;
- (8) Amount payable from the Childhood Lead Poisoning Prevention Fund (Item 0860-001-0080) from -\$513,000 to -\$479,000;
- (9) Amount payable from the Cigarette and Tobacco Products Surtax Fund (Item 0860-001-0230) from -\$8,727,000 to -\$8,385,000;
- (10) Amount payable from the Oil Spill Prevention and Administration Fund (Item 0860-001-0320) from -\$264,000 to -\$230,000;
- (11) Amount payable from the Integrated Waste Management Account, Integrated Waste Management Fund (Item 0860-001-0387) from -\$477,000 to -\$409,000;
- (12) Amount payable from the Underground Storage Tank Cleanup Fund (Item 0860-001-0439) from -\$3,338,000 to -\$3,133,000;
- (14) Amount payable from the California Children and Families First Trust Fund (Item 0860-001-0623) from -\$15,171,000 to -\$14,523,000;
- (17) Amount payable from the Gas Consumption Surcharge Fund (Item 0860-001-3015) from -\$670,000 to -\$636,000;
- (18) Amount payable from the Water Rights Fund (Item 0860-001-3058) from -\$431,000 to -\$397,000;
- (19) Amount payable from the Electronic Waste Recovery and Recycling Account (Item 0860-001-3065) from -\$4,742,000 to -\$4,401,000; and
- (20) Amount payable from the Cigarette and Tobacco Products Compliance Fund (Item 0860-001-3067) from -\$682,000 to -\$648,000.

I am reducing this appropriation to reflect savings in the Board of Equalization's budget which would normally be expected to occur as a result of the state employee furloughs I ordered, net of the tentative bargaining agreements reached with Units 1, 3, 4, 11, 14, 15, 17, 20 and 21. Because the Board of Equalization has declined to participate in the furloughs, I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0860-001-0004—For support of State Board of Equalization. I reduce this item from \$696,000 to \$662,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0022—For support of State Board of Equalization. I reduce this item from \$1,527,000 to \$1,459,000.

I am reducing this item by \$68,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0061—For support of State Board of Equalization. I reduce this item from \$22,636,000 to \$21,068,000.

I am reducing this item by \$1,568,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0070—For support of State Board of Equalization. I reduce this item from \$736,000 to \$668,000.

I am reducing this item by \$68,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0080—For support of State Board of Equalization. I reduce this item from \$513,000 to \$479,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0230—For support of State Board of Equalization. I reduce this item from \$8,727,000 to \$8,385,000.

I am reducing this item by \$342,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0320—For support of State Board of Equalization. I reduce this item from \$264,000 to \$230,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0387—For support of State Board of Equalization. I reduce this item from \$477,000 to \$409,000.

I am reducing this item by \$68,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0439—For support of State Board of Equalization. I reduce this item from \$3,338,000 to \$3,133,000.

I am reducing this item by \$205,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-0623—For support of State Board of Equalization. I reduce this item from \$15,171,000 to \$14,523,000.

I am reducing this item by \$648,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3015—For support of State Board of Equalization. I reduce this item from \$670,000 to \$636,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3058—For support of State Board of Equalization. I reduce this item from \$431,000 to \$397,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3065—For support of State Board of Equalization. I reduce this item from \$4,742,000 to \$4,401,000.

I am reducing this item by \$341,000 to conform to the action taken in Item 0860-001-0001.

Item 0860-001-3067—For support of State Board of Equalization. I reduce this item from \$682,000 to \$648,000.

I am reducing this item by \$34,000 to conform to the action taken in Item 0860-001-0001.

Item 0890-001-0001—For support of Secretary of State. I reduce this item from \$31,970,000 to \$30,699,000 by reducing:

- (6) Reimbursements from -\$7,339,000 to -\$7,030,000;
- (7) Amount payable from the Secretary of State's Business Fees Fund (Item 0890-001-0228) from -\$38,672,000 to -\$37,126,000;
- (8) Amount payable from the Federal Trust Fund (Item 0890-001-0890) from -\$5,629,000 to -\$5,388,000;
- (9) Amount payable from the Victims of Corporate Fraud Compensation Fund (Item 0890-001-3042) from -\$1,626,000 to -\$ 1,557,000;

and by adding:

97.20.001 – Unallocated Reduction -\$3,436,000.

I am reducing this appropriation by 10 percent of the Secretary of State's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0890-001-0228—For support of Secretary of State. I reduce this item from \$38,672,000 to \$37,126,000.

I am reducing this item to conform to the action I have taken in Item 0890-001-0001.

Item 0890-001-0890 – For support of Secretary of State. I reduce this item from \$5,629,000 to \$5,388,000.

I am reducing this item to conform to the action I have taken in Item 0890-001-0001.

Item 0890-001-3042 – For support of Secretary of State, I reduce this item from \$1,626,000 to \$1,557,000.

I am reducing this item to conform to the action I have taken in Item 0890-001-0001.

Item 0950-001-0001—For support of the Treasurer. I reduce this item from \$5,116,000 to \$4,538,000 by reducing:

- (1) 100000-Personal Services from \$21,207,000 to \$20,382,000; and
- (5) Amount payable from the Central Service Cost Recovery Fund (Item 0950-001-9740) from -\$1,795,000 to -\$1,548,000.

I am reducing this appropriation to reflect savings in the Treasurer's budget which would normally be expected to occur as a result of the state employee furloughs I ordered, net of the

tentative bargaining agreements reached with Units 1, 3, 4, 11, 14, 15, 17, 20 and 21. Because the Treasurer has declined to participate in the furloughs, I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 0950-001-9740—For support of the Treasurer. I reduce this item from \$1,795,000 to \$1,548,000.

I am reducing this item by \$247,000 to conform to the action I have taken in Item 0950-001-0001.

Item 2660-013-0042—For transfer by the Controller from the State Highway Account, State Transportation Fund, to the Transportation Debt Service Fund to be used as specified in Section 16965 of the Government Code.

I am eliminating this item consistent with the Budget agreement to eliminate the proposed \$0.12 excise tax increase on gasoline and diesel fuel.

Item 2660-302-0042—For capital outlay, Department of Transportation. I reduce this item from \$570,000,000 to \$295,000,000 by reducing:

- (1) 20-Highway Transportation from \$1,795,000,000 to \$1,520,000,000, and
- (a) State Highway Operation and Protection Program (\$1,795,000,000) to (\$1,520,000,000).

I am reducing this item by \$275,000,000 to be consistent with the Budget agreement to eliminate the proposed \$0.12 excise tax increase on gasoline and diesel fuel.

Item 5225-001-0001—For support of Department of Corrections and Rehabilitation. I reduce this Item from \$7,287,426,000 to \$6,887,426,000 by adding:

97.20.001-Unallocated Reduction -\$400,000,000

I am reducing this appropriation by \$400,000,000 to reflect savings I expect to be achieved as a result of various reforms and actions implemented by the Secretary of the California Department of Corrections and Rehabilitation. Federal court mandates, employee compensation, rehabilitation programming, and population related costs have contributed to making the Corrections budget one of the fastest growing in state government in recent years. Between 2005-06 and 2007-08, the Corrections budget grew by nearly 30 percent. Savings in this area are necessary to address the fiscal crisis and I will be working with the Legislature to achieve these reductions. These savings will be achieved in a manner that promotes rehabilitation and preserves public safety.

Item 6110-001-0001—For support of Department of Education. I reduce this item from \$43,139,000 to \$40,401,000 by reducing:

- (8) Reimbursements from -\$17,258,000 to -\$16,163,000;
 - (9) Amount payable from the Federal Trust Fund (Item 6110-001-0890) from -\$155,590,000 to -\$145,715,000;
 - (10) Amount payable from the Mental Health Services Fund (Item 6110-001-3085) from -\$709,000 to -\$664,000;
- and by adding:

97.20.001-Unallocated Reduction -\$13,753,000

I am reducing this appropriation by 10 percent of the Department of Education's personal services budget which reflects the state employee compensation reductions for furloughs, overtime reform, and elimination of two state holidays. I am reducing these funds to ensure equity among all executive branch agencies relative to employee compensation levels.

Item 6110-001-0140—For support of Department of Education, Program 20.10.055-Instructional Support, Environmental Education. I reduce this item from \$48,000 to \$45,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0178—For support of Department of Education, Program 20.30.003-Instructional Support, Schoolbus Driver Instructor Training. I reduce this item from \$1,624,000 to \$1,521,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0231—For support of Department of Education, Program 20.10.045-Instructional Support, Curriculum Services-Health and Physical Education-Drug Free Schools. I reduce this item from \$990,000 to \$927,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0687—For support of Department of Education, Program 30.50-Donated Food Distribution. I reduce this item from \$7,483,000 to \$7,008,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-0890—For support of Department of Education. I reduce this item from \$155,590,000 to \$145,715,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-3085—For support of Department of Education. I reduce this item from \$709,000 to \$664,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-001-6057—For support of Department of Education, Program 20.30-Administrative Services. I reduce this item from \$2,778,000 to \$2,602,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-003-0001—For support of Department of Education, Program 20.30.020-Instructional Support, Standardized Account Code Structure. I reduce this item from \$1,178,000 to \$1,103,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-005-0001—For support of Department of Education. I reduce this item from \$38,736,000 to \$36,279,000 by reducing:

- (1) 10.60.040-Instruction from 39,135,000 to 36,678,000;
- (a) 10.60.040.001-School for the Blind, Fremont from 5,644,000 to 5,289,655;
- (b) 10.60.040.002-School for the Deaf, Fremont from 17,979,000 to 16,850,230;
- (c) 10.60.040.003-School for the Deaf, Riverside from 15,512,000 to 14,538,115; and

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6110-008-0046—For support of Department of Education. I reduce this item from \$4,158,000 to \$3,894,000.

I am reducing this item to conform to the action I have taken in Item 6110-001-0001.

Item 6440-001-0001—For support of University of California. I am reducing this item from \$2,896,355,000 to \$2,641,355,000 by reducing:

- (1) Support from \$2,812,859,000 to \$2,557,859,000.

I am reducing this item by an additional \$255,000,000 on a one-time basis to achieve General Fund savings. This unallocated reduction will be offset by federal funds the state will receive as part of the Federal American Recovery and Reinvestment Act. Consequently, this veto will not impact the University's core instructional functions. In addition, the increase in funding for federal Pell Grants contained in the Act will provide further relief to the University.

Item 6610-001-0001—For support of California State University. I am reducing this item from \$2,793,502,000 to \$2,538,502,000 by reducing:

- (1) Support from \$2,793,502,000 to \$2,538,502,000.

I am reducing this item by an additional \$255,000,000 on a one-time basis to achieve General Fund savings. This unallocated reduction will be offset by federal funds the state will receive as part of the Federal American Recovery and Reinvestment Act. Consequently, this veto will not impact the University's core instructional functions. In addition, the increase in funding for federal Pell Grants contained in the Act will provide further relief to the University.

Item SEC. 25.50—State Controller's Office Apportionments Payment System Assessments.

I am revising Control Section 25.50 to conform to the action I have taken in Item 0840-001-0001, as follows:

"SEC. 25.50. Notwithstanding any other provision of law, an amount not to exceed ~~\$841,000~~ \$822,000 is hereby appropriated from various funds to the Controller, as specified below, for reimbursement of costs for the ongoing maintenance and support of the Apportionment Payment System:

0046 Public Transportation Account	\$ 18,000	
0062 Highway Users Tax Account	289,000	282,000
0064 Motor Vehicle License Fee Account	16,000	

0330 Local Revenue Fund	95,000	93,000
0877 DMV Local Agency Collection Fund	2,000	
0932 Trial Court Trust Fund	165,000	161,000
0965 Timber Tax Fund	1,000	
0969 Public Safety Account	255,000	249,000
Total, All Funds	\$841,000	\$822,000

The Controller shall assess these funds for the costs of the Apportionment Payment System because apportionment payments in excess of \$10,000,000 are made annually from these funds. Assessments in support of the expenditures for the Apportionment Payment System shall be made monthly, and the total amount assessed from these funds may not exceed the total expenditures incurred by the Controller for the Apportionment Payment System for the 2009-10 fiscal year.”

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 1 Third Extraordinary Session.

/s/ ARNOLD SCHWARZENEGGER

ARNOLD SCHWARZENEGGER

SB 2, CHAPTER 2
(THIRD EXTRAORDINARY SESSION)
VETOES

Arnold Schwarzenegger
Governor

February 20, 2009

State of California
Governor's Office

I object to the following appropriations contained in Senate Bill 2 Third Extraordinary Session.

Item 2660-013-0042—For transfer by the Controller from the State Highway Account, State Transportation Fund, to the Transportation Debt Service Fund to be used as specified in Section 16965 of the Government Code.

I am eliminating this item consistent with the Budget agreement to eliminate the proposed \$0.12 excise tax increase on gasoline and diesel fuel.

With the above deletions, revisions, and reductions, I hereby approve Senate Bill 2 Third Extraordinary Session.

/s/ ARNOLD SCHWARZENEGGER

ARNOLD SCHWARZENEGGER

AB 1, CHAPTER 1
(FOURTH EXTRAORDINARY SESSION)
VETOES

State of California
Governor's Office

I object to the following appropriations contained in Assembly Bill 1, Fourth Extraordinary Session.

Item 3340-101-0001—For local assistance, California Conservation Corps. I delete this item.

In order to create a reasonable reserve, I am making additional reductions so we have resources to address emergencies or additional revenue shortfalls. In addition, the Legislature did not make changes to improve the cost-effectiveness of the Beverage Container Recycling Program and address the shortfall in the Fund in a manner that supports recycling objectives. I look forward to working with the Legislature to enact comprehensive reform to the Beverage Container Recycling Program.

Item 3360-001-3117—For support of Energy Resources Conservation and Development Commission. I delete Provision 2.

I am deleting Provision 2, which would prohibit the Energy Commission from making any expenditure from this appropriation for hydrogen refueling stations. The goal of the Alternative and Renewable Fuel and Vehicle Technology program is to develop and deploy innovative technologies that transform California's fuel and vehicle types to help attain the state's climate change policies. This provision would limit the program's technology options, and would discourage continued development of hydrogen fuels and related vehicles and technology.

Item 3790-001-0001—For support of Department of Parks and Recreation. I reduce this item from \$133,988,000 to \$127,788,000 by reducing:

(1) For support of the Department of Parks and Recreation from \$428,717,000 to \$422,517,000.

In order to create a reasonable reserve, I am making additional reductions so we have resources to address emergencies or additional revenue shortfalls. I know this reduction will likely lead to closure of additional parks but we are facing unprecedented budget challenges and we have limited choices. I am directing the Department to do everything it can to work with local governments, the federal government, community based organizations, and other interested parties who can partner with the state to help mitigate any state park closures.

Item 4170-001-0001—For support of California Department of Aging. I reduce this item from \$4,227,000 to \$4,121,000 by reducing:

(4) 40-Special Projects from \$8,680,000 to \$8,574,000.

I am reducing this item by \$106,000 and 0.5 personnel years for the following programs:

- \$79,000 for the Linkages Program, and
- \$27,000 for Community Based Services Programs.

This action conforms to my action in Control Section 17.50.

Item 4260-101-0890—For local assistance, Department of Health Care Services. I am reducing this item from \$26,592,825,000 to \$26,532,256,000 to conform to the action I have taken in Control Section 18.00.

Item 4265-111-0231—For local assistance, Department of Public Health. I reduce this item from \$54,154,000 to \$47,354,000.

I am deleting the \$6,800,000 one-time augmentation of Proposition 99 funds for the Tobacco Control Program for anti-tobacco media campaigns and competitive grants to local entities. While I proposed this augmentation, tobacco tax revenues have since declined to levels insufficient to support these efforts.

Item 5180-151-0001—For local assistance, Department of Social Services. I reduce this item from \$763,375,000 to \$702,494,000 by reducing:

(1) 25.30-Children and Adult Services and Licensing from \$2,159,705,000 to \$2,098,824,000.

I am reducing this item by \$60,881,000 to increase the reserve for economic uncertainties and to reduce the state's structural deficit, consistent with my May Revision proposal to achieve an unallocated reduction in the Child Welfare Services Program. I am reducing a total of \$79,956,000 for this purpose: \$60,881,000 from this Item and \$19,075,000 from subdivision (f) of Control Section 18.50.

Item 5225-001-0001—For support of the Department of Corrections and Rehabilitation. I revise this item by deleting Provisions 7 and 9.

I am deleting Provision 7, which would require the California Department of Corrections and Rehabilitation (CDCR) to report 2008-09 and 2009-10 overtime expenditures for custody staff. This reporting requirement would result in additional workload without regard to the availability of resources. Consequently, I am vetoing this language. Nevertheless, in recognition of the Legislature's desire to obtain this information, I am instructing the CDCR to comply with the legislative request for this report to the extent that compliance can be achieved using existing resources and without impairing the CDCR's ability to perform its essential functions.

I am deleting Provision 9, which would restrict certain expenditures within the CDCR's budget for specified purposes, require the CDCR to report on the expenditure of these funds, allow for the redirection of funds as specified, and provide that any funds not spent revert to the General Fund. While my Administration is committed to ensuring that funds are spent for the purposes for which they are appropriated, this language is too restrictive for CDCR in 2009-10 as they implement major population reforms and other reductions, including a significant unallocated reduction.

Item 5225-002-0001—For support of the Department of Corrections and Rehabilitation. I revise this item by deleting Provision 6.

I am deleting Provision 6, which would restrict certain expenditures within the California Department of Corrections and Rehabilitation's (CDCR) budget for specified purposes, require the CDCR to report on the expenditure of these funds, allow for the redirection of funds as specified, and provide that any funds not spent revert to the General Fund. While my Administration is committed to ensuring that funds are spent for the purposes for which they are appropriated, this language is too restrictive for CDCR in 2009-10 as they implement major population reforms and other reductions, including significant unallocated reductions.

Item 5225-301-0660—For capital outlay, Department of Corrections and Rehabilitation. I revise this item by deleting Provision 5.

I am deleting Provision 5, which prohibits the Department from making any further encumbrances or expenditures of funding appropriated for the San Quentin State Prison: Condemned Inmate Complex until three specified conditions are met. This project is needed to remedy significant operational deficiencies associated with the existing condemned inmate housing and address issues cited in the *Plata* and *Coleman* lawsuits regarding sufficient health care access and accessibility for aging and disabled inmates. This project is ready to begin construction. Having to delay the construction start to comply with these conditions will cause unnecessary increased costs. In addition, this appropriation provides no increased expenditure authority for those costs. This increases the likelihood that the Public Works Board would be required to augment earlier appropriations as provided for by law. I therefore veto this provision so as to control the expenditures of the state.

Item 6110-001-0001—For support of the Department of Education. I reduce this item from \$38,210,000 to \$37,505,000 by reducing:

(2) 20-Instructional Support from \$158,747,000 to \$158,042,000,

and by deleting Provision 7.

I am reducing this item by \$705,000 to capture the maximum amount of savings from the instructional materials flexibility provided in the Education trailer bill to school districts, which suspends the adoption of instructional materials by the State Board of Education (Board) and the subsequent purchasing requirements for school districts until 2013-14. As a result, it is unnecessary for the Curriculum Development and Supplemental Materials Commission to continue to advise the Board on content frameworks and instructional materials adoptions for the next five years or until an agreed-upon process is reestablished. This reduction removes funding for unnecessary Commission per diem and travel as well as funding for Department staff.

Item 6110-008-0001—For support of Department of Education, as allocated by the Department of Education to the State Special Schools for student transportation allowances. I delete this item.

This item would provide \$3,894,000 Proposition 98 General Fund for student transportation at the State Special Schools. However, the Legislature subsequently provided special education federal funds (Provision 11 of Item 6110-161-0890) for the same purpose with the understanding that this Proposition 98 appropriation is no longer necessary. Therefore, on a technical basis, I delete this item to remove duplicative funding for student transportation at the State Special Schools.

I am also deleting Provisions 1 and 2 to conform to this action.

Item 6600-001-0001—For support of Hastings College of the Law. I am reducing this item from \$9,270,000 to \$8,270,000.

I am reducing this item by an additional \$1,000,000 to achieve General Fund savings. Combined with the 10-percent reduction approved by the Legislature, this unallocated reduction will reduce Hastings' state support to be more in line with the General Fund reductions made to the University of California and the California State University since the 2008-09 Budget was first enacted. Because Hastings has increased its student fees by almost 38 percent since 2007-08, including a 13-percent increase for 2009-10, funding for the instructional program still increases by 5 percent in 2009-10 which should be sufficient in this fiscal climate.

Item 7980-001-0001—For support of California Student Aid Commission. I reduce this item from \$12,623,000 to \$6,323,000 by reducing:

(1) 15-Financial Aid Grants Program from \$13,049,000 to \$6,749,000

I am vetoing \$6,300,000 from the California Student Aid Commission, of which \$4,300,000 is set aside to be restored contingent upon enactment of legislation that authorizes the decentralization of the Cal Grant Program and other financial aid programs as warranted. The \$2,000,000 difference represents savings that would be achieved through efficiencies resulting from the decentralization and other over-budgeting that currently exists.

Under my January proposal, a proposal that was broadly supported by the higher education segments, the Student Aid Commission's intermediary role in approving awards will be largely eliminated. The proposal would establish colleges and universities as the single point of contact for most students' financial aid needs. This change would significantly reduce the Student Aid Commission's General Fund operating costs on an ongoing basis and save money at the postsecondary segments by reducing double-handling of awards between the colleges and the Commission. This action illustrates my commitment to put the students first and to improve the efficiency of state government. I look forward to working with the Legislature on legislation that will better serve our students and the higher education segments.

Item 9100-101-0001—For local assistance, Tax Relief. I reduce this item from \$472,370,000 to \$444,579,000 by reducing:

(5) 60-Subventions for Open Space from \$27,792,000 to \$1,000.

I am reducing this item by \$27,791,000 to suspend funding for this program, which backfills a portion of property taxes foregone when local governments voluntarily enter into contracts with property owners who agree to use their land for agricultural or open space purposes in exchange for a lower property tax assessment. This is necessary to provide a prudent reserve in the General Fund.

Item 9620-001-0001—For payment of interest on General Fund loans, upon order of the Director of Finance, for any General Fund loan. I delete Provision 4.

I have reviewed the Legislature's action on my proposal for deficiency funding in the event that the Controller must implement a payment delay plan to manage emergency cash needs. My proposal would have appropriated any amount necessary to pay the interest expenses, late payment penalties, and other costs incurred by the Controller in implementing such a plan, and it would have accelerated the review and approval process that currently exists for funding such deficiencies.

Provision 4 serves as an appropriation for specific costs incurred by the Controller. The use of this appropriation is contingent upon the occurrence of various actions and events. The legislative action on this appropriation would, in effect, exempt the Controller from obtaining approval from Finance before incurring a deficiency. It might also have the unintended effect of relieving the Controller of the personal responsibility requirements contained in Control Section 32.00. In light of this, I have determined that the provisions of Item 9840-001-0001 are adequate for the review and approval of Controller costs related to a payment delay plan and I hereby veto Provision 4.

Item 9800-001-0001—For Augmentation for Employee Compensation. I reduce this item from \$40,742,000 to \$15,742,000.

I am reducing funding by \$25,000,000 for employee compensation and am instructing my administration to absorb this reduction to build a prudent reserve. To effect this reduction, I am directing the Director of Finance to reduce the amount that would have been allocated to each department for increases in employee compensation costs, including health care. This reduced amount available for allocation to departments will not affect pay or benefits for employees in any way. Employees will receive full pay, and the funding for pay and benefits not available from Item 9800 will be funded by a redirection within existing resources by individual departments. All previously negotiated employee compensation increases, and all employee compensation increases for medical, mental, and dental health positions arising from the *Coleman*, *Plata*, and *Perez* court cases will be unaffected by my action to reduce this appropriation.

Item 9800-001-0494—For Augmentation for Employee Compensation. I reduce this item from \$51,589,000 to \$31,589,000.

I am reducing funding by \$20,000,000 for employee compensation and am instructing my administration to absorb this reduction to build a prudent reserve. To effect this reduction, I am directing the Director of Finance to reduce the amount that would have been allocated to each department for increases in employee compensation costs, including health care. This reduced amount available for allocation to departments will not affect pay or benefits for employees in any way. Employees will receive full pay, and the funding for pay and benefits not available from Item 9800 will be funded by a redirection within existing resources by individual departments. All previously negotiated employee compensation increases, and all employee compensation increases for medical, mental, and dental health positions arising from the *Coleman*, *Plata*, and *Perez* court cases will be unaffected by my action to reduce this appropriation.

Item 9800-001-0988—For Augmentation for Employee Compensation. I reduce this item from \$25,410,000 to \$15,410,000.

I am reducing funding by \$10,000,000 for employee compensation and am instructing my administration to absorb this reduction to build a prudent reserve. To effect this reduction, I

am directing the Director of Finance to reduce the amount that would have been allocated to each department for increases in employee compensation costs, including health care. This reduced amount available for allocation to departments will not affect pay or benefits for employees in any way. Employees will receive full pay, and the funding for pay and benefits not available from Item 9800 will be funded by a redirection within existing resources by individual departments. All previously negotiated employee compensation increases, and all employee compensation increases for medical, mental, and dental health positions arising from the *Coleman*, *Plata*, and *Perez* court cases will be unaffected by my action to reduce this appropriation.

Item 9840-001-0001—Augmentation for Contingencies or Emergencies. I reduce this item from \$44,100,000 to \$20,100,000.

In order to create a reasonable reserve, I am making additional reductions so we have resources to address additional revenue shortfalls. Therefore, I am reducing this item by \$24,000,000 to fund higher competing priorities. I have determined that this reduced level of funding, which is consistent with the amount of unanticipated expenses funded by this Item in the previous fiscal year, is adequate for the purposes of this Item.

SEC. 17.50—I am reducing the item of General Fund appropriation in this section by \$6,160,000 as opposed to approving the item as presented without reduction. Thus, I am increasing the General Fund reduction from \$9,483,000 to \$15,643,000.

The effect of my action reflects a reduction of \$6,160,000 to Special Projects (Program 40) to increase the reserve for economic uncertainties and to reduce the state's structural deficit. This reduction is consistent with my May Revision proposal to eliminate the Linkages Program and Community Based Services Programs. Specifically, I am reducing \$3,879,000 from the Linkages Program and \$2,281,000 from Community Based Services Programs. Funding of these non-mandated programs cannot be continued due to the state's severe budget constraints.

“Sec. 17.50. The amount appropriated in Item 4170-101-0001 of Section 2.00 is hereby reduced by ~~\$9,483,000~~ \$15,643,000.”

SEC. 18.00—I am reducing the item of General Fund appropriation in subdivision (a) of the section by \$60,569,000 as opposed to approving the item as presented without reduction. I am also reducing the item of General Fund appropriation in subdivision (e) of this section by \$25,000,000 as opposed to approving the item as presented without reduction. Thus, I am revising subdivision (e) of this Section by increasing the General Fund reduction from \$4,303,000 to \$29,303,000, and County Administration by \$60,569,000.

The effect of my action reflects a reduction of \$25,000,000 (from \$39,909,000 to \$14,909,000) to Primary and Rural Health (Program 20.35) to increase the reserve and to reduce the state's structural deficit. This reduction is consistent with my May Revision proposal to eliminate General Fund grants for Community Clinic Programs. Many, if not all of these clinics, will continue to receive funding through remaining state programs, federal programs, local programs, and private funds. Increased federal stimulus funds are available to many of these clinics and will help to minimize the overall impact of this reduction.

I am also reducing County Administration by \$60,569,000 (from \$2,893,363,000 to \$2,832,794,000) to increase the reserve and to reduce the state's structural deficit.

“SEC. 18.00. (a) The amount appropriated in Item 4260-101-0001 of Section 2.00 is hereby reduced by ~~\$2,789,402,000~~ \$2,849,971,000.

(b) Schedule (7) of Item 4260-101-0001 of Section 2.00 is hereby deleted.

(c) Provision 13 is added to Item 4260-101-0001 of Section 2.00, to read:

13. It is the intent of the Legislature to actively pursue the receipt of federal funds within the Medicaid (Medi-Cal) Program which are past due from the federal government, including, but not limited to: (a) disability insurance benefits that resulted in state expenditures instead of federal Medicare expenditures, (b) the retroactive payment of Part B premiums due to systemic errors by the federal Social Security Administration, (c) needed adjustments to formulas that penalize California, such as the Medicare Part D “clawback,” and (d) receipt of federal funds due to California under various existing Medi-Cal waiver programs.

(d) Schedule (4) of Item 4260-101-0001 of Section 2.00 is hereby revised to be ~~-\$284,246,000~~.

(e) The amount appropriated in Item 4260-111-0001 of Section 2.00 is hereby reduced by ~~\$4,303,000~~ \$29,303,000.

(f) Provision 3 is added to Item 4260-111-0001 of Section 2.00, to read:

3. The State Department of Health Care Services shall convene a diverse workgroup as applicable that, at a minimum, represents families enrolled in the California Children’s Services (CCS) Program, counties, specialty care providers, children’s hospitals, and medical suppliers to discuss the administrative structure of the CCS Program, including eligibility determination processes, the use and content of needs assessment tools in case management, and the processes used for treatment authorizations. The purpose of this workgroup will be to identify methods for streamlining, administrative cost-efficiencies, and better utilization of both state and county staff, as applicable, in meeting the needs of children and families accessing the CCS Program. The department may provide the policy and fiscal committees of each house of the Legislature with periodic updates of outcomes as appropriate.

(g) Schedule (3) of Item 4260-111-0001 of Section 2.00 is hereby revised to be ~~-\$58,188,000~~.

(h) The amount appropriated in Item 4260-113-0001 of Section 2.00 is hereby reduced by \$47,265,000.”

SEC. 18.10—I am reducing the item of General Fund appropriation in subdivision (c) of this section by \$80,473,000 as opposed to approving the item as presented without reduction. Thus, I am increasing the General Fund reduction from \$62,967,000 to \$143,440,000.

The effect of my action reflects the deletion of various legislative restorations for public health local assistance programs to increase the reserve and to reduce the state’s structural deficit, consistent with my May Revision proposals. When making these difficult reductions to important program services, I have sought to protect the continued delivery of drug therapies to low-income individuals living with HIV and thus retained funding for the AIDS Drug Assistance Program.

Specifically, I am eliminating:

- \$52,133,000 General Fund for various programs administered by the Office of AIDS: Education and Prevention, Therapeutic Monitoring, Counseling and Testing, Early Intervention, Home and Community Based Care, and Housing,
- \$16,337,000 General Fund for the Domestic Violence Program,
- \$9,000,000 General Fund for the Adolescent Family Life Program, and

- \$3,003,000 General Fund for the Black Infant Health Program.

I am deleting subdivision (d) of this section to conform to this action.

“SEC. 18.10. (a) The amount appropriated in Item 4265-001-0001 of Section 2.00 is hereby reduced by \$6,981,000.

(b) Schedule (6) of Item 4265-001-0001 of Section 2.00 is hereby revised to be -\$38,739,000.

(c) The amount appropriated in Item 4265-111-0001 of Section 2.00 is hereby reduced by ~~\$62,967,000~~ \$143,440,000.

~~(d) Provision 2 is added to Item 4265-111-0001 of Section 2.00, to read:~~

~~2. It is the intent of the Legislature that the funds appropriated in this item be used to maintain core active surveillance activities to meet federal reporting requirements and to continue HIV/AIDS prevention and education efforts for which federal funds are not available.~~

(e) Provision 3 is added to Item 4265-111-0001 of Section 2.00, to read:

3. The appropriation in this item for the Alzheimer's Research Centers shall be used for direct services, including, but not limited to, diagnostic screening, case management, disease management, support for caregivers, and related services necessary for positive client outcomes.”

SEC. 18.20—I am reducing the item of General Fund appropriation in subdivision (a) of this section by \$47,050,000 as opposed to approving the item as presented without reduction. I am also reducing the item of General Fund appropriation in subdivision (c) of this section by \$2,950,000 as opposed to approving the item as presented without reduction. Thus, I am increasing the General Fund reduction in Item 4280-101-0001 from \$125,581,000 to \$172,631,000, and in Item 4280-102-0001 from \$3,046,000 to \$5,996,000.

The effect of my action reflects a reduction of \$50,000,000 (from \$275,251,000 to \$225,251,000 in total General Fund program funding) to increase the reserve and to reduce the state's structural deficit. While this is a very difficult reduction, the Healthy Families program is not an entitlement and is a program that can be reduced during this difficult economic period. I hereby direct the Health and Human Services Agency to continue to work with the California Children and Families Commission, with local commissions, foundations, and other interested parties to provide additional resources to supplement General Fund appropriations and provide health care coverage for as many children as possible.

“Section 18.20. (a) The amount appropriated in Item 4280-101-0001 of Section 2.00 is hereby reduced by ~~\$125,581,000~~ \$172,631,000.

(b) Provision 2 is added to 4280-101-0001 of section 2.00, to read:

2. It is the intent of the Legislature, during these unprecedented fiscal times, to maintain the integrity of the Healthy Families Program to continue to provide health, dental, and vision coverage to low-income children. However, assistance from philanthropic organizations and other sources will be necessary in order for California to obtain its full allotment of federal funds to support this program. In the event funds are not available, it is the intent of the Legislature for the Managed Risk Medical Insurance Board to utilize its existing authority to establish a waiting list of children for enrollment in the program.

(c) The amount appropriated in Item 4280-102-0001 of Section 2.0 is hereby reduced by ~~\$3,046,000~~ \$5,996,000.”

SEC. 18.30—I am reducing the item of General Fund appropriation in subdivision (a) of this section by \$50,000,000 as opposed to approving the item as presented without reduction. Thus, I am increasing the reduction in subdivision (a) from \$214,828,000 to \$264,828,000.

I am reducing Regional Center Purchase of Services by \$50,000,000 for services to children up to age five, as these services are due to program growth and thus eligible for funding from the California Children and Families Commission. I am directing the Secretary for the Health and Human Services Agency, the Department of Developmental Services, and the Department of Finance to immediately request funds from the Commission for this purpose. I do not intend to pursue separate legislation changing eligibility or services for these children for purposes of achieving these savings. I urge the Commission to provide supplemental funding for the growth in these services.

“SEC. 18.30. (a) The amount appropriated in Item 4300-101-0001 of Section 2.00 is hereby reduced by ~~\$214,828,000~~ \$264,828,000.
(b) Schedule (4) of Item 4300-101-0001 of Section 2.00 is hereby revised to be ~~-\$1,663,363,000.~~”

SEC. 18.40—I am reducing the item of General Fund appropriation in subdivision (e) of this section by \$4,082,000 as opposed to approving the item as presented without reduction. Thus, I am increasing the General Fund reduction from \$3,547,000 to \$7,629,000. I am vetoing \$4,082,000 to increase the reserve and to reduce the state's structural deficit, consistent with my May Revision proposal to eliminate this program.

The effect of my action reflects a partial veto of the legislative restoration for the Caregiver Resource Centers.

“SEC. 18.40. (a) The amount appropriated in Item 4440-001-0001 of Section 2.00 is hereby reduced by \$8,447,000.
(b) The amount appropriated in Item 4440-103-0001 of Section 2.00 is hereby reduced by \$113,380,000.
(c) The amount appropriated in Item 4440-104-0001 of Section 2.00 is hereby reduced by \$52,000,000.
(d) (1) Provision 1 of Item 4440-104-0001 of Section 2.00 is hereby deleted.
(2) Provision 3 is added to Item 4440-104-0001 of Section 2.00, to read:
3. These funds are for costs incurred in the 2006–07, 2007–08, 2008–09, and 2009–10 fiscal years. The first priority of funds appropriated in this item shall be used to offset the mandate reimbursement claims for the 2006–07 fiscal year. Remaining funds may be used to offset the mandate reimbursement claims for the 2007–08, 2008–09, and 2009–10 fiscal years.
(e) The amount appropriated in Item 4440-111-0001 of Section 2.00 is hereby reduced by ~~\$3,547,000~~ \$7,629,000.”

SEC. 18.50—I am reducing the item of General Fund appropriation in subdivision (d) of this section by \$37,555,000 as opposed to approving the item as presented without reduction. Additionally, I reduce the item of General Fund appropriation in subdivision (f) of this section by \$19,075,000 as opposed to approving the item as presented without reduction. Thus, I am increasing the General Fund reduction from \$1,167,507,000 to \$1,224,137,000.

The effect of my action reflects a reduction of \$37,555,000 to In-Home Supportive Services (IHSS, Program 25.15) to reflect the following reductions:

- \$28,900,000 due to the determination that it is necessary to waive exemptions included in paragraph (2) of subdivision (e) of Section 29 of X4 AB 4 to maintain federal financial participation. Due to this determination, more IHSS recipients will be impacted by the reduction in services authorized in X4 AB 4.
- \$8,655,000 from reducing funding for IHSS Public Authority administration. This leaves \$10,000,000 General Fund available for the Public Authorities to provide assistance to recipients in finding IHSS providers, investigate qualifications of potential IHSS providers, and offer training to IHSS providers.

These reductions total \$37,555,000, which I am reducing from subdivision (d) of this Control Section. I am making these reductions so we have a prudent reserve and resources to address emergencies or additional revenue shortfalls.

My action also reflects a reduction of \$19,075,000 to Title IV-E Waiver (Program 26) to increase the reserve for economic uncertainties and to reduce the state's structural deficit, consistent with my May Revision proposal to achieve an unallocated reduction in the Child Welfare Services Program. I am reducing a total of \$79,956,000 for this purpose: \$19,075,000 from subdivision (f) of this Control Section and \$60,881,000 from Item 5180-151-0001.

"Sec. 18.50. (a) The amount appropriated in Item 5180-001-0001 of Section 2.00 is hereby reduced by \$7,337,000.

(b) Provision 9 of Item 5180-001-0001 of Section 2.00 is hereby deleted.

(c) The amount appropriated in Item 5180-101-0001 of Section 2.00 is hereby reduced by \$500,501,000.

(d) The amount appropriated in Item 5180-111-0001 of Section 2.00 is hereby reduced by ~~\$643,248,000~~ \$680,803,000.

(e) Schedule (5) of Item 5180-111-0001 of Section 2.00 is hereby deleted.

(f) The amount appropriated in Item 5180-153-0001 of Section 2.00 is hereby reduced by ~~\$16,421,000~~ \$35,496,000."

With the above deletions, revisions, and reductions, I hereby approve Assembly Bill 1, Fourth Extraordinary Session.

ARNOLD SCHWARZENEGGER

EXHIBIT F

1933

Voter Information Guide for 1933, Special Election

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Proposed Amendments to Constitution

AND

Propositions

TO BE SUBMITTED TO THE ELECTORS OF THE STATE OF
CALIFORNIA AT THE SPECIAL ELECTION TO BE HELD

Tuesday, June 27, 1933

TOGETHER WITH

Arguments Respecting the Same

TABLE OF CONTENTS Page 2

Compiled by

FRED B. WOOD
Legislative Counsel

And Distributed by

FRANK C. JORDAN
Secretary of State

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3318

TABLE OF CONTENTS

PART I

	Page
INDEX TO ARGUMENTS.....	2
ARGUMENTS, BEGINNING AT.....	3
PART II (Appendix)	
INDEX TO PART II.....	Preceding page 1
TEXT OF MEASURES TO BE VOTED ON, WITH PROPOSED CHANGES, IF ANY, INDICATED THEREIN, BEGINNING AT.....	1
ORDER OF MEASURES ON BALLOT.....	15
SUMMARY OF MEASURES SUBMITTED.....	15
RECAPITULATION OF MEASURES SUBMITTED.....	15
FORM IN WHICH PROPOSED MEASURES WILL APPEAR ON BALLOT.....	16

NOTICE

In setting forth in Part II hereof the text of the proposed Constitutional Amendments, NEW provisions proposed to be ADDED to or INSERTED in the Constitution are printed in BLACK-FACED TYPE; EXISTING provisions of the Constitution proposed to be DELETED or REPEALED are printed in STRIKE-OUT TYPE.

INDEX TO ARGUMENTS

	Ballot No.	Page
ASSESSMENT, OF PROPERTY DAMAGED BY EARTHQUAKE.....	(5)	
BONDS, STATE, FOR REFUNDING IRRIGATION AND RECLAMATION DISTRICTS.....	(6)	8
BONDS, UNEMPLOYMENT RELIEF.....	(2)	4
COUNTY GOVERNMENT.....	(8)	10
DATE, EFFECTIVE, OF 1933 LEGISLATION.....	(7)	10
DIVERSION, GASOLINE TAX FUNDS.....	(9) (10)	11
EARTHQUAKE, PROPERTY DAMAGED BY.....	(5)	7
EDUCATIONAL INSTITUTIONS, EXEMPTION FROM TAXATION.....	(4)	6
GASOLINE TAX FUNDS, DIVERSION OF.....	(9) (10)	11
HORSE RACING.....	(3)	5
IRRIGATION DISTRICTS, REFUNDING OF BONDS.....	(6)	8
LEGISLATION, EFFECTIVE DATE OF 1933.....	(7)	10
LOCAL TAXATION.....	(1)	3
LOS ANGELES COUNTY, ASSESSMENT OF PROPERTY.....	(5)	7
MOTOR VEHICLE FUEL TAX, DIVERSION OF FUNDS.....	(9) (10)	11
OFFICERS, COUNTY.....	(8)	10
ORANGE COUNTY, ASSESSMENT OF PROPERTY.....	(5)	7
PARI MUTUEL WAGERING, REGULATION.....	(3)	5
RECLAMATION DISTRICTS, REFUNDING OF BONDS.....	(6)	8
REFERENDUM, SPECIAL PROVISIONS FOR 1933 LEGISLATION.....	(7)	10
REFUNDING, IRRIGATION AND RECLAMATION DISTRICT BONDS.....	(6)	8
REGULATION OF HORSE RACING.....	(3)	5
RELIEF, BONDS FOR UNEMPLOYMENT.....	(2)	4
SCHOOLS, PRIVATE NONPROFIT, EXEMPT FROM TAXATION.....	(4)	6
STATE TAXATION.....	(1)	3
STATUTES, EFFECTIVE DATE OF.....	(7)	10
TAXATION, ASSESSMENT OF PROPERTY DAMAGED BY EARTHQUAKE.....	(5)	7
TAXATION, EXEMPTING EDUCATIONAL INSTITUTIONS.....	(4)	6
TAXES, GASOLINE, DIVERSION OF.....	(9) (10)	11
TAXATION, GENERALLY.....	(1)	
UNEMPLOYMENT RELIEF BONDS.....	(2)	
WAGERING, HORSE RACING, ON.....	(3)	5

[Two]

PART I

ARGUMENTS

<p>TAXATION. Senate Constitutional Amendment 30. Limits State appropriations. Commencing 1935 requires property of public utility companies assessed by State Board of Equalization and taxed locally for local purposes as other property, taxing their franchises and income for State purposes like business corporations; authorizes</p> <p>1 legislation limiting county ad valorem taxes, allocating State taxes to meet resulting deficiency. Requires local assessments at full cash value. Limits yearly expenditures by local subdivisions until July, 1935, unless time extended by Legislature. Regulates taxation of banks and insurance companies. Empowers Legislature to provide any form of taxation not prohibited by Constitution.</p>	YES	
	NO	

(For full text of measure, see page 1, part II)

Argument in Favor of Senate Constitutional Amendment No. 30

California in common with other States is facing a tax crisis that imperils our economic stability. The ownership of property has become a liability and progress towards recovery is impossible unless this situation is corrected at an early date. Our prosperity has always been dependent upon the ability to interest prospective residents in the ownership of homes and farms and the development thereof.

The entire credit structure of the State is based upon land values. Much of the difficulty that now confronts us is the tremendous amount of frozen assets that can not be liquidated because of the terrific burden of unsound and confiscatory taxation.

Senate Constitutional Amendment Number 30 is a well considered revision of California's revenue system that is submitted to the voters of this State for the purpose of equalizing taxation and affording relief to taxpayers. Effective January 1, 1935, this plan provides for the repeal of the so-called Amendment No. 1 adopted in 1910. This will return \$1,900,000,000 actual value of public utility property to the tax rolls for the support of local government.

The State assumes the county arbitrary matching school cost requirements of \$30 for elementary schools and \$60 for the high schools per pupil in average daily attendance, thereby relieving local taxpayers to the extent of \$37,000,000 annually. This will effect an average reduction of \$.71 in the tax rate on all property taxed locally.

This measure further provides for a limitation upon governmental expenditures during

the next two years, which may be extended by the Legislature, whereby no county, municipality or district can increase its expenditures by more than five per centum over the prior year's budget. The State itself is limited in its general fund expenditures, other than for schools, to five per centum for a two-year period. Not more than twenty-five per centum of the State's local requirements can ever be levied on the property of the people for the support of State Government.

Vote YES on Number One on the ballot and save California's homes and farms from confiscatory taxation.

- RALPH E. SWING,
- WILL R. SHARKEY,
- BERT B. SNYDER,
- JERROLD L. SEAWELL,
- JAMES M. ALLEN,
- E. H. TICKLE,
- A. L. PIEROVICH,
- BRADFORD S. CRITTENDEN,
- J. I. WAGY,
- JOHN B. MCCOLL,
- R. R. INGELS,
- F. L. GORDON,
- JOE RILEY,
- WALTER H. DUVAL,
- HAROLD J. POWERS,
- H. L. PARKMAN,
- W. P. RICH,
- J. M. INMAN,
- LEONARD J. DIFANI,

Members of the California State Senate.

[Three]

UNEMPLOYMENT RELIEF BONDS. Senate Constitutional Amendment		
41. Adds Section 9 to Article XVI of Constitution. Ratifies the	YES	
2 Unemployment Relief Bond Act of 1933, which authorizes the issuance and sale of \$20,000,000 St. bonds to provide a fund for loans to counties and municipalities for unemployment relief.	NO	

(For full text of measure, see page 9, part II)

Argument in Favor of Senate Constitutional Amendment No. 41

The \$20,000,000 which will be raised by this bond issue will be used solely for unemployment relief, and is intended to last until July 1, 1935. The money will be loaned by the State to counties and municipalities administering relief to the unemployed. These loans will have to be returned to the State over a period of ten years, beginning in 1937.

The money will be expended under the supervision of the nonsalaried and nonpolitical State Emergency Relief Commission, the same Commission which administers the Federal funds for unemployment relief in California.

An enabling act has already been passed by the 1933 Legislature, which will go into effect should this bond issue be voted. This enabling act provides that should any county or municipality fail to return the loan, then the State will be authorized to withhold from the county the amount of the loan, in ten (10) equal installments, from the gasoline tax allotment which would ordinarily go to the county; the installments to begin in 1937.

This provision safeguards the State, and permits the county, if it chooses, to have the use of the funds without the imposition of taxes upon local property owners. On the other hand, the State does not have to levy taxes to furnish the money, because of this provision.

The \$20,000,000 in bonds will be sold to the Reconstruction Finance Corporation, as needed, to meet the demands for loans from counties and municipalities. This Federal money will be used to match Federal funds which will be given directly for relief to this State.

The problem of unemployment is national, State and local. Until the latter part of 1932, the counties and municipalities of the State have borne the whole burden of caring for the unemployed. Since then, the Federal Government, through the Reconstruction Finance Corporation, has been advancing funds for unemployment relief to the various counties of the State. The Federal Government has been doing this in the expectation that the State of California, as a State, would join in the program of unemployment relief by appropriating a substantial sum of money to help its political subdivisions care for their destitute unemployed.

It is not assumed that \$20,000,000 will be sufficient to care for all of our unemployed during the next two years; but if this bond issue is voted, the Federal Government will continue to extend financial aid for unemployment relief to California. This bond issue, together with Federal aid, will enable us to furnish assistance to those who are jobless through no fault of their own.

According to the California State Unemployment Commission, there are now in the State of California over 800,000 unemployed. These, together with their dependents, number over 1,800,000 persons. Hundreds of thousands of these people have been reduced to the lowest levels of subsistence, and are compelled to live at the point of starvation, and in constant fear of eviction.

The people of other States, such as New Jersey and Illinois, have approved bond issues for the relief of their destitute unemployed. In addition, the Legislatures of Oklahoma, Rhode Island, Pennsylvania, Wisconsin and Ohio have appropriated funds for unemployment relief.

The law places the burden of caring for indigent persons upon the counties, but the California counties can no longer continue, without assistance from the State, to cope with the widespread distress and destitution caused by unemployment.

It is necessary that we furnish this State aid in order to meet requirements of the National Government, which specify that if we are to continue receiving gifts of Federal money for our destitute, we in California must provide some financial relief on our own part.

VOTE "YES" ON THIS PROPOSITION.

ROY FELLOW,
State Senator, Fourteenth District.

RAY W. HAYS,
State Senator, Thirtieth District.

DAN E. WILLIAMS,
State Senator, Twenty-sixth District.

CHARLES KING,
State Senator, Twenty-seventh District.

[Four]

<p>HORSE RACING. Assembly Constitutional Amendment 119. Adds Section 25a to Article IV. Ratifies Act of present Legislature which creates California Horse Racing Board empowered to regulate and license horse racing, horse race meetings, and wagering on results thereof by pari mutuel method conducted only by licensees within</p> <p>3 race track enclosure on racing days; basing license fees on percentage of wagering pools; classifies counties by population and regulates racing periods therein; allocates portion of net receipts for California State Fair and other fairs and expositions. Legislature apportioning balance biennially to State institutions therein mentioned or for unemployment relief.</p>	YES	
	NO	

(For full text of measure, see page 9, part II)

Argument in Favor of Assembly Constitutional Amendment No. 119

Proposition No. 3 applies only to horse racing. It provides for the regulation and the safeguarding of existing racing and wagering thereon in California so as to assure the State of California an income from racing and to guarantee to the public an honest and correct return on moneys wagered.

This amendment looks the facts in the face. It recognizes the fact, which every thinking citizen knows, that we do have wagering in California.

Adoption of this amendment does not "bring gambling back." The human desire to gamble can not be stamped out by legislation. Centuries of history prove this fact. Those who oppose this measure on moral grounds fail to recognize this fact. Men and women have wagered from time immemorial upon contests of physical strength; races; on wheat and cotton futures; on hope for rises on stock and bond prices and upon prospective increases in land and home values.

Let us regulate that which we know exists and will continue so to do. If this amendment is not adopted the State is throwing aside a million dollars annually, a sum which can be used for the support of many institutions. One hundred thousand dollars will go to keep open the eighty-year-old California State Fair now threatened to be closed for lack of financial support. Funds from racing will go to the support of citrus fruit fairs and expositions, such as the San Bernardino Orange Show, and similar citrus shows, in which Orange, Riverside, Imperial, Ventura, Tulare, Los Angeles and other counties are vitally interested. County, district, or combined district and county fairs, and State institutions of learning for training our youth in agriculture and animal husbandry will profit from racing receipt funds. Relief of unemployment will be aided from the same funds.

The State will receive four per cent on all bets and also substantial sums from the

license fees to be collected. This will amount to more than two million dollars each biennially.

Wagering will be confined to licensed race track enclosures—thus aiding in the elimination of pool rooms and such other undesirable places. Under the pari mutuel system of wagering the pari mutuel machine functions much the same as a cash register plus a mechanical means to record the amount of money wagered and to definitely assure an honest distribution of funds.

This amendment is not the proposal disapproved by the people in 1932. That amendment was loosely drawn, applied even to college track meets, and was disapproved by a majority of those interested in racing and the restoration of racing to its former high position in California. Legislation contemplated under the authority, which would be granted if the voters approve proposition No. 3 will provide strict supervision of both racing and wagering under a California Horse Racing Board appointed by the Governor.

Regulated racing will place the sport on a high plane. It will attract tourists to California, bring employment to thousands and prove a boon to the thoroughbred breeding industry.

Approval of this measure will keep in California large sums of money that is now spent in Mexico.

A "no" vote on this amendment will neither stop nor prevent betting or racing. It will allow both to continue unregulated and uncontrolled while the State is deprived of a just and needed revenue and the taxpayers are deprived of tax relief for which they are crying.

A "YES" vote will bring millions of dollars to the farmers for the purchase of hay and grain; and will save the State Fair and other similar expositions. It will substitute truth for hypocrisy.

THOMAS A. MALONEY,
 Assemblyman, Twentieth District.
 CLARE WOOLWINE,
 Assemblyman, Forty-fourth District.

[Five]

Argument Against Assembly Constitutional Amendment No. 119

Twice within recent years measures similar to this have been on the ballot and have been decisively defeated.

Only last November 50 of our 58 counties in the State of California voted "No" on the proposition and defeated it by a majority of 52,000.

Substantially, the same arguments were used by the proponents of the measure as are used at this time. It was urged then that the measure would bring increased revenue to the State, that it would lower the rate of taxation, that it would relieve the burden of our taxpayers, bring employment, benefit stock raisers, fruit growers and the war veterans of the State.

The people noted the argument, tore away the camouflage, saw that the primary purpose of the measure was not to encourage agriculture, or to stimulate interest in horse-breeding, or to promote the permanent prosperity of the people in the hour of their dire distress. They discerned that the paramount purpose of such claims was to lend respectability to the outlaw business of race-track gambling, a vicious influence wholly detrimental to the common good. They realized that the efforts of the promoters were directed to the legalization of a sordid vice, the linking up of the State with illicit gambling enterprises for financial return and voted down the measure with a telling vote.

The purpose of the promoters is the same today. But no matter whether the form of betting be "pari mutuel" or some other form, the people will not be led into "a partnership with gamblers." They are convinced that if

any benefits might be derived from the legalization of race-track gambling they would be far outweighed by the baneful moral and economic results and will vote accordingly.

If ever there was a time when people should be encouraged to think soberly and to live economically, it is now. They need their money to spend with their local merchants for the benefit of their families.

Open race-track gambling lures the unsuspecting, tempts the occasional gambler, offers to the confirmed gambler the immediate opportunity for loss of his money, and brings in its train embezzlement, defalcations, imprisonment, wrecked homes, and demoralized communities.

The percentage of profit in this plan of gambling is fixedly in favor of the promoter, who can not lose. Therefore the uniform opinion of business men is that when the young man begins to succumb to the allurements of gambling the time for his dismissal is at hand for his end is certain.

Mr. Harry Chandler, Editor of the *Los Angeles Times*, has written in *The Christian Science Monitor*: "I can not understand how any intelligent business man can fail to see that no permanent economic prosperity can come as the result of a condition which is itself unmoral such as horse racing and gambling."

The *Los Angeles Examiner* states "Tia Juana is the meeting place and hideout of thieves, gamblers, race track touts, dope gangsters and violators of women."

This is *not* what we desire in Califor

Vote "No."

ELEANOR MILLER,
Member of the Assembly, Forty-seventh District.

EXEMPTING EDUCATIONAL INSTITUTIONS FROM TAXATION.			
4	<p>Assembly Constitutional Amendment 47. Amends Section 1a of Article XIII. Exempts from taxation the buildings and equipment of any educational institution not conducted for profit, and its securities and income used exclusively for educational purposes; if such institution be of collegiate grade, also exempts its grounds within which its buildings are located, not exceeding one hundred acres in area. If such institution be a private institution of less than collegiate grade, the exemption of such grounds is limited to ten acres.</p>	YES	
		NO	

(For full text of measure, see page 10, part II)

Argument in Favor of Assembly Constitutional Amendment No. 47

This is a tax economy measure which will save the taxpayers of California approximately thirty-two million dollars next year and from ten to twelve millions each year thereafter. Because of the financial depression which they did not create some six hundred private non-profit schools owned by fraternal societies and church bodies of various denominations are now

struggling for their very existence. If they are compelled to close their doors the cost of educating over one hundred thousand children now being educated at no expense to the taxpayers, will be thrown upon the State. This means the immediate expenditure of twenty million dollars to build schools to accommodate these children.

In addition to this, it means the expenditure of from twelve to thirteen million dollars each year thereafter. At the outset it is impossible that we distinguish between what this mea

[Six]

proposes to *do* and what it does *not* propose to do. It does not propose to relieve from taxation any private school which is conducted for profit.

The abstract justice of the proposal and its sound governmental philosophy have been recognized in every State in the Union except California. No other State taxes private nonprofit schools. The supporters of measure number 4 propose to bring California into line with the just, wise, and economical policy of the rest of the country. If the government incurs no expense in connection with a necessary service where that service is being rendered by a private agency, without cost to government, it certainly can not justly impose a tax upon such free service.

After giving this tax problem most diligent study, the California Assembly passed the measure by a unanimous vote. The total taxes

received from these schools is less than three hundred seventy-five thousand dollars. Compare this revenue with a saving of approximately thirty-two million next year and twelve to thirteen each year thereafter and the wisdom of the proposed measure becomes apparent at once.

In the interest of fair play, of sound tax economy for the overburdened taxpayers, let us not penalize those who at their own expense are doing the work which otherwise would be a burden upon the taxpayers of this State.

We therefore, ask you to

VOTE "YES" ON NUMBER 4.

CHARLES W. DEMPSTER,
Assemblyman, Sixty-first District.

FRANK G. MARTIN,
Assemblyman, Forty-eighth District.

<p>ASSESSING PROPERTY DAMAGED BY EARTHQUAKE IN LOS ANGELES AND ORANGE COUNTIES. Assembly Constitutional Amendment 101. Adds Section 8a to Article XIII. Requires assessors</p> <p>5 of Los Angeles and Orange Counties to assess real and personal property damaged or destroyed by earthquakes of March 10, 1933, and hereafter and prior to first Monday of July, 1933, according to condition and value after damage or destruction rather than according to condition and value on first Monday of March, of said year.</p>	YES
	NO

(For full text of measure, see page 11, part II)

Argument in Favor of Assembly Constitutional Amendment No. 101

The purpose of this amendment is to minimize the hardship resulting from the earthquake of March 10, 1933, and subsequent earthquakes occurring prior to the first Monday of July, 1933, which resulted in widespread destruction and damage of property throughout the counties of Los Angeles and Orange. The amendment applies only to said counties and provides that the owners of property injured or destroyed by such earthquake or earthquakes may make a statement of their property according to its value subsequent to said earthquakes and not according to its value as of the first Monday of March. Normally, property is assessed according to its value on the first Monday of March. Under this rule, the multitudes of people in the stricken area would be required to pay taxes upon a valuation which was destroyed four days later. The fact that the value existed and was owned by the property owner on the 6th of March should not, according to any reason of equity or fairness, require payment of taxes upon such value when the value was destroyed four days later and such property did not receive the benefits of government according to its original value but according to its depre-

ciated balance for the entire balance of the year. The amendment is limited to specific situation and event, and as to the two named counties alone, and can result in no general unsettlement of assessed valuation, or even as to the counties in question for any subsequent year. It is pointed towards the remedy of a hardship existing in the current year and can not affect other counties or subsequent years.

This amendment will not change any existing section of the Constitution but will simply add a new section applicable to this particular case.

VOTE YES ON PROPOSITION NUMBER 5.

HARRY B. RILEY,
Assemblyman, Seventy-first District.

JAMES B. UTT,
Assemblyman, Seventy-fourth District.

Argument Against Assembly Constitutional Amendment No. 101

This legislation is prompted by a wave of sympathy. Sympathy may be a proper stimulus to legislation but never a proper reason for it unless such sympathy be broad enough to

[Seven]

include all who suffer similarly from similar cause. If legislation is good that applies to property damage caused by earthquake in the counties of Los Angeles and Orange between March 10th and July 1st, of 1933, it should apply with equal propriety to situations where damage comes by reason of causes other than earthquake; should apply to areas of the State outside of Los Angeles and Orange counties, and for dates other than those specified in this measure.

There can be no criticism of the purpose of this measure. It is open, however, to criticism because of a lack of proper vision of the tax problem, its method and probable effect. It seeks to remedy a particular situation by the same process that has brought about an intolerable situation, namely: the overburdening of common property with taxation to the point of confiscation. It is in effect a tax exemption measure. Exemptions have in the last many years constituted the major changes in our tax system. In every case unexempted property takes on the burden lifted from exempted property. The Tax Research Bureau finds that from twenty to twenty-five per cent of the common property of the State is now exempted. Three-fourths of the common property of the State now pays three-fourths of the total tax while producing only one-fourth of the total income. Tax exemption is never merely tax exemption. It always produces increased tax-

tion somewhere and really amounts to a tax levy. It seeks to correct an injustice by the imposition of injustice.

The proponents of this measure did not think clear through their problem and provide for an equitable distribution of the tax they seek to lift from those who suffered damage by earthquake. Unfortunately we all find difficulty in taking our eyes off of common property as the main source of taxes in a period of changed economic conditions wherein such a theory is no longer tenable.

It will be argued that the Riley Plan will remedy the overtaxing of common property. This plan sets a limit to the amount of taxes that may be raised from real estate but, so long as we regard common property as the "back log" of our tax system, this limit will be, in effect, a minimum that must be raised from common property and any exemption of any sort would result in an increase in the percentage charged to common property which is arbitrarily, and without rhyme or reason, charged with one-half of the total tax.

The overburdening of real property by taxes has had a lot of verbal recognition but we go right along on the theory that is responsible for the thing we have in recent months complained so loudly about.

S. E. ROBINSON,

Assemblyman, Seventy-seventh District.

STATE BONDS FOR REFINANCING IRRIGATION AND RECLAMATION DISTRICTS. Assembly Constitutional Amendment 16. Ratifies District Finance Act of 1933. Authorizes \$55,000,000 State bonds to

6

refinance irrigation and reclamation districts by purchasing and canceling their outstanding bonds when recommended by California Districts Securities Commission, State receiving therefor districts' refunding bonds coinciding as nearly as practicable in maturity dates and amounts with State bonds issued; permits State to resell refunding bonds; prohibits district issuing additional bonds without Commission's consent while refunding bonds outstanding; empowers Commission to levy district assessments to pay refunding bonds should district not levy same.

YES	
NO	

(For full text of measure, see page 11, part II)

Argument in Favor of Assembly Constitutional Amendment No. 16

Assembly Constitutional Amendment Number 16 is the first comprehensive attempt to reduce the bonded indebtedness of the State of California and give to the taxpayers the benefit of the present depressed price of bonds. It will be accomplished without the ultimate expenditure by the State of California of a single dollar.

It ratifies the District Finance Act of 1933, which in turn sets up the following procedure: The taxpaying public has felt the full effect of over-capitalized projects in the last few years

and it has become evident that it is impossible to pay in full these obligations. This fact is appreciated by the bondholder as well as the taxpayer. Irrigation and reclamation district bonds have been selling as low as a few cents on a dollar, yet a potential lien of 100 cents, plus high rates of interest for the maturity period of bonds has crushed any hope of rehabilitating these districts, and as a result the producing areas of the State of California are jeopardized and all interests are joining in this attempt to prevent a complete collapse of agricultural California.

[Eight]

The importance to the State of California of having the areas embraced within the existing irrigation and reclamation districts will be appreciated when it is understood that approximately 80 per cent of California agriculture lies within the boundaries of these districts and approximately 700,000 people reside therein, not to mention those living in adjacent cities which are directly dependent upon these areas.

There are \$135,000,000 outstanding bonds in these irrigation and reclamation districts. They can be purchased for not over \$55,000,000 and it is provided, upon the voting of the \$55,000,000 bond issue, that the outstanding bonds of any district, upon the request of that district, shall be appraised by the District Securities Commission of California. This Commission consists, at the present time, of Attorney General U. S. Webb, State Engineer Edward Hyatt, State Superintendent of Banks Edward Rainey, Mr. Bert Vogel of Fresno, and Mr. George Dowd of Imperial County.

Upon the appraisal of the value of the bonds by this Commission, notice is given that the State will pay the appraised price only if substantially all of the bondholders agree to take it. This will prevent any bondholder securing more than the other. If substantially all of the bondholders agree to accept the appraised price, the given district is notified of this fact and then that district has the opportunity of ratifying the program by voting refunding bonds payable to the State of California and bearing $\frac{1}{4}$ per cent more interest than the State bonds; thereby giving to the State of California ample money to administer this act without expense to the State.

When the district votes the refunding bonds the old irrigation district bonds are retired by the proceeds from the State bonds, and the State of California takes the refunding bonds as security for the State bonds. In other words, as security for the payment of the \$55,000,000 the State of California will have the security now behind the \$135,000,000 of bonds, and obviously, under such a set of circumstances will be adequately protected.

It is a self-evident fact that prosperity in California can not return, nor can our State be put upon a sound basis until agriculture is revived and there can be no question but that this program will accomplish this and accordingly provide employment for thousands.

J. E. THORP,
Assemblyman, Twelfth Assembly District.

C. RAY ROBINSON,
Assemblyman, Thirty-third Assembly District.

Argument Against Assembly Constitutional Amendment No. 16

The people of California are asked in this constitutional amendment to establish a new

principle in public finance and to assume the financial responsibility for the irrigation districts of the State. This amendment is the forerunner of Assembly Bill No. 241 which permits the issuance of fifty-five millions of dollars in bonds. These bonds are to be used to refinance and refund the defaulted irrigation districts.

It is true that many irrigation districts are bankrupt and that great hardship has fallen upon both landholders and bondholders, but to establish the principle that all the people shall pledge their property and earnings to refinance these districts is indeed a serious step.

Some of these districts are the result of exploitation and supersalesmanship. They lack the fundamental essentials of a successful project in their conception. Have we, the people, any reason to believe that to refinance these districts even upon a more favorable interest rate will reestablish them as going concerns? If they are not reestablished as such, the obligation re-created by the refinance program runs against all the people, not alone against the property of the district.

Assembly Bill No. 241, page 5, line 11, provides that the bonds so issued, indorsed and sealed when sold shall constitute a valid and binding obligation upon the State. The logic of this amendment carries us to a point where other thousands of property owners suffering under the tremendous burden of special assessments may likewise ask and expect of the people that they, too, shall share in the bounty of state-wide credit.

Assembly Bill No. 241 on page 7 allows with the consent of the refunding commission the district to issue additional bonds over and above the refunding bonds. A contingency thus is presented that may destroy what value exists in the district and impair the bonds issued under the refunding act.

Shall the people of California thus pledge their credit, impair the borrowing power of every city, of every publicly owned utility, and every municipal project to relieve a situation that is a result of exploitation and supersalesmanship?

1. It asks you to pledge your property and your earnings to refinance a specific industry and project.

2. It establishes California as a partner in each defaulted irrigation district.

3. It establishes the principle of State's responsibility of shouldering individual debts.

4. It impairs the credit of the State and restricts that credit in such fashion that essential governmental functions may be curtailed.

5. It is unsound public finance for it is the duty of government to carry out the functions of government and not to enter the field of private finance.

FRANK W. WRIGHT,
Assemblyman Fiftieth District.

[Nine]

DECLARING EFFECTIVE DATES OF ACTS OF LEGISLATURE.	
Assembly Constitutional Amendment 108. Adds Section 1a to Article IV. Declares all acts passed by Legislature at fiftieth (present) regular session on or before July 16, 1933, effective ninety days after	YES
7 Declares all such acts not effective immediately subject to referendum, requiring referendum petitions be presented to Secretary of State within ninety days after May 22, 1933. Constitutional provisions not conflicting herewith made applicable to all acts of said regular session of Legislature.	NO

(For full text of measure, see page 12, part II)

Argument in Favor of Assembly Constitutional Amendment No. 108

Assembly Constitutional Amendment Number 108 is made necessary by the fact that the Legislature recessed instead of adjourned. It was necessary for the Legislature to recess rather than adjourn so that matters passed on at the special election might be considered upon reconvening. The Constitution provides that all statutes shall become effective ninety days after final adjournment, and this amendment changes this provision to meet the present emergency and provides that they shall become effective ninety days after May 22.

The Legislative Session, reflecting the emergency of the times, passed many measures cal-

culated to bring immediate relief to our stricken people, in many instances bringing direct savings to our distressed taxpayers amounting to millions of dollars, preservation of our homes and employment for thousands. This legislation was an attempt to remedy pressing and immediate needs and its enactment into law at the earliest possible moment becomes day by day of more paramount importance, and for this reason your favorable consideration is respectfully requested.

CLIFFORD C. ANGLIM,
Assemblyman, Tenth Assembly District.

C. RAY ROBINSON,
Assemblyman, Thirty-third District.

COUNTY GOVERNMENT. Senate Constitutional Amendment 16. Repeals Sections 4 and 9, amends Section 5, Article XI. Requires Legislature to regulate compensation of supervisors, district attorneys and auditors; supervisors to regulate compensation of other officers in county (except Municipal Court judges), and number, appointment, terms and compensation of deputies and employees. Prohibits increase of compensation or extension of term after election or during term. Permits allowance of additional deputies or increase in their compensation. Validates Political Code Section 4056d, enacted by present Legislature, relating to supervisors' powers and duties as to county and township officers, deputies and employees.	YES
8	NO

(For full text of measure, see page 13, part II)

Argument in Favor of Senate Constitutional Amendment No. 16.

This is a county home rule measure, giving the county board of supervisors power over the compensation of all county and township officers other than of themselves and of district attorneys and auditors. It also gives the board complete authority over the number, method of appointment, terms of office and employment,

and compensation of all deputies, assistants, and employees.

The taking of these powers from the State Legislature, which as a matter of fact passes so-called "county government bills" almost entirely on the recommendations of the local grand juries and boards of supervisors, and the placing of the responsibility on the supervisors, will bring the matter closer home, and will make possible adjustments of salaries and

[Ten]

personnel in accordance with local desires, and without the delay now necessary to present the subject to the Legislature. The effect is to bring flexibility, efficiency and economy in county government.

Increases in the compensation of officers are prohibited after election and during the term of office, but decreases may be made at any time, as at present. Deputies' and assistants' salaries may be decreased or increased at will by the supervisors. This assures responsible home rule.

The act which is validated by this constitutional amendment carries out its purposes, and

provides that present State laws fixing salaries shall be effective solely as local ordinances, and may be superseded by ordinance hereafter adopted, subject to the regular initiative and referendum powers of the people.

A vote yes will be a vote for home rule and economy and efficiency.

J. I. WAGY,
ANDREW R. SCHOTTKY,
HARRY A. PHERRY,
BEN HULSE.

Members of the California State Senate.

DIVERTING GASOLINE TAX FUNDS FOR BIENNIUM ENDING JUNE 30, 1933. Question submitted to electors by Legislature as follows:		YES	
9	1. Shall the Legislature divert \$8,779,750 from the gasoline tax funds to the general fund for payment of bond interest and redemption on outstanding highway bonds for the biennium ending June 30, 1933?	NO	
DIVERTING GASOLINE TAX FUNDS FOR BIENNIUM ENDING JUNE 30, 1935. Question submitted to electors by Legislature as follows:		YES	
10	2. Shall the Legislature divert \$8,449,326 from the gasoline tax funds to the general fund for payment of bond interest and redemption on outstanding highway bonds for the biennium ending June 30, 1935?	NO	

Argument in Favor of Propositions 9 and 10

The People of California in 1909, 1915, and 1919 voted three highway bond issues totaling \$73,000,000. In spite of the oft-repeated assertions that our present highway system was built by the proceeds of the gas tax the fact is that all of these seventy-three millions went into the construction of our present highway system and that this bond money was still being spent for highway construction in the year 1927—four years after the adoption of the gas tax system. The motorists at the present time, therefore, are getting the benefit of the proceeds of these State highway bonds expended both before and after the adoption of the present gasoline tax in 1923.

Although the avowed purpose of the gas tax was to provide for all highway expenditures, both principal and interest of these highway bonds have been and are being paid out of the general fund of the State, and not from gas tax revenues. To and including June 30, 1933, the general fund of the State has con-

tributed \$59,885,881.17 towards the payment of these highways bonds. The amount of these highway bonds still outstanding totals \$55,850,000 and unless these bonds are paid from highway fund sources, a total of \$95,804,713 must be raised from general fund sources in the course of the next thirty-one years to retire these bonds.

It is only logical that these highway bonds which provide part, at least, of the money to build our present highway system should be paid for by the motorists and truckmen who are making use of the highway system rather than by the taxpayers of the State generally.

The State faces an admitted deficit for the next biennium of approximately \$50,000,000 and no one knows for certain just how this deficit will be met. It must however, be met by some means or the result will be State bankruptcy and a collapse of necessary governmental functions. Surely under these circumstances it is only fair, both as a matter of principle and expediency, that the interest and redemption of State highway bonds for the four years—1931

[Eleven]

to 1935—amounting to approximately \$17,000,000 should be paid from gas tax revenues and the general fund deficit reduced by that amount.

DAVID F. BUSH,
State Senator, Twenty-second District.
BRADFORD S. CRITTENDEN,
State Senator, Twentieth District.
WILLIAM E. HARPER,
State Senator, Fortieth District.
EDWARD H. TICKLE,
State Senator, Twenty-fifth District.
ANDREW R. SCHOTTKY,
State Senator, Twenty-fourth District.
HARRY A. PERRY,
State Senator, Third District.
WALTER H. DUVAL,
State Senator, Thirty-third District.

Argument Against Propositions 9 and 10

This proposal to divert gas tax money to other than the purposes for which it was intended by the people is the opening attack to divert this fund for general fund needs now and for all future time. It is a raid pure and simple upon easily collected funds—easily collected because those paying have done so willingly with the realization of the benefits that accrue from such form of special tax.

Already the owner of a motor vehicle pays more in this State in taxes than any other class of taxpayer. Besides various Federal excise taxes upon gasoline, oils and lubricating greases, the motorist pays taxes ranging from local license fees for commercial vehicles to the annual State registration fees for all motor vehicles. He is also required to pay the personal property tax on his automobile, which revenue is used for the support of local government. In addition to these other taxes the motor vehicle owner of California pays a gasoline tax amounting to a special sales tax of 20 per cent, which revenue is at the present time devoted solely to street and highway maintenance and construction.

Diversion of the \$17,229,076 of special gas tax funds to the general fund means double taxation to the motorist.

The former highway bonds, redemption of which is sought by these diversions, are no different than any other State bonds, whether for buildings, for harbor improvements, or for any public work. They were all contracted for on the distinct understanding that they would be retired out of the general fund of the State. They are definite obligations against the revenues of the general fund.

When the gasoline tax was voted, the electorate of the State sanctioned the "pay-as-you-go-plan" of highway construction. This meant that thereafter those who used the highways would pay for them. The roads built under the original bond issue have long since disintegrated and have had to be rebuilt by the gas tax on the "pay-as-you-go-plan."

[Twelve]

It has been argued that 32 states in the Union already have diverted gas tax money for general purposes because of the prevailing economic stress.

This argument contains but a half truth inasmuch as taxes collected upon gasoline in most of those states is assessed upon all gasoline used, without farm, industrial, marine or other exemption as is allowed in California.

Diversion of \$17,229,076 for relief of the general fund will throw out of employment 10,630 men for a year and add general distress to the State of California.

Ninety-one cents of every dollar paid for highway construction work goes directly into the pockets of labor.

Proponents of diversion of gas tax money would have the citizens of this State believe that failure on their part to authorize such diversion will result in an ad valorem tax. This is not the case. The people have before them at this coming special election a new tax system upon which they are requested to vote. In addition, the Legislature will reconvene in July, and, with the mandate of the people before them, set up a tax system which, keen financial minds are convinced, will not call for an ad valorem tax.

To lose \$17,000,000 means bringing highway construction and maintenance of the State to halt, crippling of commerce and manufacture, and throwing thousands of citizens upon public charity, already burdened to a breaking point. And so we cite to you that the present is no time to cut down on construction of public works. Under these trying conditions of depression, with more than 800,000 unemployed in California and with more than a million and a half destitute and being supported by charitable organizations, the stimulation of public works ought to be encouraged. The National Government has declared itself for public construction on an enlarged scale to combat unemployment and destitution.

Why continue the depression?

We ask you to vote "No" on propositions "9" and "10," and in that way safeguard the gasoline tax fund for the purpose for which it was originally authorized.

ROY FELLOW,
State Senator, Fourteenth District.
ARTHUR H. BREED,
President pro tempore of the Senate.
BEN HULSE,
State Senator, Thirty-ninth District.
THOMAS McCORMACK,
State Senator, Fifteenth District.
JOHN B. McCOLL,
State Senator, Fifth District.
J. M. INMAN,
State Senator, Nineteenth District.
J. I. WAGY,
State Senator, Thirty-fourth District.

PART II
APPENDIX

INDEX TO APPENDIX

	Ballot No.	Page
ASSESSMENT, OF PROPERTY DAMAGED BY EARTHQUAKE.....	(5)	11
BONDS, STATE, FOR REFUNDING IRRIGATION AND RECLAMATION DISTRICTS	(6)	11
BONDS, UNEMPLOYMENT RELIEF.....	(2)	9
COUNTY GOVERNMENT.....	(8)	13
DATE, EFFECTIVE, OF 1933 LEGISLATION.....	(7)	12
DIVERSION, GASOLINE TAX FUNDS.....	(9) (10)	14
EARTHQUAKE, PROPERTY DAMAGED BY.....	(5)	11
EDUCATIONAL INSTITUTIONS, EXEMPTION FROM TAXATION.....	(4)	10
GASOLINE TAX FUNDS, DIVERSION OF.....	(9) (10)	14
HORSE RACING.....	(3)	9
IRRIGATION DISTRICTS, REFUNDING OF BONDS.....	(6)	11
LEGISLATION, EFFECTIVE DATE OF 1933.....	(7)	12
LOCAL TAXATION.....	(1)	1
LOS ANGELES COUNTY, ASSESSMENT OF PROPERTY.....	(5)	11
MOTOR VEHICLE FUEL TAX, DIVERSION OF FUNDS.....	(9) (10)	14
OFFICERS, COUNTY.....	(8)	13
ORANGE COUNTY, ASSESSMENT OF PROPERTY.....	(5)	
PARI MUTUEL WAGERING, REGULATION.....	(3)	9
RECLAMATION DISTRICTS, REFUNDING OF BONDS.....	(6)	11
REFERENDUM, SPECIAL PROVISIONS FOR 1933 LEGISLATION.....	(7)	12
REFUNDING, IRRIGATION AND RECLAMATION DISTRICT BONDS.....	(6)	11
REGULATION OF HORSE RACING.....	(3)	9
RELIEF, BONDS FOR UNEMPLOYMENT.....	(2)	9
SCHOOLS, PRIVATE NONPROFIT, EXEMPT FROM TAXATION.....	(4)	10
STATE TAXATION.....	(1)	1
STATUTES, EFFECTIVE DATE OF.....	(7)	12
TAXATION, ASSESSMENT OF PROPERTY DAMAGED BY EARTHQUAKE.....	(5)	11
TAXATION, EXEMPTING EDUCATIONAL INSTITUTIONS.....	(4)	10
TAXES, GASOLINE, DIVERSION OF.....	(9) (10)	14
TAXATION, GENERALLY.....	(1)	1
UNEMPLOYMENT RELIEF BONDS.....	(2)	9
WAGERING, HORSE RACING, ON.....	(3)	9

TAXATION. Senate Constitutional Amendment 30. Limits State appropriations. Commencing 1935 requires property of public utility companies assessed by State Board of Equalization and taxed locally for local purposes as other property, taxing their franchises and income for State purposes like business corporations; authorizes legislation limiting county ad valorem taxes, allocating State taxes to meet resulting deficiency. Requires local assessments at full cash value. Limits yearly expenditures by local subdivisions until July, 1935, unless time extended by Legislature. Regulates taxation of banks and insurance companies. Empowers Legislature to provide any form of taxation not prohibited by Constitution.

YES

NO

Senate Constitutional Amendment No. 30—A resolution to propose to the people of the State of California, an amendment to the Constitution of the State by adding a new section to be numbered 34a to Article IV, by amending section 12 of Article XI, by adding a new section to be numbered 20 to Article XI, by amending sections 14, 15 and 16, by adding three new sections to be numbered 14½, 15½ and 16½, and by repealing sections 12½ and 18 of Article XIII, relating to taxation.

Resolved by the Senate, the Assembly concurring, That the Legislature of the State of California, at its fiftieth regular session, commencing on the second day of January, 1933, two-thirds of all the members elected to each of the houses thereof voting in favor hereof, hereby proposes to the people of the State of California that the Constitution of said State be amended as follows:

(This proposed amendment expressly amends and repeals existing sections of and adds new sections to the Constitution; therefore EXISTING PROVISIONS proposed to be DELETED are printed in STRIKE-OUT TYPE; and NEW PROVISIONS proposed to be INSERTED are printed in BLACK-FACED TYPE.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

First—That a new section to be numbered 34a, be added to Article IV, to read as follows:

Sec. 34a. Appropriations from the general fund of the State for any biennium, exclusive of appropriations for the support of the public school system, shall not exceed by more than five per centum the appropriations from such fund, exclusive of such public school appropriations, for the preceding biennium unless two-thirds of all the members elected to each house of the Legislature vote in favor thereof; provided, that no amount appropriated in excess of such five per centum shall become a part of the base for determining the maximum appropriation for a succeeding biennium. Should the appro-

priations in the budget act for any biennium exceed the limitations herein prescribed, and such budget act be not passed by such two-thirds vote, the several items of appropriation therein shall be deemed reduced by that percentage which the excess amount of appropriation bears to the total appropriation. Should the prescribed limit for any biennium be exceeded by reason of any other appropriation or appropriations from the general fund, then the appropriation first passed by the Legislature without such two-thirds vote, which exceeds such prescribed limitation, shall be deemed reduced by the amount of such excess, and all other subsequent appropriations from the general fund not passed by such two-thirds vote shall be void. Nothing herein contained shall prevent the Governor from vetoing any bills or reducing any appropriation therein or any appropriation reduced as herein provided.

Not more than twenty-five per cent of the total appropriations from all funds of the State shall be raised by means of taxes on real and personal property according to the value thereof.

Second—That section 12 of Article XI be amended to read as follows:

Sec. 12. Except as otherwise provided in this Constitution, the Legislature shall have no power to impose taxes upon counties, cities, towns or other public or municipal corporations, or upon the inhabitants or property thereof, for county, city, town, or other municipal purposes, but may, by general laws, vest in the corporate authorities thereof the power to assess and collect taxes for such purposes.

All property subject to taxation shall be assessed for taxation at its full cash value.

Third—That a new section, to be numbered 20, be added to Article XI, to read as follows:

Sec. 20. The expenditures, other than expenditures to pay interest and redemption charges on bonds heretofore or hereafter issued, of any county, city and county, municipality, district or other political subdivision of this State, whether or not operating under freeholders charters, shall not in any year

[One]

exceed by more than five per centum the expenditures, other than expenditures to pay interest and redemption charges on bonds heretofore or hereafter issued, of such county, city and county, municipality, district or other political subdivision for the preceding year unless previously authorized by two-thirds vote of the qualified electors of any such county, city and county, district or other political subdivision, or by a majority vote of the electors of any such municipality voting at an election held for that purpose or unless previously authorized by the State Board of Equalization in such manner as may be provided by law; provided that no amount expended in excess of such five per centum shall become a part of the base for determining the maximum expenditure for a succeeding year; provided further, however, that any county, city and county, municipality, district, or other political subdivision of this State that decreases the amount of its expenditures in any year or years may increase, in any subsequent year or years, the amount of its expenditures by the amount, or any fraction thereof, so reduced, or by an amount not more than five per centum of the amount expended in the year immediately preceding. The limitations imposed in this paragraph shall be effective until June 30, 1935, but the Legislature may impose thereafter the same limitations for such period or periods as it may determine; provided, however, that the limitation upon expenditures imposed or authorized by this section shall not apply to expenditures by or on behalf of publicly owned public utilities, including publicly owned facilities operated for the promotion and accommodation of commerce and navigation, irrigation districts, county water districts reclamation districts, municipal utility districts or metropolitan water districts organized or existing under the laws of this State or to expenditures arising out of any gift, bequest or donation.

On and after January 1, 1935, the Legislature shall have power, by two-thirds vote of all the members elected to each of the two houses, to limit the amount of taxes which may be imposed upon real and personal property according to the value thereof for county or city and county purposes.

The Legislature shall pass all laws necessary to carry into effect the provisions of this section,

Fourth—That section 14 of Article XIII be amended to read as follows:

Sec. 14. Taxes levied, assessed and collected as hereinafter provided upon railroads, including street railways, whether operated in one or more counties; sleeping car, dining car, drawing-room car and palace car companies; refrigerator, oil, stock, fruit, and other car-loading and other car companies operating upon railroads in this State; companies doing express business on any railroad, steamboat, vessel or stage line in this State; telegraph companies; telephone companies;

[Two]

companies engaged in the transmission or sale of gas or electricity; insurance companies; banks, banking associations; savings and loan societies; and trust companies; and taxes upon all franchises of every kind and nature, shall be entirely and exclusively for State purposes, and shall be levied, assessed and collected in the manner hereinafter provided. The word "companies" as used in this section shall include persons, partnerships, joint stock associations, companies, and corporations.

(a) All railroad companies, including street railways, whether operated in one or more counties; all sleeping car, dining car, drawing-room car, and palace car companies; all refrigerator, oil, stock, fruit and other car-loading and other car companies, operating upon the railroads in this State; all companies doing express business on any railroad, steamboat, vessel or stage line in this State; all telegraph and telephone companies; and all companies engaged in the transmission or sale of gas or electricity shall annually pay to the State a tax upon their franchises, roadways, roadbeds, rails, rolling stock, poles, wires, pipes, canals, conduits, rights of way, and other property, or any part thereof used exclusively in the operation of their business in this State, computed as follows: Said tax shall be equal to the percentages hereinafter fixed upon the gross receipts from operation of such companies, and each thereof within this State. When such companies are operating partly within and partly without this State, the gross receipts within this State shall be deemed to be all receipts on business beginning and ending within this State, and a proportion, based upon the proportion of the mileage within this State to the entire mileage over which such business is done, of receipts on all business passing through, into, or out of this State.

The percentages above mentioned shall be as follows: On all railroad companies, including street railways, four per cent; on all sleeping car, dining car, drawing-room car, palace car companies, refrigerator, oil, stock, fruit, and other car-loading and other car companies, three per cent; on all companies doing express business on any railroad, steamboat, vessel or stage line, two per cent; on all telegraph and telephone companies, three and one-half per cent; on all companies engaged in the transmission or sale of gas or electricity, four per cent. Such taxes shall be in lieu of all other taxes and licenses, State, county and municipal, upon the property above enumerated of such companies except as otherwise in this section provided; provided, that nothing herein shall be construed to release any such company from the payment of any amount agreed to be paid or required by law to be paid for any special privilege or franchise granted by any of the municipal authorities of this State.

aa: Subject to the power vested in the Legislature by this Constitution to change the rate in this section prescribed, the percentage of tax in the last paragraph of subdivision a of section fourteen of article thirteen

of this Constitution levied on all separately operated steam railroads that do not exceed two hundred fifty

miles in length and that are not operated as a part of another railroad or railroad system owning or operating a line or lines of railroad in excess of two hundred fifty miles in length shall be five and one-quarter per cent fixed upon their gross receipts from the operation ascertained as in this Constitution provided; provided, however, that in the event that it shall be hereafter finally determined by the courts that the classification herein made is inconsistent with or repugnant to the provisions of the United States Constitution or prejudicial to the rights of the State to tax other steam railroad companies operating longer lines of railways at a different and higher rate of tax, then this amendment shall be void, and the rate of tax levied upon the railroads herein included and all steam railroads shall be seven per cent, or such other rate as may hereafter be adopted, fixed upon their gross receipts from operation ascertained as in this Constitution provided.

ab. Subject to the power vested in the Legislature by this Constitution to change the rate in this section prescribed, the percentage of tax in the last paragraph of subdivision a of section 14 of article thirteen of this Constitution levied on all street railways, herein defined to include interurban electric railways and gasoline propelled railways, shall be four and one-quarter per cent fixed upon their gross receipts from operation ascertained as in this Constitution provided; provided, however, that in the event that it shall be hereafter finally determined by the courts that the classification herein made is inconsistent with or repugnant to the provisions of the United States Constitution or prejudicial to the rights of the State to tax other railroad companies at a different and higher rate of tax, then this amendment shall be void and the rate of tax levied upon the railroads herein included and all other railroads shall be as prescribed in said subdivision a of section 14 of article thirteen of this Constitution, or such other rate or rates as may hereafter be adopted, fixed upon their gross receipts from operation ascertained as in this Constitution provided.

All pipe lines, flumes, canals, ditches and aqueducts not entirely within the limits of any one county, and all property, other than franchises, owned or used by (1) railroad companies including street railways, herein defined to include interurban electric railways, whether operating in one or more counties, (2) sleeping car, dining car, drawing-room car, and palace car companies, refrigerator, oil, stock, fruit and other car-loaning and other car companies operating upon the railroads in the State, (3) companies doing express business on any railroad, steamboat, vessel or stage line in this State, (4) telegraph and telephone companies, (5) companies engaged in the transmission or sale of gas or electricity, shall be assessed annually by the State

Board of Equalization, at the actual value of such property.

All property so assessed by said board shall be subject to taxation to the same extent and in the same manner as other property.

All companies herein mentioned and their franchises, other than insurance companies and their franchises, shall be taxed in the same manner and at the same rates as mercantile, manufacturing and business corporations and their franchises are taxed pursuant to section 16 of this article; provided, that nothing herein shall be construed to release any company mentioned in this section from the payment of any amount agreed to be paid or required by law to be paid for any special privilege or franchise granted by any political subdivision or municipality of this State; provided further, that no excise, or income tax or any other form of tax or license charge shall be levied or assessed upon or collected from the companies, or any of them, mentioned in the first paragraph of this section, in any manner or form, different from, or at a higher rate than that imposed upon or collected from mercantile, manufacturing and business corporations doing business within this State.

The Legislature shall have the power to provide for the assessment, levy and collection of taxes upon all forms of tangible personal property, all notes, debentures, shares of capital stock, bonds, solvent credits, deeds of trust, mortgages, and any legal or equitable interest therein, not exempt from taxation under the provisions of this Constitution, in such manner, and at such rates, as may be provided by law, and in pursuance of the exercise of such power the Legislature, two-thirds of all of the members elected to each of the two houses voting in favor thereof, may classify any and all kinds of personal property for the purposes of assessment and taxation in a manner and at a rate or rates in proportion to value different from any other property in this State subject to taxation and may exempt entirely from taxation any or all forms, types or classes of personal property.

The total tax imposed on notes, debentures, shares of capital stock, bonds, solvent credits, deeds of trust, mortgages and any legal or equitable interest therein in pursuance of the provisions of this section shall not be at a rate in excess of four-tenths of one per cent of the actual value of such property and no tax burden shall be imposed upon any personal property either tangible or intangible which shall exceed the tax burden on real property in the same taxing jurisdiction in proportion to the actual value of such property.

44. Every insurance company or association doing business in this State shall annually pay to the State a tax, assessed by the State Board of Equalization, of one and one-half two and six-tenths per centum upon the amount of the gross premiums other than

{Three}

gross premiums from ocean marine insurance, received upon its business done in this State, less return premiums and reinsurance in companies or associations authorized to do business in this State; provided, that there shall be deducted from said one and one-half two and six-tenths per centum upon the gross premiums the amount of any county and municipal taxes paid by such companies on real estate owned by them in this State. This tax shall be in lieu of all other taxes and licenses, State, county, and municipal, upon the property of such companies or their property, except county and municipal taxes on upon their real estate and except as otherwise in this section provided; provided, that when by the laws of any other State or country, any taxes, fines, penalties, licenses, fees, deposits of money, or of securities, or other obligations or prohibitions, are imposed on insurance companies, of this the State, doing business in such other State or country, or upon their agents therein, in excess of such taxes, fines, penalties, licenses, fees, deposits of money, or of securities, or other obligations or prohibitions, imposed upon insurance companies of such other State or country so long as such laws continue in force, the same obligations and prohibitions of whatsoever kind may be imposed by the Legislature upon insurance companies of such other State or country doing business in this State.

(c) The shares of capital stock of all banks, organized under the laws of this State, or of the United States, or of any other State and located in this State, shall be assessed and taxed to the owners or holders thereof by the State Board of Equalization, in the manner to be prescribed by law, in the city or town where the bank is located and not elsewhere. There shall be levied and assessed upon such shares of capital stock an annual tax, payable to the State, of one per centum upon the value thereof. The value of each share of stock in each bank, except such as are in liquidation, shall be taken to be the amount paid in thereon, together with its pro rata of the accumulated surplus and undivided profits. The value of each share of stock in each bank which is in liquidation shall be taken to be its pro rata of the actual assets of such bank. This tax shall be in lieu of all other taxes and licenses, State, county and municipal, upon such shares of stock and upon the property of such banks, except county and municipal taxes on real estate and except as otherwise in this section provided. In determining the value of the capital stock of any bank there shall be deducted from the value, as defined above, the value, as assessed for county taxes, of any real estate, other than mortgage interests therein, owned by such bank and taxed for county purposes. The banks shall be liable to the State for this tax and the same shall be paid to the State by them on behalf of the stockholders in the manner and at the time proscribed by law, and they shall have a lien upon the shares of stock and upon

any dividends declared thereon to secure the amount so paid.

The moneyed capital, reserve, surplus, undivided profits and all other property belonging to unincorporated banks or bankers of this State, or held by any bank located in this State which has no shares of capital stock, or employed in this State by any branches, agencies, or other representatives of any banks doing business outside of the State of California, shall be likewise assessed and taxed to such banks or bankers by the said Board of Equalization, in the manner to be provided by law and taxed at the same rate that is levied upon the shares of capital stock of incorporated banks, as provided in the first paragraph of this subdivision. The value of said property shall be determined by taking the entire property invested in such business, together with all the reserve, surplus, and undivided profits, at their full cash value, and deducting therefrom the value as assessed for county taxes of any real estate, other than mortgage interests therein, owned by such bank and taxed for county purposes. Such taxes shall be in lieu of all other taxes and licenses, State, county and municipal, upon the property of the banks and bankers, mentioned in this paragraph, except county and municipal taxes on real estate and except as otherwise in this section provided. It is the intention of this paragraph that all moneyed capital and property of the banks and bankers mentioned in this paragraph shall be assessed and taxed at the same rate as an incorporated bank, provided for in the first paragraph of this subdivision. In determining the value of the moneyed capital and property of the banks and bankers mentioned in this subdivision, the said State Board of Equalization shall include and assess to such banks all property and everything of value owned or held by them, which go to make up the value of the capital stock of such banks and bankers, if the same were incorporated and had shares of capital stock.

The word "banks" as used in this subdivision shall include banking associations, savings and loan societies and trust companies, but shall not include building and loan associations.

(d) All franchises, other than those expressly provided for in this section, shall be assessed at their actual cash value, in the manner to be provided by law, and shall be taxed at the rate of one per centum each year, and the taxes collected thereon shall be exclusively for the benefit of the State.

(e) Out of the revenues from the taxes provided for in this section, together with all other State revenues, there shall be first set apart the moneys to be applied by the State to the support of the public school system and the State University. In the event that the above named revenues are at any time deemed insufficient to meet the annual expenditures of the State, including the above named expenditures for educational purposes, there may be levied, in ti

[Four]

manner to be provided by law, a tax, for State purposes, on all the property in the State including the classes of property enumerated in this section, sufficient to meet the deficiency. All property enumerated in subdivisions a, b, and d of this section shall be subject to taxation, in the manner provided by law, to pay the principal and interest of any bonded indebtedness created and outstanding by any city, city and county, county, town, township or district, before the adoption of this section. The taxes so paid for principal and interest on such bonded indebtedness shall be deducted from the total amount paid in taxes for State purposes.

(f) All the provisions of this section shall be self-executing and the Legislature shall pass all laws necessary to carry this section into effect, and shall provide for a valuation and assessment of the property enumerated in this section, and shall prescribe the duties of the State Board of Equalization and any other officers in connection with the administration thereof. The rates of taxation fixed in this section shall remain in force until changed by the Legislature, two-thirds of all the members elected to each of the two houses voting in favor thereof. The taxes herein provided for shall become a lien on the first Monday in March of each year after the adoption of this section and shall become due and payable on the first Monday in July thereafter. The gross receipts and gross premiums herein mentioned shall be computed for the year ending the thirty-first day of December prior to the levy of such taxes and the value of any property mentioned herein shall be fixed as of the first Monday in March. Nothing herein contained shall affect any tax levied or assessed prior to the adoption of this section; and all laws in relation to such taxes in force at the time of the adoption of this section shall remain in force until changed by the Legislature. Until the year 1918 the State shall reimburse any and all counties which sustain loss of revenue by the withdrawal of railroad property from county taxation for the net loss in county revenue occasioned by the withdrawal of railroad property from county taxation. The Legislature shall provide for reimbursement from the general funds of any county to districts therein where loss is occasioned in such districts by the withdrawal from local taxation of property taxed for State purposes only.

(g) No injunction shall ever issue in any suit, action or proceeding in any court against this State or against any officer thereof to prevent or enjoin the collection of any tax levied under the provisions of this section; but after payment action may be maintained to recover any tax illegally collected in such manner and at such time as may now or hereafter be provided by law.

Every insurer transacting the business of ocean marine insurance in this State shall annually pay to the State a tax, assessed by the State Board of Equalization, measured by that proportion of the underwriting profit of such insurer from such insur-

ance written in the United States, which the gross premiums of the insurer from such insurance written in this State bear to the gross premiums of said insurer from such insurance written within the United States, at the rate of five per centum, which tax shall be in lieu of all other taxes and licenses, State, county and municipal, upon such insurer, except taxes upon real estate, and such other taxes as may be assessed or levied against such insurer on account of any other class of insurance written by it. The Legislature shall define the terms "ocean marine insurance" and "underwriting profit," shall provide for the assessment, levy, collection, and enforcement of said tax.

The Legislature, two-thirds of all the members elected to each of the two houses voting in favor thereof, may by law change the rate or rates of taxes herein imposed upon insurance companies.

The word "companies" as used in this section shall include persons, partnerships, joint stock associations, companies and corporations.

Nothing herein contained shall be construed to subject to assessment and taxation property which is exempt from taxation under other provisions of this Constitution.

Fifth--That section 15 of Article XIII be amended to read as follows:

Sec. 15. Taxes levied, assessed and collected as hereinafter provided upon companies owning, operating or managing any automobile, truck or auto truck, jitney bus, stage or auto stage used in the business of transportation of persons or property as a common carrier for compensation over any public highway in this State between fixed termini or over a regular route; other than busses used exclusively for the transportation of pupils to or from any public school, when owned or operated by the school or school district, shall be entirely and exclusively for highway purposes, and shall be levied, assessed and collected in the manner hereinafter provided. The word "companies," as used in this section, shall include persons, partnerships, joint stock associations, companies and corporations.

(a) All such companies engaged in the business of transportation of persons, or persons and baggage, or persons and express, or persons, baggage and express where the same is transported on the same automobile, jitney bus, stage or auto stage transporting said persons shall annually pay to the State a tax upon their franchise, cars, equipment, and other property, or any part thereof, used exclusively in the operation of their business in this State, equal to four and one-quarter per cent of the gross receipts from operations of such companies, and each thereof, within this State.

All such companies operating trucks or auto trucks engaged in the business of transporting property shall annually pay to the State a tax upon their franchise, trucks or auto trucks, equipment, and other property,

[Five]

or any part thereof, used exclusively in the operation of their business in this State, equal to five per cent of the gross receipts from operations of such companies, and each thereof, within this State.

When such companies are operating partly within and partly without this State, the gross receipts within this State shall be deemed to be all receipts on business beginning and ending within this State, and a proportion, based upon the proportion of the mileage within this State to the entire mileage over which such business is done, of receipts on all business passing through into or out of this State.

Such taxes shall be in lieu of all other taxes and licenses, State, county and municipal, upon the property above enumerated of such companies, provided, that nothing herein shall be construed to release any such company from the payment of any amount to be paid or required by law to be paid for any special privilege or franchise heretofore granted by any of the municipal authorities of this State.

The revenues from the taxes provided for in this section shall be deposited in the general fund and shall be applied and the same are hereby appropriated one-half to the State of California to be devoted exclusively to the maintenance and repair of public highways within this State; the remaining one-half shall be apportioned among the respective counties of this State, in the proportion that the number of motor vehicles registered within such county for the preceding calendar year bears to the total number of motor vehicles registered in the State of California under the motor vehicle act of such State for the preceding year, and such sums so paid to said counties shall be devoted exclusively to the maintenance and repair of public highways within such county. In the event that all other State revenues are at any time deemed insufficient to meet the annual expenditures of the State, there may be levied in the manner to be provided by law, a tax, for State purposes, on all the property in the State, including the classes of property enumerated in this section, sufficient to meet the deficiency. All property enumerated in this section shall be subject to taxation, in the manner provided by law, to pay the principal and interest of any bonded indebtedness created and outstanding by any city, city and county, county, town, township, or district on the first day of October, one thousand nine hundred twenty-five. The taxes so paid for principal and interest on such bonded indebtedness shall be deducted from the total amount paid in taxes hereunder.

(b) All the provisions of this section shall be self-executing, and the Legislature shall pass all laws necessary to carry this section into effect, and shall provide for the valuation and assessment of the property enumerated in this section, and shall prescribe the duties of the State Board of Equalization and any other officers in connection with the administration thereof.

[Six]

The rates of taxation fixed in this section shall remain in force until changed by the Legislature, two-thirds of all the members elected to each of the two houses voting in favor thereof. The taxes herein provided for shall become a lien on the first Monday in March of each year after the adoption of this section and shall become due and payable on the first Monday in July thereafter. The gross receipts herein mentioned shall be computed for the year ending the thirty-first day of December prior to the levy of such taxes and the value of any property mentioned herein shall be fixed as of the first Monday in March. Nothing herein contained shall affect any tax levied or assessed prior to the adoption of this section.

(c) No injunction shall ever issue in any suit, action or proceeding in any court against this State or against any officer thereof to prevent or enjoin the collection of any tax levied under the provisions of this section; but after payment action may be maintained to recover any tax illegally collected in such a manner and at such time as may now or hereafter be provided by law.

Out of the revenue from State taxes for which provision is made in this article, together with all other State revenues, there shall first be set apart the moneys to be applied by the State to the support of the public school system and the State university. The Legislature shall provide for the raising of revenue by any form of taxation not prohibited by this Constitution in amounts sufficient to meet the expenditures of this State not otherwise provided for and in amounts sufficient to apportion, and shall apportion, to each county or city and county of this State, an amount equal to the entire amount required to be raised by each such county or city and county respectively under the provisions of section 6 of Article IX of this Constitution; provided, however, that all sums so apportioned shall be considered as though derived from county and city and county school taxes for the support of county and city and county government and not money provided by the State within the meaning of said section, nor shall any revenues so apportioned be regarded as appropriations from the funds of the State within the meaning of section 34a of Article IV of this Constitution.

If the Legislature limits the amount of revenue which may be raised from taxes upon the real and personal property according to the value thereof in pursuance of its power so to do under section 20 of Article XI of this Constitution, then the Legislature shall provide for the raising of revenue by any form of taxation not prohibited by this Constitution in amounts sufficient to apportion and shall apportion to each county and city and county an amount equal to the deficiency in the revenues thereof resulting from such limitation, as such deficiency shall be determined by law; provided, however, that no tax shall be levied by the Legislature in pursuance of this section upon property in proportion to the

value thereof in excess of the limitation for which provision is made in section 34a of Article IV of this Constitution with reference to taxes for State purposes on real and personal property and further provided that no taxes upon property in proportion to the value thereof shall be levied in pursuance of this section for the support of any county or city and county government.

No injunction or writ of mandate or other legal or equitable process shall ever issue in any suit, action or proceeding in any court against this State, or any officer thereof, to prevent or enjoin the collection of any tax levied under the provisions of this article; but after payment thereof action may be maintained to recover, with interest, in such manner as may be provided by law, any tax claimed to have been illegally collected.

Sixth—That section 16 of Article XIII be amended to read as follows:

Sec. 16. Notwithstanding any other provisions of this Constitution: 1. (a) Banks, including national banking associations, located within the limits of this State, shall annually pay to the State a tax according to or measured by their net income, which shall be in lieu of all other taxes and licenses, State, county and municipal, upon such banks, or the shares thereof, except taxes upon their real property, at the rate to be provided by law. The amount of the tax shall be equivalent to four per cent of their net income.

(b) The Legislature two-thirds of all the members elected to each of the two houses voting in favor thereof, in lieu of such tax, may provide by law for any other form of taxation now or hereafter permitted by the Congress of the United States respecting national banking associations; provided, that such form of taxation shall apply to all banks located within the limits of this State.

(c) If it be finally determined that any tax levied upon or respecting any bank, national banking association, or the shares thereof, is invalid, said bank or association, or the shares thereof, shall be reassessed in conformity with any method provided by law. No claim against the State for refund or rebate of taxes paid shall be allowed without first deducting therefrom the amount of any such unpaid reassessment.

2. (a) All financial, mercantile, manufacturing and business corporations doing business within the limits of this State, subject to be taxed pursuant to subdivision (d) of section 14 of this article, in lieu of the tax thereby provided for, shall annually pay to the State for the privilege of exercising their corporate franchises within this State a tax according to or measured by their net income. The amount of such State tax shall be equivalent to four per cent of their net income. Such tax shall be subject to offset, in a manner to be prescribed by law, in the

amount of personal property taxes paid by such corporations to the State or political subdivisions thereof, but the offset shall not exceed ninety per cent of such State tax. In any event, each such corporation shall pay an annual minimum tax to the State, not subject to offset, of twenty-five dollars.

(b) The Legislature, two-thirds of all the members elected to each of the two houses voting in favor thereof, may provide by law for the taxation by any other method authorized in this Constitution of the corporations, or the franchises, subject to be taxed pursuant to subdivision (a) of paragraph 2 of this section or subdivision (d) of section 14 of this article.

3. The Legislature, two-thirds of all the members elected to each of the two houses voting in favor thereof, may change by law the rates of tax, or the percentage, amount or nature of offset provided for in paragraphs 1 and 2 hereof.

4. Notes, debentures, shares of capital stock, bonds, solvent credits, deeds of trust, mortgages, and any legal or equitable interest therein, of the classes now taxable to the owner thereof and not otherwise taxed under subdivisions (a) or (b) of section 14 or under section 15 of this article, shall be declared in a manner to be prescribed by law and shall be taxed upon their actual value at the rate of three-tenths of one per cent. The Legislature, two-thirds of all the members elected to each of the two houses voting in favor thereof, may by law change the rate or rates upon any one or more of the classes of property herein enumerated; provided that no rate shall exceed four-tenths of one per cent. Said tax shall be in lieu of all other property taxes thereon, and the proceeds of said tax shall not go to the State but to such political subdivisions thereof, and in such manner, as may be provided by law.

5. The Legislature shall define "corporations" and "doing business"; shall define "net income," and may define it to be the entire net income received from all sources; shall provide for the allocation of income, for the assessment, levy and collection of the aforesaid taxes, and for reassessment in the event of the invalidity of any tax under 2 (a) or 2 (b) hereof. Said taxes shall become a lien on the first Monday in March of 1929 and of each year thereafter. The Legislature shall pass laws necessary to carry out this section. The acts of the forty-eighth session of the Legislature passed pursuant to this section shall be effective immediately upon their passage.

2. The Legislature may provide by law for the taxation of corporations, their franchises, or any other franchises, by any method not prohibited by this Constitution or the Constitution or laws of the United States.

3. Any tax imposed pursuant to this section must be under an act passed by not less than two-thirds vote of all the members elected to each of the two houses of the Legislature.

[Seven]

Seventh—That sections 12½ and 18 of Article XIII be repealed.

Sec. 12½. The Legislature, subject to section one of article four shall have power to provide for the assessment, levy and collection of taxes upon all notes, debentures, shares of capital stock, bonds, solvent credits or mortgages, not exempt from taxation under the provisions of this Constitution; in a manner, at a rate or rates or in proportion to value different from any other property in this State subject to taxation; taxes imposed by any act of the Legislature adopted pursuant to the powers hereby conferred shall be in lieu of all other property taxes, State, county, municipal or district, upon such property. The Legislature shall provide for an equitable distribution of such taxes to the county, municipality or district in which such property is taxed; provided, that the rate or rates of taxation of such securities, and penalties, shall not exceed those assessed or imposed upon other property in this State not exempt from taxation; and that when the same shall have been fixed by the Legislature, they shall not be altered except by vote of two-thirds of all the members elected to each of the two houses voting in favor thereof.

Nothing in this act shall be construed to apply to any property the taxation of which is provided for in section fourteen of this article nor to authorize the assessment or taxation of any property now exempt from taxation under this Constitution.

Sec. 18. Every insurer transacting the business of ocean marine insurance in this State shall annually pay to the State a tax measured by that proportion of the underwriting profit of such insurer from such insurance written in the United States, which the gross premiums of the insurer from such insurance written in this State bear to the gross premiums of said insurer from such insurance written within the United States, which tax shall be in lieu of all other taxes and licenses, State, county and municipal, upon such insurers, except taxes upon real property, and such other taxes as may be assessed or levied against such insurer on account of any other class of insurance written by it. The Legislature shall define the terms "ocean marine insurance" and "underwriting profit," shall provide for the assessment, levy, collection and enforcement of said tax, and, two-thirds of all the members elected to each of its two houses voting in favor thereof, fix the rate of said tax.

Eighth—That all laws now in effect under which taxes are levied or imposed shall be continued in effect until altered or repealed by the Legislature; provided, however, that immediately upon adoption of the foregoing constitutional amendments it shall be the duty of the Legislature to pass all laws necessary to carry into effect the provisions of said amendments and to repeal or amend all laws inconsistent therewith.

Ninth—That a new section, to be numbered 14½, be added to Article XIII, to read as follows:

Sec. 14½. The provisions of section 14 of this article as they read on May 1, 1933, shall remain fully operative to and including December 31, 1934, notwithstanding any other provision in this Constitution. From and after January 1, 1935, said provisions shall no longer be of any force and effect; provided, however, that any taxes assessed in pursuance thereof, prior to said date, shall remain fully collectible.

Tenth—That a new section, to be numbered 15½, be added to Article XIII, to read as follows:

Sec. 15½. The provisions of section 15 of this article as they read on May 1, 1933, shall remain operative for the purpose of the assessment and collection of State taxes as therein contemplated to and including December 31, 1934, but nothing in this section shall be construed as making inoperative the provisions of said section as amended subsequent to said date, in so far as they relate to other matters. From and after January 1, 1935, the provisions of section 15 of this article as they read on May 1, 1933, shall no longer be of any force and effect; provided, however, that nothing herein contained shall be construed to affect the collection or distribution of taxes assessed under said section prior to January 1, 1935.

Eleventh—That a new section to be numbered 16½ be added to Article XIII, to read as follows:

Sec. 16½. The provisions of paragraph 4 of section 16 of this article, as they read on May 1, 1933, shall remain operative to and including December 31, 1934, notwithstanding any other provision in this Constitution. From and after January 1, 1935, the provisions of said paragraph 4 shall no longer be of any force and effect; provided, however, that all taxes assessed thereunder, prior to January 1, 1935, shall remain fully collectible.

[Eight]

2	EMPLOYMENT RELIEF BONDS. Senate Constitutional Amendment 41. Adds Section 9 to Article XVI of Constitution. Ratifies the Unemployment Relief Bond Act of 1933, which authorizes the issuance and sale of \$20,000,000 State bonds to provide a fund for loans to counties and municipalities for unemployment relief.	YES	
		NO	

Senate Constitutional Amendment No. 41—A resolution to propose to the people of the State of California an amendment to the Constitution of said State by adding to Article XVI thereof a new section to be numbered 9, relating to loans to counties and municipalities for unemployment relief.

Resolved by the Senate, the Assembly concurring, That the Legislature of the State of California at its fiftieth regular session commencing on the second day of January, 1933, two-thirds of the members elected to each of the two houses of the said Legislature voting therefor, hereby proposes to the people of the State of California that the Constitution of said State be amended by adding to Article XVI thereof a new section to be numbered 9, and to read as follows:

(This proposed amendment does not expressly amend any existing section of the Constitution, but adds a new section thereto; therefore, the provisions thereof are printed in BLACK-FACED TYPE to indicate that they are NEW.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

Sec. 9. The issuance and sale of bonds of the State of California and the use and disposition of the proceeds of the sale of said bonds, all as provided in the Unemployment Relief Bond Act of 1933 as passed by the Senate and Assembly at the fiftieth session of the Legislature and approved by the Governor, authorizing the issuance and sale of said bonds in the sum of twenty million dollars for the purpose of providing a fund to be used and disbursed for the purpose of loans to counties and municipalities for unemployment relief, is hereby authorized and directed, and the said Unemployment Relief Bond Act of 1933 is hereby approved, adopted, legalized, ratified, validated and made fully and completely effective. All provisions of this section shall be self-executing and shall not require any legislative action in furtherance thereof, but this shall not prevent such legislative action. Nothing in this Constitution contained shall be a limitation upon the provisions of this section.

3	HORSE RACING. Assembly Constitutional Amendment 119. Adds Section 25a to Article IV. Ratifies Act of present Legislature which creates California Horse Racing Board empowered to regulate and license horse racing, horse race meetings, and wagering on results thereof by pari mutuel method conducted only by licensees within race track enclosure on racing days; basing license fees on percentage of wagering pools; classifies counties by population and regulates racing periods therein; allocates portion of net receipts for California State Fair and other fairs and expositions, Legislature apportioning balance biennially to State institutions therein mentioned or for unemployment relief.	YES	
		NO	

Assembly Constitutional Amendment No. 119—A resolution to propose to the people of the State of California, an amendment to the Constitution of said State by adding to Article IV thereof a new section to be numbered 25a, relating to the regulation and licensing of horse racing, horse race meetings, and the wagering on the results thereof.

Resolved by the Assembly, the Senate concurring, That the Legislature of the State of California at its

fiftieth regular session commencing on the second day of January, 1933, two-thirds of the members elected to each of the two houses of the said Legislature voting in favor thereof, hereby proposes to the people of the State of California, that the Constitution of said State be amended by adding to Article IV a new section to be numbered 25a, and to read as follows:

(This proposed amendment does not expressly amend any existing section of the Constitution, but adds a new section thereto; therefore, the provisions

[Nine]

thereof are printed in BLACK-FACED TYPE to indicate that they are NEW.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

Sec. 25a. The Legislature may provide for the regulation of horse races and horse race meetings and wagering on the results thereof. The provisions of an act entitled "An act to provide for the regulation and licensing of horse racing, horse race meetings, and the wagering on the results thereof; to

create the California Horse Racing Board for regulation, licensing and supervision of said horse racing and wagering thereon; to provide penalties for the violation of the provisions of this act, and to provide that this act shall take effect upon the adoption of a constitutional amendment ratifying its provisions," are hereby confirmed, ratified, and declared to be fully and completely effective; provided, that said act may at any time be amended or repealed by the Legislature.

EXEMPTING EDUCATIONAL INSTITUTIONS FROM TAXATION.

4 Assembly Constitutional Amendment 47. Amends Section 1a of Article XIII. Exempts from taxation the buildings and equipment of any educational institution not conducted for profit, and its securities and income used exclusively for educational purposes; if such institution be of collegiate grade, also exempts its grounds within which its buildings are located, not exceeding one hundred acres in area. If such institution be a private institution of less than collegiate grade, the exemption of such grounds is limited to ten acres.

YES	
NO	

Assembly Constitutional Amendment No. 47—A resolution to propose to the people of the State of California an amendment to the Constitution of said State by amending section 1a of Article XIII thereof, relating to exemption of educational institutions from taxation.

Resolved by the Assembly, the Senate concurring, That the Legislature of the State of California at its fiftieth regular session commencing on the second day of January, 1933, two-thirds of the members elected to each of the two houses of the said Legislature voting therefor, hereby proposes to the people of the State of California, that the Constitution of said State be amended by amending section 1a of Article XIII thereof to read as follows:

(This proposed amendment expressly amends an existing section of the Constitution; therefore EXISTING PROVISIONS proposed to be DELETED,

if any, are printed in STRIKE-OUT TYPE; and NEW PROVISIONS proposed to be INSERTED are printed in BLACK-FACED TYPE.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

Sec. 1a. Any educational institution of collegiate grade, within the State of California, not conducted for profit, shall hold exempt from taxation its buildings and equipment, its grounds within which its buildings are located, not exceeding one hundred acres in area, its securities and income used exclusively for the purposes of education. Any private educational institution of less than collegiate grade, within the State of California, not conducted for profit, shall hold exempt from taxation its buildings and equipment, its grounds within which its buildings are located, not exceeding ten acres in area, its securities and income used exclusively for the purposes of education.

[Ten]

5	ASSESSING PROPERTY DAMAGED BY EARTHQUAKE IN LOS ANGELES AND ORANGE COUNTIES. Assembly Constitutional Amendment 101. Adds Section 8a to Article XIII. Requires assessors of Los Angeles and Orange counties to assess real and personal property damaged or destroyed by earthquakes of March 10, 1933, and thereafter and prior to first Monday of July, 1933, according to condition and value after damage or destruction rather than according to condition and value on first Monday of March, of said year.	YES	
		NO	

Assembly Constitutional Amendment No. 101—A resolution to propose to the people of the State of California an amendment to the Constitution of said State by adding to Article XIII thereof a new section, to be numbered 8a, relating to taxation.

Resolved by the Assembly, the Senate concurring, That the Legislature of the State of California, at its fiftieth session commencing on the second day of January, 1933, two-thirds of the members elected to each of the two houses of the said Legislature voting in favor thereof, hereby proposes to the people of the State of California that the Constitution of the State be amended by adding to Article XIII thereof a new section, to be numbered 8a, to read follows:

(This proposed amendment does not expressly amend any existing section of the Constitution, but adds a new section thereto; therefore, the provisions thereof are printed in BLACK-FACED TYPE to indicate that they are NEW.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

Sec. 8a. Notwithstanding anything in this Constitution otherwise providing, every taxpayer in the county of Los Angeles and in the county of Orange, who at twelve o'clock meridian on the first Monday of March, 1933, was the owner, or had in his possession, or under his control, any property which was thereafter damaged or destroyed by the earthquake of March 10, 1933, or any other earthquake or earthquakes occurring thereafter, and prior to the first Monday of July, 1933, shall make and deliver to the county assessor a statement, under oath, setting forth specifically all such real and personal property, according to its condition and value after said damage or destruction, rather than according to its condition and value at twelve o'clock meridian on the first Monday of March of said year; and the county assessors of said counties, regardless of whether or not such statement of such damaged or destroyed property is made, shall assess the same according to its condition and value after said damage or destruction, rather than according to its condition and value at twelve o'clock meridian on the first Monday of March of said year. The provisions of this section shall be self-executing.

6	STATE BONDS FOR REFINANCING IRRIGATION AND RECLAMATION DISTRICTS. Assembly Constitutional Amendment 16. Ratifies District Finance Act of 1933. Authorizes \$55,000,000 State bonds to refinance irrigation and reclamation districts by purchasing and canceling their outstanding bonds when recommended by California District Securities Commission, State receiving therefor districts' refunding bonds coinciding as nearly as practicable in maturity dates and amounts with State bonds issued; permits State to resell refunding bonds; prohibits district issuing additional bonds without Commission's consent while refunding bonds outstanding; empowers Commission to levy district assessments to pay refunding bonds should district not levy same.	YES	
		NO	

Assembly Constitutional Amendment No. 16—A resolution to propose to the people of the State of California an amendment to the Constitution of said State, by adding to article sixteen thereof a new section to be numbered 9, authorizing the Legislature to provide for assistance by the State

in the refinancing of irrigation and reclamation districts, and approving and ratifying the District Finance Act of 1933.

Resolved by the Assembly, the Senate concurring, That the Legislature of the State of California at its

(Eleven)

regular session commencing on the second day of January, 1933, two-thirds of the members elected to each of the two houses thereof voting therefor, hereby proposes to the people of the State of California that the Constitution of said State be amended by adding to Article XVI thereof, a new section to be numbered 9, to read as follows:

(This proposed amendment does not expressly amend any existing section of the Constitution, but adds a new section thereto; therefore, the provisions thereof are printed in BLACK-FACED TYPE to indicate that they are NEW.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

Sec. 9. The issuance and sale of bonds of the State in the total principal sum of fifty-five million

dollars and the use and disposition of the proceeds of the sale thereof as provided in the District Finance Act of 1933, is hereby authorized, regardless of any other provision in this Constitution said act is hereby approved and ratified and made fully and completely effective. All provisions of this section are self-executing and do not require legislative action in furtherance thereof but this does not prevent such legislative action except that no amendments by the Legislature shall be enacted which will affect the liability of the State for any indebtedness incurred under said act or impair the security which must be deposited with the State to insure the retirement of any such State indebtedness.

DECLARING EFFECTIVE DATES OF ACTS OF LEGISLATURE.

7 **Assembly Constitutional Amendment 108.** Adds Section 1a to Article IV. Declares all acts passed by Legislature at fiftieth (present) regular session on or before July 16, 1933, effective ninety days after May 22, 1933, except acts effective immediately under Constitution. Declares all such acts not effective immediately subject to referendum, requiring referendum petitions be presented to Secretary of State within ninety days after May 22, 1933. Constitutional provisions not conflicting herewith made applicable to all acts of said regular session of Legislature.

YES	
NO	

Assembly Constitutional Amendment No. 108—A resolution to propose to the people of the State of California an amendment to Article IV of the Constitution of said State by adding to said article a new section, to be numbered section 1a, relating to the time of taking effect of acts passed at the fiftieth regular session of the Legislature.

Resolved by the Assembly, the Senate concurring, That the Legislature of the State of California, at its fiftieth regular session commencing on the second day of January, 1933, two-thirds of all members elected to each of the two houses of said Legislature voting in favor thereof, hereby proposes to the people of the State of California that Article IV of the Constitution be amended by adding thereto a new section, to be numbered section 1a, to read as follows:

(This proposed amendment does not expressly amend any existing section of the Constitution, but

adds a new section thereto; therefore, the provisions thereof are printed in BLACK-FACED TYPE to indicate that they are NEW.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

Sec. 1a. All acts passed by the Legislature at its fiftieth regular session on or before July 16, 1933, shall go into effect ninety days after May 22, 1933, except acts which under the provisions of section 1 of Article IV of this Constitution go into effect immediately. All such acts which do not go into effect immediately shall be subject to all the referendum provisions of section 1 of Article IV of this Constitution, except that the petition therein required to be presented to the Secretary of State must be so presented within ninety days after May 22, 1933. The provisions of this Constitution not in conflict herewith shall otherwise apply to all bills and acts of the fiftieth regular session of the Legislature.

[Twelve]

COUNTY GOVERNMENT. Senate Constitutional Amendment 16. Repeals Sections 4 and 9, amends Section 5, Article XI. Requires Legislature to regulate compensation of supervisors, district attorneys and auditors; supervisors to regulate compensation of other officers in county (except Municipal Court judges), and number, appointment, terms and compensation of deputies and employees. Prohibits increase of compensation or extension of term after election or during term. Permits allowance of additional deputies or increase in their compensation. Validates Political Code Section 4056d, enacted by present Legislature, relating to supervisors' powers and duties as to county and township officers, deputies and employees.

8

YES	
NO	

Senate Constitutional Amendment No. 16—A resolution to propose to the people of the State of California an amendment to the Constitution of said State repealing sections 4 and 9 of Article XI thereof and amending section 5 of said article, relating to county government.

Resolved by the Senate, the Assembly concurring, That the Legislature of the State of California, at its fiftieth regular session commencing on the second day of January, 1933, two-thirds of all the members elected, to each of the two houses of said Legislature voting in favor thereof, hereby proposes to the people of the State of California that sections 4 and 9 of Article XI of the Constitution of said State be repealed and that section 5 of said article be amended to read as follows:

(This proposed amendment expressly amends an existing section and repeals two existing sections of the Constitution; therefore EXISTING PROVISIONS proposed to be DELETED are printed in STRIKE-OUT TYPE; and NEW PROVISIONS proposed to be INSERTED are printed in BLACK-FACED TYPE.)

PROPOSED AMENDMENT TO THE CONSTITUTION.

Sec. 5. The Legislature, by general and uniform laws, shall provide for the election or appointment, in the several counties, of boards of supervisors, sheriffs, county clerks, district attorneys, and such other county, township, and municipal officers as public convenience may require, and shall prescribe their duties and fix their terms of office. It shall regulate the compensation of all such officers, in proportion to duties, and may also establish fees to be charged and collected by such officers for services performed in their respective offices in the manner and for the uses provided by law; boards of supervisors, district attorneys and of auditors in the respective counties and for this purpose may classify the counties by population; and it shall provide for the strict accountability of county and township officers and for all fees which may be collected by them; and for

all public and municipal moneys which may be paid to them, or officially come into their possession. It may regulate the compensation of grand and trial jurors in all courts within the classes of counties herein permitted to be made. The board of supervisors in the respective counties shall regulate the compensation of all officers in said counties other than boards of supervisors, district attorneys, auditors, and judges of municipal courts, and shall regulate the number, method of appointment, terms of office or employment, and compensation of all deputies, assistants, and employees of the counties.

The provisions of this section shall not be construed to abridge, modify or otherwise affect the provisions of sections 7½, 7½a and 8½ of this article, relating to county or city and county charters. That certain act entitled "An act to add a new section to the Political Code to be numbered 4056d, relating to powers and duties of boards of supervisors with respect to county and township officers; deputies, assistants and employees," as enacted by the Legislature at its fiftieth session, is hereby validated and made fully and completely effective.

The compensation of any county, township or municipal officer shall not be increased after his election or during his term of office, nor shall the term of any such officer be extended beyond the period for which he was elected or appointed. The provisions of this section shall not prevent the allowance of any new or additional deputy or assistant to the principal in any county office during his term, nor shall they prevent any increase in the compensation of any deputy or assistant to such principal at any time.

The provisions of this section shall not abridge, modify or otherwise limit the power of the Legislature by general and uniform laws to prescribe the qualifications of any county officer or of any deputy or assistant, or to prescribe the method of appointment of any person so qualified.

Sec. 4. The Legislature shall establish a system of county governments, which shall be uniform throughout the State; and by general laws shall provide for township organizations, under which any county may

[Thirteen]

organize whenever a majority of the qualified electors of such county, voting at a general election, shall so determine; and whenever a county shall adopt township organization, the assessment and collection of the revenue shall be made, and the business of such county and the local affairs of the several townships therein shall be managed and transacted, in the manner prescribed by such general laws.

Sec. 9. The compensation of any city, county, town or municipal officer shall not be increased after

his election or during his term of office; provided, however, that the Legislature may provide by general laws that such additional deputies or assistants may be necessary and proper be allowed to the principal in any county office during his term and that the Legislature may also provide that the compensation of such deputy or assistant be increased during the term of office of such principal. The term of any such officer shall not be extended beyond the period for which he is elected or appointed.

DIVERTING GASOLINE TAX FUNDS FOR BIENNIUM ENDING JUNE 30, 1933. Question submitted to electors by Legislature as follows:

9 1. Shall the Legislature divert \$8,779,750 from the gasoline tax funds to the general fund for payment of bond interest and redemption on outstanding highway bonds for the biennium ending June 30, 1933?

YES	
NO	

DIVERTING GASOLINE TAX FUNDS FOR BIENNIUM ENDING JUNE 30, 1935. Question submitted to electors by Legislature as follows:

10 2. Shall the Legislature divert \$8,449,326 from the gasoline tax funds to the general fund for payment of bond interest and redemption on outstanding highway bonds for the biennium ending June 30, 1935?

YES	
NO	

[Fourteen]

**ORDER OF MEASURES ON THE BALLOT AND PAGE
IN THIS APPENDIX**

No.	Page	No.	Page
1. Taxation	1	6. Refinancing Irrigation and Reclama- tion Districts	11
2. Unemployment Relief Bonds	9	7. Effective Dates of Statutes	12
3. Horse Racing	9	8. County Government	13
4. Exempting Educational Institutions from Taxation	10	9. Gasoline Tax Diversion	14
5. Assessing Property Damaged by Earth- quake	11	10. Gasoline Tax Diversion	14

PROPOSITIONS SUBMITTED BY LEGISLATURE

Gasoline Tax Diversion, 1931-1933	14
Gasoline Tax Diversion, 1933-1935	14

SUMMARY OF MEASURES SUBMITTED TO ELECTORS

(Total Number 10)

CONSTITUTIONAL AMENDMENTS PROPOSED BY LEGISLATURE

No.	Page	No.	Page
S.C.A. 16 County Government	13	A.C.A. 16 Refinancing Irrigation and Re- clamation Districts	11
S.C.A. 30 Taxation	1	A.C.A. 47 Exempting Educational Institu- tions from Taxation	10
S.C.A. 41 Unemployment Relief Bonds	9	A.C.A. 101 Assessing Property Damaged by Earthquake	11
		A.C.A. 108 Effective Dates of Statutes	12
		A.C.A. 119 Horse Racing	9

RECAPITULATION

AMENDMENTS TO CONSTITUTION BY ARTICLES AND SECTIONS

Art. IV. Sec. 1a Added	12
Art. IV. Sec. 25a Added	9
Art. IV. Sec. 34a Added	1
Art. XI. Sec. 4 Repealed	13
Art. XI. Sec. 5 Amended	13
Art. XI. Sec. 9 Repealed	13
Art. XI. Sec. 12 Amended	1
Art. XI. Sec. 20 Added	1
Art. XIII. Sec. 1a Amended	10
Art. XIII. Sec. 8a Added	11
Art. XIII. Sec. 12 ₁ Repealed	1
Art. XIII. Sec. 14 Amended	1
Art. XIII. Sec. 14 ₂ Added	1
Art. XIII. Sec. 15 Amended	1
Art. XIII. Sec. 15 ₂ Added	1
Art. XIII. Sec. 16 Amended	1
Art. XIII. Sec. 16 ₂ Added	1
Art. XIII. Sec. 18 Repealed	1
Art. XVI. Sec. 9 Added	11
Art. XVI. Sec. 9 Added	9

[Fifteen]

Manner in Which Proposed Constitutional Amendments and Other Measures Will Be Designated and Appear on the Ballot

<p>TAXATION. Senate Constitutional Amendment 30. Limits State appropriations. Commencing 1935 requires property of public utility companies assessed by State Board of Equalization and taxed locally for local purposes as other property, taxing their franchises and income for State purposes like business corporations; authorizes</p> <p>1 legislation limiting county ad valorem taxes, allocating State taxes to meet resulting deficiency. Requires local assessments at full cash value. Limits yearly expenditures by local subdivisions until July, 1935, unless time extended by Legislature. Regulates taxation of banks and insurance companies. Empowers Legislature to provide any form of taxation not prohibited by Constitution.</p>	YES	
<p>UNEMPLOYMENT RELIEF BONDS. Senate Constitutional Amendment 41. Adds Section 9 to Article XVI of Constitution. Ratifies the</p> <p>2 Unemployment Relief Bond Act of 1933, which authorizes the issuance and sale of \$20,000,000 State bonds to provide a fund for loans to counties and municipalities for unemployment relief.</p>	YES	
<p>UNEMPLOYMENT RELIEF BONDS. Senate Constitutional Amendment 41. Adds Section 9 to Article XVI of Constitution. Ratifies the</p> <p>2 Unemployment Relief Bond Act of 1933, which authorizes the issuance and sale of \$20,000,000 State bonds to provide a fund for loans to counties and municipalities for unemployment relief.</p>	NO	
<p>HORSE RACING. Assembly Constitutional Amendment 119. Adds Section 25a to Article IV. Ratifies Act of present Legislature which creates California Horse Racing Board empowered to regulate and license horse racing, horse race meetings, and wagering on results thereof by pari mutuel method conducted only by licensees within</p> <p>3 race track enclosure on racing days; basing license fees on percentage of wagering pools; classifies counties by population and regulates racing periods therein; allocates portion of net receipts for California State Fair and other fairs and expositions. Legislature apportioning balance biennially to State institutions therein mentioned or for unemployment relief.</p>	YES	
<p>HORSE RACING. Assembly Constitutional Amendment 119. Adds Section 25a to Article IV. Ratifies Act of present Legislature which creates California Horse Racing Board empowered to regulate and license horse racing, horse race meetings, and wagering on results thereof by pari mutuel method conducted only by licensees within</p> <p>3 race track enclosure on racing days; basing license fees on percentage of wagering pools; classifies counties by population and regulates racing periods therein; allocates portion of net receipts for California State Fair and other fairs and expositions. Legislature apportioning balance biennially to State institutions therein mentioned or for unemployment relief.</p>	NO	
<p>EXEMPTING EDUCATIONAL INSTITUTIONS FROM TAXATION. Assembly Constitutional Amendment 47. Amends Section 1a of Article XIII. Exempts from taxation the buildings and equipment of any educational institution not conducted for profit, and</p> <p>4 its securities and income used exclusively for educational purposes; if such institution be of collegiate grade, also exempts its grounds within which its buildings are located, not exceeding one hundred acres in area. If such institution be a private institution of less than collegiate grade, the exemption of such grounds is limited to ten acres.</p>	YES	
<p>EXEMPTING EDUCATIONAL INSTITUTIONS FROM TAXATION. Assembly Constitutional Amendment 47. Amends Section 1a of Article XIII. Exempts from taxation the buildings and equipment of any educational institution not conducted for profit, and</p> <p>4 its securities and income used exclusively for educational purposes; if such institution be of collegiate grade, also exempts its grounds within which its buildings are located, not exceeding one hundred acres in area. If such institution be a private institution of less than collegiate grade, the exemption of such grounds is limited to ten acres.</p>	NO	

[Sixteen]

<p>ASSESSING PROPERTY DAMAGED BY EARTHQUAKE IN LOS ANGELES AND ORANGE COUNTIES. Assembly Constitutional Amendment 101. Adds Section 8a to Article XIII. Requires assessors of Los Angeles and Orange Counties to assess real and personal property damaged or destroyed by earthquakes of March 10, 1933, and thereafter and prior to first Monday of July, 1933, according to condition and value after damage or destruction rather than according to condition and value on first Monday of March, of said year.</p>	YES	
<p>5</p>	NO	
<p>STATE BONDS FOR REFINANCING IRRIGATION AND RECLAMATION DISTRICTS. Assembly Constitutional Amendment 16. Ratifies District Finance Act of 1933. Authorizes \$55,000,000 State bonds to refinance irrigation and reclamation districts by purchasing and canceling their outstanding bonds when recommended by California Districts Securities Commission, State receiving therefor districts' refunding bonds coinciding as nearly as practicable in maturity dates and amounts with State bonds issued; permits State to resell refunding bonds; prohibits district issuing additional bonds without Commission's consent while refunding bonds outstanding; empowers Commission to levy district assessments to pay refunding bonds should district not levy same.</p>	YES	
<p>6</p>	NO	
<p>DECLARING EFFECTIVE DATES OF ACTS OF LEGISLATURE. Assembly Constitutional Amendment 108. Adds Section 1a to Article IV. Declares all acts passed by Legislature at fiftieth (present) regular session on or before July 16, 1933, effective ninety days after May 22, 1933, except acts effective immediately under Constitution. Declares all such acts not effective immediately subject to referendum, requiring referendum petitions be presented to Secretary of State within ninety days after May 22, 1933. Constitutional provisions not conflicting herewith made applicable to all acts of said regular session of Legislature.</p>	YES	
<p>7</p>	NO	
<p>COUNTY GOVERNMENT. Senate Constitutional Amendment 16. Repeals Sections 4 and 9, amends Section 5, Article XI. Requires Legislature to regulate compensation of supervisors, district attorneys and auditors; supervisors to regulate compensation of other officers in county (except Municipal Court judges), and number, appointment, terms and compensation of deputies and employees. Prohibits increase of compensation or extension of term after election or during term. Permits allowance of additional deputies or increase in their compensation. Validates Political Code Section 4056d, enacted by present Legislature, relating to supervisors' powers and duties as to county and township officers, deputies and employees.</p>	YES	
<p>8</p>	NO	

[Seventeen]

DIVERTING GASOLINE TAX FUNDS FOR BIENNIUM ENDING JUNE 30, 1933. Question submitted to electors by Legislature as follows: 9 1. Shall the Legislature divert \$8,779,750 from the gasoline tax funds to the general fund for payment of bond interest and redemption on outstanding highway bonds for the biennium ending June 30, 1933?	YES	
	NO	

DIVERTING GASOLINE TAX FUNDS FOR BIENNIUM ENDING JUNE 30, 1935. Question submitted to electors by Legislature as follows: 10 2. Shall the Legislature divert \$8,449,326 from the gasoline tax funds to the general fund for payment of bond interest and redemption on outstanding highway bonds for the biennium ending June 30, 1935?	YES	
	NO	

CERTIFICATE OF SECRETARY OF STATE

STATE OF CALIFORNIA, DEPARTMENT OF STA
SACRAMENTO, CALIFORNIA.

I, Frank C. Jordan, Secretary of State of the State of California, do hereby certify that the foregoing ten measures will be submitted to the electors of the State of California at a special election to be held throughout the State on the twenty-seventh day of June, 1933.

Witness my hand and the great seal of State, at office in Sacramento, California, the thirteenth day of May, A.D. 1933.




 Secretary of State

[Eighteen]

EXHIBIT G

Assembly Bill No. 85

CHAPTER 8

An act to amend Sections 6363.9, 6363.10, 6902.5, 17053.95, 17935, 17941, 17948, 19533, 23695, 61015, 61020, and 61030 of, and to add Sections 6295, 12209, 17039.3, 17276.23, 23036, 23036.3, and 24416.23 to, the Revenue and Taxation Code, to amend Sections 426 and 4456 of, and to add Section 4750.6 to, the Vehicle Code, and to amend Section 12 of Chapter 34 of the Statutes of 2019, relating to state taxes and charges, and making an appropriation therefor, to take effect immediately, bill related to the budget.

[Approved by Governor June 29, 2020. Filed with Secretary of State June 29, 2020.]

LEGISLATIVE COUNSEL'S DIGEST

AB 85, Committee on Budget. State taxes and charges.

(1) Existing state sales and use tax laws impose a tax on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state. The Sales and Use Tax Law generally provides that the taxes are due and payable to the California Department of Tax and Fee Administration quarterly on or before the last day of the month next succeeding each quarterly period and requires, for purposes of sales tax, a return to be filed by a seller that contains, among other information, the gross receipts of the seller during the preceding reporting period.

This bill, when a vehicle required to be registered under the Vehicle Code is sold at retail on and after January 1, 2021, by any dealer holding a license issued pursuant to the Vehicle Code, except a new motor vehicle dealer, as specified, would require the dealer to pay the applicable sales tax to the Department of Motor Vehicles acting for and on behalf of the California Department of Tax and Fee Administration within 30 days from the date of the sale. The bill would impose specified penalties if the dealer makes an application to the Department of Motor Vehicles that is not timely and imposes penalties and interest if the dealer fails to make an application to the Department of Motor Vehicles, fails to pay the sales tax, or fails to timely file the return required by the Sales and Use Tax Law with the California Department of Tax and Fee Administration.

Existing law generally requires the registration of vehicles by the Department of Motor Vehicles and requires that department to issue a certificate of ownership to the legal owner and a registration card to the owner, as specified, upon registering that vehicle. Existing law requires the Department of Motor Vehicles to develop a system for dealers and

lessor-retailers to electronically report the sale of a vehicle before the vehicle is delivered to the purchaser, and requires the dealers and lessor-retailers to take specified actions after providing information to the reporting system, including submitting to the Department of Motor Vehicles an application accompanied by all fees and penalties due for registration or transfer of registration of the vehicle within a specified period.

This bill would require, for retail sales of vehicles occurring on and after January 1, 2021, a dealer, other than a new motor vehicle dealer, as specified, to also submit with the application payment of the applicable sales tax to the Department of Motor Vehicles. The bill would require the Department of Motor Vehicles to transmit to the California Department of Tax and Fee Administration all collections of sales tax and penalty within 30 days, as specified. The bill would require the Department of Motor Vehicles to withhold the registration or the transfer of registration of any vehicle sold at retail on and after January 1, 2021, to any applicant by any dealer holding a license issued pursuant to the Vehicle Code, other than a new motor vehicle dealer, as specified, until the dealer pays to the Department of Motor Vehicles the sales tax and any penalties, except as specified. The bill would require the California Department of Tax and Fee Administration to reimburse the Department of Motor Vehicles for its costs incurred.

(2) Existing sales and use tax laws impose a tax on retailers measured by the gross receipts from the sale of tangible personal property sold at retail in this state or on the storage, use, or other consumption in this state of tangible personal property purchased from a retailer for storage, use, or other consumption in this state. The Sales and Use Tax Law provides various exemptions from those taxes, including, until January 1, 2022, an exemption for the sale of, or the storage, use, or other consumption of, diapers for infants, toddlers, and children and menstrual hygiene products, as defined.

In compliance with a state constitutional requirement, existing law requires the Department of Finance, beginning on May 15, 2020, to estimate the total dollar amount of revenue that would have been credited to the Local Revenue Fund 2011 for a fiscal year if not otherwise exempted under the sales and use tax exemptions for diapers for infants, toddlers, and children and menstrual hygiene products and requires the Controller to transfer that amount from the General Fund to the Local Revenue Fund 2011, a continuously appropriated fund, no later than June 30 of each fiscal year.

This bill would extend the sales and use tax exemptions for the sale of, or the storage, use, or other consumption of, diapers for infants, toddlers, and children and menstrual hygiene products until July 1, 2023. By extending the above-described transfers of estimated total dollar amount of revenues that would have been credited to the Local Revenue Fund 2011 by the Controller from the General Fund to the Local Revenue Fund 2011, a continuously appropriated fund, the bill would make an appropriation.

Existing law requires the Legislative Analyst's Office, on or before January 1, 2021, to submit specified reports to the Assembly Committee on Revenue and Taxation and to the Senate Governance and Finance Committee

relating to the effectiveness of the sales and use tax exemptions for diapers for infants, toddlers, and children and menstrual hygiene products.

This bill would extend the due date of those reports to July 1, 2022.

The Bradley-Burns Uniform Local Sales and Use Tax Law authorizes counties and cities to impose local sales and use taxes in conformity with the Sales and Use Tax Law, and existing laws authorize districts, as specified, to impose transactions and use taxes in accordance with the Transactions and Use Tax Law, which generally conforms to the Sales and Use Tax Law. Amendments to the Sales and Use Tax Law are automatically incorporated into the local tax laws.

Existing law requires the state to reimburse counties and cities for revenue losses caused by the enactment of sales and use tax exemptions.

This bill would provide that, notwithstanding Section 2230 of the Revenue and Taxation Code, no appropriation is made and the state shall not reimburse any local agencies for sales and use tax revenues lost by them pursuant to this bill as required by that section.

(3) The Sales and Use Tax Law, in lieu of specified credits allowed under the Personal Income Tax Law and the Corporation Tax Law for qualified expenditures paid or incurred by a taxpayer for the production of a qualified motion picture, allows a qualified taxpayer or affiliate to make an irrevocable election to (1) claim a refund of qualified sales and use taxes previously paid during a specified period not exceeding the income tax credit amount and (2) apply that income tax credit amount against qualified sales and use taxes imposed on the qualified taxpayer in the reporting periods in the 5 years following the reporting period for which the claimant was required to file its most recent sales and use tax return, as specified.

This bill would prohibit the total amount of refunds or credit offsets claimed in lieu of qualified motion picture tax credits that would otherwise be allowed for a taxable year beginning on or after January 1, 2020, and before January 1, 2023, from exceeding \$5,000,000. This bill would provide, that for those amounts for which an irrevocable election is made in lieu of those qualified motion picture tax credits that would otherwise be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, that are in excess of \$5,000,000 for that taxable year, the claimant may offset that excess credit amount, or assigned portion, against the qualified sales and use taxes imposed during the reporting periods in the 5 years following and including the reporting period beginning on and after January 1, 2024. The bill would not apply to irrevocable elections made before the operative date of the bill.

Existing state constitutional law governing insurance taxation imposes an annual tax on the gross premiums of an insurer, as defined, doing business in this state at specified rates. Existing law governing the taxation of insurers allows as credits against the taxes imposed by those laws a low-income housing tax credit allocated by the California Tax Credit Allocation Committee, a College Access Tax Credit allocated and certified by the California Educational Facilities Authority, and a credit in an amount equal to the amount of the gross premiums tax due from an insurer on account of

pilot project insurance for previously uninsured motorists, as defined. Existing law allows any excess low-income housing tax credit and College Access Tax Credit to be carried over to reduce the tax in a succeeding year, as specified.

This bill would provide that for the years 2020, 2021, and 2022, the total amount of all those insurance tax credits otherwise allowable, including any credit amount allowed to be carried over, may not reduce the annual tax by more than \$5,000,000 for a given year. The bill would provide that the amount of the College Access Tax Credit otherwise allowable that is not allowed due to the application of this bill will remain a credit carryover amount, and would also provide that the carryover period for any credit that is not allowed due to the application of this bill will be increased by the number of taxable years the credit or any portion thereof was not allowed. The bill would provide that this limitation does not apply to the low-income housing tax credit allocated by the California Tax Credit Allocation Committee.

The bill would provide that the amount of any credit of gross premiums tax due from an insurer on account of pilot project insurance for previously uninsured motorists otherwise allowable for a year that was not allowed due to the application of this bill may be carried over to reduce the annual tax in succeeding years if necessary, until the credit amount or any portion thereof that was not allowed is exhausted.

The Personal Income Tax Law and the Corporation Tax Law authorize various credits against the taxes imposed by those laws.

This bill would provide that for each taxable year beginning on or before January 1, 2020, and before January 1, 2023, the total credits otherwise allowable under those laws, except as specified, for the taxable year may not reduce the taxes imposed by those laws by more than \$5,000,000, as provided. The bill would provide that the amount of any credit otherwise allowable that is not allowed due to the application of this bill will remain a credit carryover amount. The bill would also provide that the carryover period for any credit that is not allowed due to the application of this bill will be increased by the number of taxable years the credit or any portion thereof was not allowed.

(4) The Personal Income Tax Law and the Corporation Tax Law allow motion picture credits for taxable years beginning on or after January 1, 2016, to be allocated by the California Film Commission on or after July 1, 2015, and before July 1, 2020. Existing law, in the case where the credits allowed pursuant to these provisions exceed the tax liability of the taxpayer, allows a taxpayer to carryover the credit amount to reduce tax liability in the following 6 taxable years, until the credit has been exhausted.

This bill would, under both laws, extend the carryover period from 6 taxable years to 9 taxable years.

(5) The Personal Income Tax Law and the Corporation Tax Law, in modified conformity with federal income tax laws, allow various deductions in computing the income that is subject to the taxes imposed by those laws, including a deduction for a net operating loss, as specified.

This bill would, subject to certain exceptions related to a taxpayer's income, disallow, under both laws, a net operating loss deduction for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, and would extend the carryover period for a net operating loss deduction disallowed by that provision, as specified.

(6) The Corporation Tax Law imposes an annual minimum franchise tax of \$800, except as provided, on every corporation incorporated in this state, qualified to transact intrastate business in this state, or doing business in this state, and exempts a corporation that incorporates or qualifies to do business in this state from the payment of the minimum franchise tax in its first taxable year. Existing law imposes an annual tax in an amount equal to the minimum franchise tax on every limited partnership, limited liability partnership, and limited liability company doing business in this state, as specified.

This bill, for taxable years beginning on or after January 1, 2020, and before January 1, 2024, in which a specified appropriation is made in any budget measure, would exempt a limited partnership, a limited liability partnership, and limited liability company that files, registers, or organizes to do business in this state, as provided, from the payment of the annual tax in its first taxable year.

(7) The Corporation Tax Law, for taxable years beginning on or after January 1, 2016, and before January 1, 2030, allows, with regard to the manufacture of a new advanced strategic aircraft for the United States Air Force, a credit against the taxes imposed under that law for 17½% of qualified wages, as defined, paid or incurred by the qualified taxpayer to qualified full-time employees, subject to specified limitations.

The Corporation Tax Law provides for an alternative minimum tax and provides that, except for specified credits, no credit shall reduce the regular tax, as defined, below the tentative minimum tax.

This bill, for taxable years beginning on or after January 1, 2020, and before January 1, 2026, would allow the above-described strategic aircraft credit to reduce the regular tax below the tentative minimum tax.

(8) Existing federal law, the Patient Protection and Affordable Care Act (PPACA), enacts various health care coverage market reforms. PPACA generally requires an individual, and their dependents, to maintain minimum essential coverage, as defined, and, if an individual fails to maintain minimum essential coverage, PPACA imposes on the individual taxpayer a penalty. This provision is referred to as the individual mandate.

Existing law authorizes the California Health Benefit Exchange to provide advanced premium assistance subsidies to help Californians access affordable health care coverage. Existing law generally requires a responsible individual to enroll in and maintain minimum essential coverage for themselves, and their spouse or dependent, and imposes the Individual Shared Responsibility Penalty for the failure to maintain minimum essential coverage. Under existing law, the penalty amount is determined and collected by the Franchise Tax Board, based on the number of applicable household members who failed to enroll in and maintain minimum essential coverage. Existing law

specifies an order of priority for debts if a debtor has more than one debt being collected by the Franchise Tax Board and the amount collected is insufficient to satisfy the total amount owed, with payment of the Individual Shared Responsibility Penalty and payment of advanced premium subsidies in excess of the allowed amount at the end of that order.

This bill would limit the maximum monthly penalty for a responsible individual with an applicable household size of 5 or more individuals to the maximum monthly penalty for a responsible individual with an applicable household size of 5 individuals. The bill would require the Franchise Tax Board to apply funds collected from a debtor toward payment of the Individual Shared Responsibility Penalty and overpaid advanced premium subsidies as a first priority. The bill would also make additional clarifying changes.

(9) This bill would include a change in state statute that would result in a taxpayer paying a higher tax within the meaning of Section 3 of Article XIII A of the California Constitution, and thus would require for passage the approval of $\frac{2}{3}$ of the membership of each house of the Legislature.

(10) This bill would declare that it is to take effect immediately as a bill providing for appropriations related to the Budget Bill.

Appropriation: yes.

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

SECTION 1. Section 6295 is added to the Revenue and Taxation Code, to read:

6295. (a) When a vehicle required to be registered under the Vehicle Code is sold at retail by any dealer holding a license issued pursuant to Chapter 4 (commencing with Section 11700) of Division 5 of the Vehicle Code, the dealer shall pay the applicable sales tax to the Department of Motor Vehicles acting for and on behalf of the California Department of Tax and Fee Administration pursuant to Sections 4456 and 4750.6 of the Vehicle Code.

(b) If the dealer makes an application to the Department of Motor Vehicles that is not timely, and is subject to penalty because of delinquency in effecting registration or transfer of registration of the vehicle, the dealer shall also be liable for penalty as specified in Section 6591, but no interest shall accrue.

(c) Application to the Department of Motor Vehicles by the dealer shall not relieve the dealer of the obligation to file a return with the California Department of Tax and Fee Administration under Section 6452. The dealer shall file a return as specified in Section 6453.

(d) If the dealer fails to make an application to the Department of Motor Vehicles, fails to pay the amount of sales tax due, or fails to timely file a return with the California Department of Tax and Fee Administration under Section 6452, interest and penalties shall apply with respect to the unpaid amount as provided in Chapter 5 (commencing with Section 6451).

(e) For purposes of this section, “dealer” shall not include a new motor vehicle dealer as defined by Section 426, a manufacturer or remanufacturer holding a license issued pursuant to Chapter 4 (commencing with Section 11700) of Division 5, an automobile dismantler holding a license and certificate issued pursuant to Chapter 3 (commencing with Section 11500) of Division 5, or a lessor-retailer holding a license issued pursuant to Chapter 3.5 (commencing with Section 11600) of Division 5, and subject to the provisions of Section 11615.5.

(f) This section shall apply to sales of vehicles occurring on and after January 1, 2021.

SEC. 2. Section 6363.9 of the Revenue and Taxation Code is amended to read:

6363.9. (a) On and after January 1, 2020, there are exempted from the taxes imposed by this part the gross receipts from the sale in this state of, and the storage, use, or other consumption in this state of, diapers designed, manufactured, processed, fabricated, or packaged for use by infants, toddlers, and children.

(b) This section shall become inoperative on July 1, 2023.

SEC. 3. Section 6363.10 of the Revenue and Taxation Code is amended to read:

6363.10. (a) On and after January 1, 2020, there are exempted from the taxes imposed by this part the gross receipts from the sale in this state of, and the storage, use, or other consumption in this state of, menstrual hygiene products.

(b) For purposes of this section, “menstrual hygiene products” shall only include the following:

(1) Tampons.

(2) Sanitary napkins primarily designed and labeled for menstrual hygiene use.

(3) Menstrual sponges.

(4) Menstrual cups.

(c) This section shall become inoperative on July 1, 2023.

SEC. 4. Section 6902.5 of the Revenue and Taxation Code is amended to read:

6902.5. (a) For the purposes of this section:

(1) “Qualified taxpayer” means a person who is a qualified taxpayer within the meaning of paragraph (17) of subdivision (b) of Section 17053.85, 17053.95, 23685, or 23695, or paragraph (19) of subdivision (b) of Section 17053.98 or 23698.

(2) “Affiliate” means a qualified taxpayer’s affiliated corporation that has been assigned any portion of the credit amount by the qualified taxpayer pursuant to subdivision (c) of Section 23685, subdivision (c) of Section 23695, or subdivision (c) of Section 23698.

(3) “Credit amount” means an amount equal to the tax credit amount that would otherwise be allowed to a qualified taxpayer pursuant to Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698, but for the election made pursuant to this section.

(4) “Production period” means the production period as defined in paragraph (12) of subdivision (b) of Section 17053.85, 17053.95, 23685, or 23695 or in paragraph (14) of subdivision (b) of Section 17053.98 or 23698.

(5) (A) “Qualified sales and use taxes” means any state sales and use taxes imposed by Part 1 (commencing with Section 6001), on the operative date of the act adding this section.

(B) Notwithstanding subparagraph (A), “qualified sales and use taxes” does not mean taxes imposed by Section 6051.2, 6051.5, 6201.2, 6201.5, Part 1.5 (commencing with Section 7200), Part 1.6 (commencing with Section 7251), or Section 35 of Article XIII of the California Constitution.

(b) (1) A qualified taxpayer may, in lieu of claiming the credit allowed by Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698, make an irrevocable election to apply the credit amount against qualified sales and use taxes imposed on the qualified taxpayer in accordance with this section.

(2) An affiliate may, in lieu of claiming the assigned portion of the credit allowed by Section 23685, 23695, or 23698, make an irrevocable election to apply the assigned portion of the credit amount against qualified sales and use taxes imposed on the affiliate in accordance with this section.

(c) (1) A qualified taxpayer or affiliate shall submit to the California Department of Tax and Fee Administration an irrevocable election, in a form as prescribed by the California Department of Tax and Fee Administration, which shall include, but not be limited to, the following information:

(A) Representation that the claimant is a qualified taxpayer or an affiliate.

(B) Statement of the dates on which the production period began and ended.

(C) The credit amount, and if an affiliate, the portion of the credit amount assigned to it and documentation supporting the assignment of that portion of the credit amount.

(D) The amount of qualified sales and use taxes the claimant remitted to the California Department of Tax and Fee Administration during the period commencing on the first day of the calendar quarter commencing immediately before the beginning of the production period, and ending on the date the claimant was required to file its most recent sales and use tax return with the California Department of Tax and Fee Administration.

(E) A copy of the credit certificate issued pursuant to subparagraph (C) of paragraph (2) of subdivision (g) of Section 17053.85 or 23685 or subparagraph (D) of paragraph (3) of subdivision (g) of Section 17053.95, 17053.98, 23695, or 23698.

(2) The election shall be filed on or before the date on which the qualified taxpayer or affiliate would first be allowed to claim a credit pursuant to Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698 on its tax return.

(3) (A) For those amounts for which an irrevocable election is made in lieu of tax credits allowed pursuant to Section 17053.85, 17053.95, 17053.98,

23685, 23695, or 23698 that would otherwise be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, subdivision (d) and paragraph (1) of subdivision (e) shall only apply to those in-lieu credit amounts that do not exceed five million dollars (\$5,000,000) for that taxable year.

(B) For those amounts for which an irrevocable election is made in lieu of tax credits allowed pursuant to Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698 that would otherwise be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, that are in excess of five million dollars (\$5,000,000) for that taxable year, subdivision (f) shall apply.

(d) (1) The claimant may elect to obtain a refund of qualified sales and use taxes paid during the period described in subparagraph (D) of paragraph (1) of subdivision (c). If the claimant elects to obtain a refund of qualified sales and use taxes, the claimant shall file a claim for refund with the irrevocable election described in subdivision (c). The refund amount shall not exceed, for a qualified taxpayer, the credit amount, or for an affiliate, the portion of the credit amount assigned to it.

(2) No interest shall be paid on any amount refunded or credited pursuant to paragraph (1).

(e) (1) If the claimant does not elect to obtain a refund or in the case where the credit amount, or assigned portion, exceeds the amount of its claim for refund for the qualified sales and use taxes, the claimant may, for the reporting periods in the five years following the last reporting period as described in subparagraph (D) of paragraph (1) of subdivision (c), offset any remaining credit amount, or assigned portion, against the qualified sales and use taxes imposed during those reporting periods.

(2) Notwithstanding paragraph (1), the total amount of refunds or credit offsets claimed under subdivision (d) and paragraph (1) of this subdivision in lieu of tax credits allowed pursuant to Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698 that would otherwise be allowed for a taxable year beginning on or after January 1, 2020, and before January 1, 2023, shall not exceed five million dollars (\$5,000,000).

(f) Notwithstanding subdivision (d) and paragraph (1) of subdivision (e), for those amounts for which an irrevocable election is made in lieu of tax credits allowed pursuant to Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698 that would otherwise be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, that are in excess of five million dollars (\$5,000,000) for that taxable year, the claimant may offset that excess credit amount, or assigned portion, against the qualified sales and use taxes imposed during the reporting periods in the five years following and including the reporting period beginning on and after January 1, 2024.

(g) Section 6961 shall apply to any refund, or part thereof, that is erroneously made and any credit, or part thereof, that is erroneously allowed pursuant to this section.

(h) The California Department of Tax and Fee Administration shall provide an annual listing to the Franchise Tax Board, in a form and manner agreed upon by the California Department of Tax and Fee Administration and the Franchise Tax Board, of the qualified taxpayers, or affiliates that have been assigned a portion of the credit allowed under Section 23685 pursuant to subdivision (c) of Section 23685, Section 23695 pursuant to subdivision (c) of Section 23695, or Section 23698 pursuant to subdivision (c) of Section 23698, who, during the year, have made an irrevocable election pursuant to this section and the credit amount, or portion of the credit amount, claimed by each qualified taxpayer or affiliate.

(i) The California Department of Tax and Fee Administration may prescribe rules and regulations for the administration of this section.

(j) The amendments made to this section by the act adding this subdivision shall not apply to irrevocable elections made before the operative date of the act adding this subdivision.

SEC. 5. Section 12209 is added to the Revenue and Taxation Code, to read:

12209. (a) Notwithstanding Sections 12207 and 12208 to the contrary, for the years 2020, 2021, and 2022, the total amount of all credits otherwise allowable under Sections 12207 and 12208, including any credit amount allowed to be carried over pursuant to those sections or subdivision (c), shall not reduce the “tax,” as described by Section 12201, by more than five million dollars (\$5,000,000) for a given year.

(b) (1) The amount of any credit otherwise allowable for a year under Section 12207 that is not allowed due to the application of this section shall remain a credit carryover amount under Section 12207.

(2) The carryover period for any credit allowable under Section 12207 that is not allowed due to the application of this section shall be increased by the number of years the credit or any portion thereof was not allowed.

(c) The amount of any credit otherwise allowable for a year under Section 12208 that was not allowed due to the application of this section may be carried over to reduce the “tax,” as described by Section 12201, for the following year, and succeeding years if necessary, until the credit amount or any portion thereof that was not allowed due to the application of this section is exhausted. However, any credit amount under Section 12208 that is allowed to be carried over pursuant to this subdivision is also subject to the limitation in subdivision (a).

(d) The limitation under subdivision (a) shall not apply to the credit allowed by Section 12206 (relating to credit for low-income housing).

SEC. 6. Section 17039.3 is added to the Revenue and Taxation Code, to read:

17039.3. (a) Notwithstanding any provision of this part or Part 10.2 (commencing with Section 18401) to the contrary, for taxpayers not required to be included in a combined report under Section 25101 or 25110, or taxpayers not authorized to be included in a combined report under Section 25101.15, for each taxable year beginning on or after January 1, 2020, and before January 1, 2023, the total of all business credits otherwise allowable

under any provision of Chapter 2 (commencing with Section 17041), including the carryover of any business credit under a former provision of that chapter, for the taxable year shall not reduce the “net tax,” as defined in Section 17039, by more than five million dollars (\$5,000,000).

(b) Notwithstanding any provision of this part or Part 10.2 (commencing with Section 18401) to the contrary, for taxpayers required to be included in a combined report under Section 25101 or 25110, or taxpayers authorized to be included in a combined report under Section 25101.15, for each taxable year beginning on or after January 1, 2020, and before January 1, 2023, the total of all business credits otherwise allowable under any provision of Chapter 2 (commencing with Section 17041), including the carryover of any business credit under a former provision of that chapter, by all members of the combined report shall not reduce the aggregate amount of “tax,” as defined in Section 23036, of all members of the combined report by more than five million dollars (\$5,000,000).

(c) For purposes of this section, “business credit” means a credit allowable under any provision of Chapter 2 (commencing with Section 17041) other than the following credits:

(1) The credit allowed by Section 17052 (relating to credit for earned income).

(2) The credit allowed by Section 17052.1 (relating to credit for young child).

(3) The credit allowed by Section 17052.6 (relating to credit for household and dependent care).

(4) The credit allowed by Section 17052.25 (relating to credit for adoption costs).

(5) The credit allowed by Section 17053.5 (relating to renter’s tax credit).

(6) The credit allowed by Section 17054 (relating to credit for personal exemption).

(7) The credit allowed by Section 17054.5 (relating to credit for qualified joint custody head of household and a qualified taxpayer with a dependent parent).

(8) The credit allowed by Section 17054.7 (relating to credit for qualified senior head of household).

(9) The credit allowed by Section 17058 (relating to credit for low-income housing).

(10) The credit allowed by Section 17061 (relating to refunds pursuant to the Unemployment Insurance Code).

(d) Any amounts included in an election pursuant to Section 6902.5, relating to an irrevocable election to apply credit amounts under Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698 against qualified sales and use tax, as defined in Section 6902.5, are not included in the five-million-dollar (\$5,000,000) limitation set forth in subdivision (a) or (b).

(e) The amount of any credit otherwise allowable for the taxable year under Section 17039 that is not allowed due to application of this section shall remain a credit carryover amount under this part.

(f) The carryover period for any credit that is not allowed due to the application of this section shall be increased by the number of taxable years the credit or any portion thereof was not allowed.

(g) Notwithstanding anything to the contrary in this part or Part 10.2 (commencing with Section 18401), the credits listed in subdivision (c) shall be applied after any business credits, as limited by subdivision (a) or (b), are applied.

(h) Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code does not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the Franchise Tax Board pursuant to this section.

SEC. 7. Section 17053.95 of the Revenue and Taxation Code is amended to read:

17053.95. (a) (1) For taxable years beginning on or after January 1, 2016, there shall be allowed to a qualified taxpayer a credit against the “net tax,” as defined in Section 17039, subject to a computation and ranking by the California Film Commission in subdivision (g) and the allocation amount categories described in subdivision (i), in an amount equal to 20 percent or 25 percent, whichever is the applicable credit percentage described in paragraph (4), of the qualified expenditures for the production of a qualified motion picture in California. A credit shall not be allowed under this section for any qualified expenditures for the production of a motion picture in California if a credit has been claimed for those same expenditures under Section 17053.85.

(2) Except as otherwise provided in this section, the credit shall be allowed for the taxable year in which the California Film Commission issues the credit certificate pursuant to subdivision (g) for the qualified motion picture, but in no instance prior to July 1, 2016, and shall be for the applicable percentage of all qualified expenditures paid or incurred by the qualified taxpayer in all taxable years for that qualified motion picture.

(3) The amount of the credit allowed to a qualified taxpayer shall be limited to the amount specified in the credit certificate issued to the qualified taxpayer by the California Film Commission pursuant to subdivision (g).

(4) For purposes of paragraphs (1) and (2), the applicable credit percentage shall be:

(A) Twenty percent of the qualified expenditures attributable to the production of a qualified motion picture in California, including, but not limited to, a feature, up to one hundred million dollars (\$100,000,000) in qualified expenditures, or a television series that relocated to California that is in its second or subsequent years of receiving a tax credit allocation pursuant to this section or Section 17053.85.

(B) Twenty-five percent of the qualified expenditures attributable to the production of a qualified motion picture in California where the qualified motion picture is a television series that relocated to California in its first year of receiving a tax credit allocation pursuant to this section.

(C) Twenty-five percent of the qualified expenditures, up to ten million dollars (\$10,000,000), attributable to the production of a qualified motion picture that is an independent film.

(D) Additional credits shall be allowed to a qualified motion picture whose applicable credit percentage is determined pursuant to subparagraph (A), in an aggregate amount not to exceed 5 percent of the qualified expenditures under that subparagraph, as follows:

(i) (I) Five percent of qualified expenditures relating to original photography outside the Los Angeles zone.

(II) For purposes of this clause:

(ia) “Applicable period” means the period that commences with preproduction and ends when original photography concludes. The applicable period includes the time necessary to strike a remote location and return to the Los Angeles zone.

(ib) “Los Angeles zone” means the area within a circle 30 miles in radius from Beverly Boulevard and La Cienega Boulevard, Los Angeles, California, and includes Agua Dulce, Castaic, including Lake Castaic, Leo Carrillo State Beach, Ontario International Airport, Piru, and Pomona, including the Los Angeles County Fairgrounds. The Metro Goldwyn Mayer, Inc. Conejo Ranch property is within the Los Angeles zone.

(ic) “Original photography” includes principal photography and reshooting original footage.

(id) “Qualified expenditures relating to original photography outside the Los Angeles zone” means amounts paid or incurred during the applicable period for tangible personal property purchased or leased and used or consumed outside the Los Angeles zone and relating to original photography outside the Los Angeles zone and qualified wages paid for services performed outside the Los Angeles zone and relating to original photography outside the Los Angeles zone.

(ii) Five percent of the qualified expenditures relating to music scoring and music track recording by musicians attributable to the production of a qualified motion picture in California.

(iii) Five percent of the qualified expenditures relating to qualified visual effects attributable to the production of a qualified motion picture in California.

(b) For purposes of this section:

(1) “Ancillary product” means any article for sale to the public that contains a portion of, or any element of, the qualified motion picture.

(2) “Budget” means an estimate of all expenses paid or incurred during the production period of a qualified motion picture. It shall be the same budget used by the qualified taxpayer and production company for all qualified motion picture purposes.

(3) “Clip use” means a use of any portion of a motion picture, other than the qualified motion picture, used in the qualified motion picture.

(4) “Credit certificate” means the certificate issued by the California Film Commission pursuant to subparagraph (C) of paragraph (3) of subdivision (g).

(5) (A) “Employee fringe benefits” means the amount allowable as a deduction under this part to the qualified taxpayer involved in the production of the qualified motion picture, exclusive of any amounts contributed by employees, for any year during the production period with respect to any of the following:

(i) Employer contributions under any pension, profit-sharing, annuity, or similar plan.

(ii) Employer-provided coverage under any accident or health plan for employees.

(iii) The employer’s cost of life or disability insurance provided to employees.

(B) Any amount treated as wages under clause (i) of subparagraph (A) of paragraph (21) shall not be taken into account under this paragraph.

(6) “Independent film” means a motion picture with a minimum budget of one million dollars (\$1,000,000) that is produced by a company that is not publicly traded and publicly traded companies do not own, directly or indirectly, more than 25 percent of the producing company.

(7) “Jobs ratio” means the amount of qualified wages paid to qualified individuals divided by the amount of tax credit, not including any additional credit allowed pursuant to subparagraph (D) of paragraph (4) of subdivision (a), as computed by the California Film Commission.

(8) “Licensing” means any grant of rights to distribute the qualified motion picture, in whole or in part.

(9) “New use” means any use of a motion picture in a medium other than the medium for which it was initially created.

(10) “Pilot for a new television series” means the initial episode produced for a proposed television series.

(11) (A) “Postproduction” means the final activities in a qualified motion picture’s production, including editing, foley recording, automatic dialogue replacement, sound editing, scoring, music track recording by musicians and music editing, beginning and end credits, negative cutting, negative processing and duplication, the addition of sound and visual effects, sound mixing, film-to-tape transfers, encoding, and color correction.

(B) “Postproduction” does not include the manufacture or shipping of release prints or their equivalent.

(12) “Preproduction” means the process of preparation for actual physical production which begins after a qualified motion picture has received a firm agreement of financial commitment, or is greenlit, with, for example, the establishment of a dedicated production office, the hiring of key crew members, and includes, but is not limited to, activities that include location scouting and execution of contracts with vendors of equipment and stage space.

(13) “Principal photography” means the phase of production during which the motion picture is actually shot, as distinguished from preproduction and postproduction.

(14) “Production period” means the period beginning with preproduction and ending upon completion of postproduction.

(15) “Qualified entity” means a personal service corporation as defined in Section 269A(b)(1) of the Internal Revenue Code, a payroll services corporation, or any entity receiving qualified wages with respect to services performed by a qualified individual.

(16) “Qualified expenditures” means amounts paid or incurred for tangible personal property purchased or leased, and used, within this state in the production of a qualified motion picture and payments, including qualified wages, for services performed within this state in the production of a qualified motion picture.

(17) (A) “Qualified individual” means any individual who performs services during the production period in an activity related to the production of a qualified motion picture.

(B) “Qualified individual” shall not include either of the following:

(i) Any individual related to the qualified taxpayer as described in subparagraph (A), (B), or (C) of Section 51(i)(1) of the Internal Revenue Code.

(ii) Any 5-percent owner, as defined in Section 416(i)(1)(B) of the Internal Revenue Code, of the qualified taxpayer.

(18) (A) “Qualified motion picture” means a motion picture that is produced for distribution to the general public, regardless of medium, that is one of the following:

(i) A feature with a minimum production budget of one million dollars (\$1,000,000).

(ii) A movie of the week or miniseries with a minimum production budget of five hundred thousand dollars (\$500,000).

(iii) A new television series of episodes longer than 40 minutes each of running time, exclusive of commercials, that is produced in California, with a minimum production budget of one million dollars (\$1,000,000) per episode.

(iv) An independent film.

(v) A television series that relocated to California.

(vi) A pilot for a new television series that is longer than 40 minutes of running time, exclusive of commercials, that is produced in California, and with a minimum production budget of one million dollars (\$1,000,000).

(B) To qualify as a “qualified motion picture,” all of the following conditions shall be satisfied:

(i) At least 75 percent of the principal photography days occur wholly in California or 75 percent of the production budget is incurred for payment for services performed within the state and the purchase or rental of property used within the state.

(ii) Production of the qualified motion picture is completed within 30 months from the date on which the qualified taxpayer’s application is approved by the California Film Commission. For purposes of this section, a qualified motion picture is “completed” when the process of postproduction has been finished.

(iii) The copyright for the motion picture is registered with the United States Copyright Office pursuant to Title 17 of the United States Code.

(iv) Principal photography of the qualified motion picture commences after the date on which the application is approved by the California Film Commission, but no later than 180 days after the date of that approval unless death, disability, or disfigurement of the director or of a principal cast member, an act of God, including, but not limited to, fire, flood, earthquake, storm, hurricane, or other natural disaster, terrorist activities, or government sanction has directly prevented a production's ability to begin principal photography within the prescribed 180-day commencement period.

(C) For the purposes of subparagraph (A), in computing the total wages paid or incurred for the production of a qualified motion picture, all amounts paid or incurred by all persons or entities that share in the costs of the qualified motion picture shall be aggregated.

(D) "Qualified motion picture" shall not include commercial advertising, music videos, a motion picture produced for private noncommercial use, such as weddings, graduations, or as part of an educational course and made by students, a news program, current events or public events program, talk show, game show, sporting event or activity, awards show, telethon or other production that solicits funds, reality television program, clip-based programming if more than 50 percent of the content is comprised of licensed footage, documentaries, variety programs, daytime dramas, strip shows, one-half hour (air time) episodic television shows, or any production that falls within the recordkeeping requirements of Section 2257 of Title 18 of the United States Code.

(19) (A) "Qualified taxpayer" means a taxpayer who has paid or incurred qualified expenditures, participated in the Career Readiness requirement, and has been issued a credit certificate by the California Film Commission pursuant to subdivision (g).

(B) In the case of any pass-thru entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level and any credit under this section is not allowed to the pass-thru entity, but shall be passed through to the partners or shareholders in accordance with applicable provisions of Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001). For purposes of this paragraph, "pass-thru entity" means any entity taxed as a partnership or "S" corporation.

(20) "Qualified visual effects" means visual effects where at least 75 percent or a minimum of ten million dollars (\$10,000,000) of the qualified expenditures for the visual effects is paid or incurred in California.

(21) (A) "Qualified wages" means all of the following:

(i) Any wages subject to withholding under Division 6 (commencing with Section 13000) of the Unemployment Insurance Code that were paid or incurred by any taxpayer involved in the production of a qualified motion picture with respect to a qualified individual for services performed on the qualified motion picture production within this state.

(ii) The portion of any employee fringe benefits paid or incurred by any taxpayer involved in the production of the qualified motion picture that are properly allocable to qualified wage amounts described in clauses (i), (iii), and (iv).

(iii) Any payments made to a qualified entity for services performed in this state by qualified individuals within the meaning of paragraph (17).

(iv) Remuneration paid to an independent contractor who is a qualified individual for services performed within this state by that qualified individual.

(B) “Qualified wages” shall not include any of the following:

(i) Expenses, including wages, related to new use, reuse, clip use, licensing, secondary markets, or residual compensation, or the creation of any ancillary product, including, but not limited to, a soundtrack album, toy, game, trailer, or teaser.

(ii) Expenses, including wages, paid or incurred with respect to acquisition, development, turnaround, or any rights thereto.

(iii) Expenses, including wages, related to financing, overhead, marketing, promotion, or distribution of a qualified motion picture.

(iv) Expenses, including wages, paid per person per qualified motion picture for writers, directors, music directors, music composers, music supervisors, producers, and performers, other than background actors with no scripted lines.

(22) “Residual compensation” means supplemental compensation paid at the time that a motion picture is exhibited through new use, reuse, clip use, or in secondary markets, as distinguished from payments made during production.

(23) “Reuse” means any use of a qualified motion picture in the same medium for which it was created, following the initial use in that medium.

(24) “Secondary markets” means media in which a qualified motion picture is exhibited following the initial media in which it is exhibited.

(25) “Television series that relocated to California” means a television series, without regard to episode length or initial media exhibition, with a minimum production budget of one million dollars (\$1,000,000) per episode, that filmed its most recent season outside of California or has filmed all seasons outside of California and for which the taxpayer certifies that the credit provided pursuant to this section is the primary reason for relocating to California.

(26) “Visual effects” means the creation, alteration, or enhancement of images that cannot be captured on a set or location during live action photography and therefore is accomplished in postproduction. It includes, but is not limited to, matte paintings, animation, set extensions, computer-generated objects, characters and environments, compositing (combining two or more elements in a final image), and wire removals. “Visual effects” does not include fully animated projects, whether created by traditional or digital means.

(c) (1) Notwithstanding any other law, a qualified taxpayer may sell any credit allowed under this section that is attributable to an independent film, as defined in paragraph (6) of subdivision (b), to an unrelated party.

(2) The qualified taxpayer shall report to the Franchise Tax Board prior to the sale of the credit, in the form and manner specified by the Franchise Tax Board, all required information regarding the purchase and sale of the

credit, including the social security or other taxpayer identification number of the unrelated party to whom the credit has been sold, the face amount of the credit sold, and the amount of consideration received by the qualified taxpayer for the sale of the credit.

(3) In the case where the credit allowed under this section exceeds the “net tax,” the excess credit may be carried over to reduce the “net tax” in the following taxable year, and succeeding eight taxable years, if necessary, until the credit has been exhausted.

(4) A credit shall not be sold pursuant to this subdivision to more than one taxpayer, nor may the credit be resold by the unrelated party to another taxpayer or other party.

(5) A party that has acquired tax credits under this subdivision shall be subject to the requirements of this section.

(6) In no event may a qualified taxpayer assign or sell any tax credit to the extent the tax credit allowed by this section is claimed on any tax return of the qualified taxpayer.

(7) In the event that both the taxpayer originally allocated a credit under this section by the California Film Commission and a taxpayer to whom the credit has been sold both claim the same amount of credit on their tax returns, the Franchise Tax Board may disallow the credit of either taxpayer, so long as the statute of limitations upon assessment remains open.

(8) Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code does not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the Franchise Tax Board pursuant to this subdivision.

(9) Subdivision (g) of Section 17039 shall not apply to any credit sold pursuant to this subdivision.

(10) For purposes of this subdivision, the unrelated party or parties that purchase a credit pursuant to this subdivision shall be treated as a qualified taxpayer pursuant to paragraph (1) of subdivision (a).

(d) (1) No credit shall be allowed pursuant to this section unless the qualified taxpayer provides the following to the California Film Commission:

(A) Identification of each qualified individual.

(B) The specific start and end dates of production.

(C) The total wages paid.

(D) The total amount of qualified wages paid to qualified individuals.

(E) The copyright registration number, as reflected on the certificate of registration issued under the authority of Section 410 of Title 17 of the United States Code, relating to registration of claim and issuance of certificate. The registration number shall be provided on the return claiming the credit.

(F) The total amounts paid or incurred to purchase or lease tangible personal property used in the production of a qualified motion picture.

(G) Information to substantiate its qualified expenditures.

(H) Information required by the California Film Commission under regulations promulgated pursuant to subdivision (g) necessary to verify the amount of credit claimed.

(I) Provides documentation verifying completion of the Career Readiness requirement.

(2) (A) Based on the information provided in paragraph (1), the California Film Commission shall recompute the jobs ratio previously computed in subdivision (g) and compare this recomputed jobs ratio to the jobs ratio that the qualified taxpayer previously listed on the application submitted pursuant to subdivision (g).

(B) (i) If the California Film Commission determines that the jobs ratio has been reduced by more than 10 percent for a qualified motion picture other than an independent film, the California Film Commission shall reduce the amount of credit allowed by an equal percentage, unless the qualified taxpayer demonstrates, and the California Film Commission determines, that reasonable cause exists for the jobs ratio reduction.

(ii) If the California Film Commission determines that the jobs ratio has been reduced by more than 20 percent for a qualified motion picture other than an independent film, the California Film Commission shall not accept an application described in subdivision (g) from that qualified taxpayer or any member of the qualified taxpayer's controlled group for a period of not less than one year from the date of that determination, unless the qualified taxpayer demonstrates, and the California Film Commission determines, that reasonable cause exists for the jobs ratio reduction.

(C) If the California Film Commission determines that the jobs ratio has been reduced by more than 30 percent for an independent film, the California Film Commission shall reduce the amount of credit allowed by an equal percentage, plus 10 percent of the amount of credit that would otherwise have been allowed, unless the qualified taxpayer demonstrates, and the California Film Commission determines, that reasonable cause exists for the jobs ratio reduction.

(D) For the purposes of this paragraph, "reasonable cause" means unforeseen circumstances beyond the control of the qualified taxpayer, such as, but not limited to, the cancellation of a television series prior to the completion of the scheduled number of episodes or other similar circumstances as determined by the California Film Commission in regulations to be adopted pursuant to subdivision (e).

(e) (1) (A) Subject to the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code), the California Film Commission shall adopt rules and regulations to implement a Career Readiness requirement by which the California Film Commission shall identify training and public service opportunities that may include, but not be limited to, hiring interns, public service announcements, and community outreach and may prescribe rules and regulations to carry out the purposes of this section, including, subparagraph (D) of paragraph (4) of subdivision (a) and clause (iv) of subparagraph (D) of paragraph (2) of subdivision (g), and including any rules and regulations necessary to establish procedures, processes, requirements, application fee structure, and rules identified in or required to implement this section, including credit and logo requirements and credit

allocation procedures over multiple fiscal years where the qualified taxpayer is producing a series of features that will be filmed concurrently.

(B) Notwithstanding any other law, prior to preparing a notice of proposed action pursuant to Section 11346.4 of the Government Code and prior to making any revision to the proposed regulation other than a change that is nonsubstantial or solely grammatical in nature, the Governor's Office of Business and Economic Development shall first approve the proposed regulation or proposed change to a proposed regulation regarding allocating the credit pursuant to subdivision (i), computing the jobs ratio as described in subdivisions (d) and (g), and defining "reasonable cause" pursuant to subparagraph (E) of paragraph (2) of subdivision (d).

(2) (A) Implementation of this section for the 2015–16 fiscal year is deemed an emergency and necessary for the immediate preservation of the public peace, health, and safety, or general welfare and, therefore, the California Film Commission is hereby authorized to adopt emergency regulations to implement this section during the 2015–16 fiscal year in accordance with the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

(B) Nothing in this paragraph shall be construed to require the Governor's Office of Business and Economic Development to approve emergency regulations adopted pursuant to this paragraph.

(3) The California Film Commission shall not be required to prepare an economic impact analysis pursuant to the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) with regard to any rules and regulations adopted pursuant to this subdivision.

(f) If the qualified taxpayer fails to provide the copyright registration number as required in subparagraph (E) of paragraph (1) of subdivision (d), the credit shall be disallowed and assessed and collected under Section 19051 until the procedures are satisfied.

(g) For purposes of this section, the California Film Commission shall do the following:

(1) Subject to the requirements of subparagraphs (A) through (E), inclusive, of paragraph (2), on or after July 1, 2015, and before July 1, 2016, in one or more allocation periods per fiscal year, allocate tax credits to applicants.

(2) On or after July 1, 2016, and before July 1, 2020, in two or more allocation periods per fiscal year, allocate tax credits to applicants.

(A) Establish a procedure for applicants to file with the California Film Commission a written application, on a form jointly prescribed by the California Film Commission and the Franchise Tax Board for the allocation of the tax credit. The application shall include, but not be limited to, the following information:

- (i) The budget for the motion picture production.
- (ii) The number of production days.
- (iii) A financing plan for the production.

(iv) The diversity of the workforce employed by the applicant, including, but not limited to, the ethnic and racial makeup of the individuals employed by the applicant during the production of the qualified motion picture, to the extent possible.

(v) All members of a combined reporting group, if known at the time of the application.

(vi) Financial information, if available, including, but not limited to, the most recently produced balance sheets, annual statements of profits and losses, audited or unaudited financial statements, summary budget projections or results, or the functional equivalent of these documents of a partnership or owner of a single member limited liability company that is disregarded pursuant to Section 23038. The information provided pursuant to this clause shall be confidential and shall not be subject to public disclosure.

(vii) The names of all partners in a partnership not publicly traded or the names of all members of a limited liability company classified as a partnership not publicly traded for California income tax purposes that have a financial interest in the applicant's qualified motion picture. The information provided pursuant to this clause shall be confidential and shall not be subject to public disclosure.

(viii) The amount of qualified wages the applicant expects to pay to qualified individuals.

(ix) The amount of tax credit the applicant computes the qualified motion picture will receive, applying the applicable credit percentages described in paragraph (4) of subdivision (a).

(x) A statement establishing that the tax credit described in this section is a significant factor in the applicant's choice of location for the qualified motion picture. The statement shall include information about whether the qualified motion picture is at risk of not being filmed or specify the jurisdiction or jurisdictions in which the qualified motion picture will be located in the absence of the tax credit. The statement shall be signed by an officer or executive of the applicant.

(xi) Any other information deemed relevant by the California Film Commission or the Franchise Tax Board.

(B) Establish criteria, consistent with the requirements of this section, for allocating tax credits.

(C) Determine and designate applicants who meet the requirements of this section.

(D) (i) For purposes of allocating the credit amounts subject to the categories described in subdivision (i) in any fiscal year, the California Film Commission shall do all of the following:

(ii) For each allocation date and for each category, list each applicant from highest to lowest according to the jobs ratio as computed by the California Film Commission.

(iii) Subject to the applicable credit percentage, allocate the credit to each applicant according to the highest jobs ratio, working down the list, until the credit amount is exhausted.

(iv) Pursuant to regulations adopted pursuant to subdivision (e), the California Film Commission may increase the jobs ratio by up to 25 percent if a qualified motion picture increases economic activity in California according to criteria developed by the California Film Commission that would include, but not be limited to, such factors as, the amount of the production and postproduction spending in California, the utilization of production facilities in California, and other criteria measuring economic impact in California as determined by the California Film Commission.

(v) Notwithstanding any other provision, any television series, relocating television series, or any new television series based on a pilot for a new television series that has been approved and issued a credit allocation by the California Film Commission under this section, Section 23695, 17053.85, or 23685 shall be issued a credit for each subsequent year, for the life of that television series whenever credits are allocated within a fiscal year.

(E) Subject to the annual cap and the allocation credit amounts based on categories described in subdivision (i), allocate an aggregate amount of credits under this section and Section 23695, and allocate any carryover of unallocated credits from prior years and the amount of any credits reduced pursuant to paragraph (2) of subdivision (d).

(3) Certify tax credits allocated to qualified taxpayers.

(A) Establish a verification procedure for the amount of qualified expenditures paid or incurred by the applicant, including, but not limited to, updates to the information in subparagraph (A) of paragraph (2) of subdivision (g).

(B) Establish audit requirements that must be satisfied before a credit certificate may be issued by the California Film Commission.

(C) (i) Establish a procedure for a qualified taxpayer to report to the California Film Commission, prior to the issuance of a credit certificate, the following information:

(I) If readily available, a list of the states, provinces, or other jurisdictions in which any member of the applicant's combined reporting group in the same business unit as the qualified taxpayer that, in the preceding calendar year, has produced a qualified motion picture intended for release in the United States market. For purposes of this clause, "qualified motion picture" shall not include any episodes of a television series that were complete or in production prior to July 1, 2016.

(II) Whether a qualified motion picture described in subclause (I) was awarded any financial incentive by the state, province, or other jurisdiction that was predicated on the performance of primary principal photography or postproduction in that location.

(ii) The California Film Commission may provide that the report required by this subparagraph be filed in a single report provided on a calendar year basis for those qualified taxpayers that receive multiple credit certificates in a calendar year.

(D) Issue a credit certificate to a qualified taxpayer upon completion of the qualified motion picture reflecting the credit amount allocated after qualified expenditures have been verified and the jobs ratio computed under

this section. The amount of credit shown in the credit certificate shall not exceed the amount of credit allocated to that qualified taxpayer pursuant to this section.

(4) Obtain, when possible, the following information from applicants that do not receive an allocation of credit:

(A) Whether the qualified motion picture that was the subject of the application was completed.

(B) If completed, in which state or foreign jurisdiction was the primary principal photography completed.

(C) Whether the applicant received any financial incentives from the state or foreign jurisdiction to make the qualified motion picture in that location.

(5) Provide the Legislative Analyst's Office, upon request, any or all application materials or any other materials received from, or submitted by, the applicants, in electronic format when available, including, but not limited to, information provided pursuant to clauses (i) to (xi) inclusive, of subparagraph (A) of paragraph (2).

(6) The information provided to the California Film Commission pursuant to this section shall constitute confidential tax information for purposes of Article 2 (commencing with Section 19542) of Chapter 7 of Part 10.2.

(h) (1) The California Film Commission shall annually provide the Legislative Analyst's Office, the Franchise Tax Board, and the board with a list of qualified taxpayers and the tax credit amounts allocated to each qualified taxpayer by the California Film Commission. The list shall include the names and taxpayer identification numbers, including taxpayer identification numbers of each partner or shareholder, as applicable, of the qualified taxpayer.

(2) (A) Notwithstanding paragraph (6) of subdivision (g), the California Film Commission shall annually post on its internet website and make available for public release the following:

(i) A table which includes all of the following information: a list of qualified taxpayers and the tax credit amounts allocated to each qualified taxpayer by the California Film Commission, the number of production days in California the qualified taxpayer represented in its application would occur, the number of California jobs that the qualified taxpayer represented in its application would be directly created by the production, and the total amount of qualified expenditures expected to be spent by the production.

(ii) A narrative staff summary describing the production of the qualified taxpayer as well as background information regarding the qualified taxpayer contained in the qualified taxpayer's application for the credit.

(B) Nothing in this subdivision shall be construed to make the information submitted by an applicant for a tax credit under this section a public record.

(3) The California Film Commission shall provide each city and county in California with an instructional guide that includes, but is not limited to, a review of best practices for facilitating motion picture production in local jurisdictions, resources on hosting and encouraging motion picture production, and the California Film Commissions' Model Film Ordinance.

The California Film Commission shall maintain on its internet website a list of initiatives by locality that encourage motion picture production in regions across the state. The list shall be distributed to each approved applicant for the program to highlight local jurisdictions that offer incentives to facilitate film production.

(i) (1) (A) The aggregate amount of credits that may be allocated for a fiscal year pursuant to this section and Section 23695 is the applicable amount described in the following, plus any amount described in subparagraph (B), (C), or (D):

(i) Two hundred thirty million dollars (\$230,000,000) in credits for the 2015–16 fiscal year.

(ii) Three hundred thirty million dollars (\$330,000,000) in credits for the 2016–17 fiscal year and each fiscal year thereafter, through and including the 2019–20 fiscal year.

(B) The unused allocation credit amount, if any, for the preceding fiscal year.

(C) The amount of previously allocated credits not certified.

(D) The amount of any credits reduced pursuant to paragraph (2) of subdivision (d).

(2) (A) Notwithstanding the foregoing, the California Film Commission shall allocate the credit amounts subject to the following categories:

(i) Independent films shall be allocated 5 percent of the amount specified in paragraph (1).

(ii) Features shall be allocated 35 percent of the amount specified in paragraph (1).

(iii) A relocating television series shall be allocated 20 percent of the amount specified in paragraph (1).

(iv) A new television series, pilots for a new television series, movies of the week, miniseries, and recurring television series shall be allocated 40 percent of the amount specified in paragraph (1).

(B) Within 60 days after the allocation period, any unused amount within a category or categories shall be first reallocated to the category described in clause (iv) of subparagraph (A) and, if any unused amount remains, reallocated to another category or categories with a higher demand as determined by the California Film Commission.

(C) Notwithstanding the foregoing, the California Film Commission may increase or decrease an allocation amount in subparagraph (A) by 5 percent, if necessary, due to the jobs ratio, the number of applications, or the allocation credit amounts available by category compared to demand.

(D) With respect to a relocating television series issued a credit in a subsequent year pursuant to clause (v) of subparagraph (D) of paragraph (2) of subdivision (g), that subsequent credit amount shall be allowed from the allocation amount described in clause (iv) of subparagraph (A).

(3) Any act that reduces the amount that may be allocated pursuant to paragraph (1) constitutes a change in state taxes for the purpose of increasing revenues within the meaning of Section 3 of Article XIII A of the California

Constitution and may be passed by not less than two-thirds of all Members elected to each of the two houses of the Legislature.

(j) The California Film Commission shall have the authority to allocate tax credits in accordance with this section and in accordance with any regulations prescribed pursuant to subdivision (e) upon adoption.

SEC. 8. Section 17276.23 is added to the Revenue and Taxation Code, to read:

17276.23. (a) Notwithstanding Sections 17276, 17276.1, 17276.4, 17276.7, and 17276.22, former Sections 17276.2, 17276.5, 17276.6, and 17276.20, and Section 172 of the Internal Revenue Code, a net operating loss deduction shall not be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023.

(b) For any net operating loss or carryover of a net operating loss for which a deduction is denied by subdivision (a), the carryover period under Section 172 of the Internal Revenue Code shall be extended as follows:

(1) By one year, for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

(2) By two years, for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.

(3) By three years, for losses incurred in taxable years beginning before January 1, 2020.

(c) This section shall not apply as follows:

(1) For a taxable year beginning on or after January 1, 2020, and before January 1, 2023, this section shall not apply to a taxpayer with a net business income of less than one million dollars (\$1,000,000) for the taxable year.

(2) For a taxable year beginning on or after January 1, 2020, and before January 1, 2023, this section shall not apply to a taxpayer with a modified adjusted gross income of less than one million dollars (\$1,000,000) for the taxable year.

(d) For purposes of this section:

(1) "Business income" means any of the following:

(A) Income from a trade or business, whether conducted by the taxpayer or by a passthrough entity owned directly or indirectly by the taxpayer.

(B) Income from rental activity.

(C) Income attributable to a farming business.

(2) "Modified adjusted gross income" means the amount described in paragraph (2) of subdivision (h) of Section 17024.5, determined without regard to the deduction allowed under Section 172 of the Internal Revenue Code, relating to net operating loss deduction.

(3) "Passthrough entity" means a partnership or an S corporation.

SEC. 9. Section 17935 of the Revenue and Taxation Code is amended to read:

17935. (a) Except as provided in subdivision (f), for each taxable year beginning on or after January 1, 1997, every limited partnership doing business in this state (as defined by Section 23101) and required to file a return under Section 18633 shall pay annually to this state a tax for the

privilege of doing business in this state in an amount equal to the applicable amount specified in Section 23153.

(b) (1) In addition to any limited partnership that is doing business in this state and therefore is subject to the tax imposed by subdivision (a), for each taxable year beginning on or after January 1, 1997, every limited partnership that has executed, acknowledged, and filed a certificate of limited partnership with the Secretary of State pursuant to Section 15621 or 15902.01 of the Corporations Code, and every foreign limited partnership that has registered with the Secretary of State pursuant to Section 15692 or 15909.01 of the Corporations Code, shall pay annually the tax prescribed in subdivision (a). The tax shall be paid for each taxable year, or part thereof, until a certificate of cancellation is filed on behalf of the limited partnership with the office of the Secretary of State pursuant to Section 15623, 15696, 15902.03, or 15909.07 of the Corporations Code.

(2) If a taxpayer files a return with the Franchise Tax Board that is designated its final return, that board shall notify the taxpayer that the tax imposed by this chapter is due annually until a certificate of cancellation is filed with the Secretary of State pursuant to Section 15623, 15696, 15902.03, or 15909.07 of the Corporations Code.

(c) The tax imposed by this chapter shall be due and payable on the date the return is required to be filed under former Section 18432 or 18633.

(d) For purposes of this section, “limited partnership” means any partnership formed by two or more persons under the laws of this state or any other jurisdiction and having one or more general partners and one or more limited partners.

(e) Notwithstanding subdivision (b), any limited partnership that ceased doing business prior to January 1, 1997, filed a final return with the Franchise Tax Board for a taxable year ending before January 1, 1997, and filed a certificate of dissolution with the Secretary of State pursuant to Section 15623 of the Corporations Code prior to January 1, 1997, shall not be subject to the tax imposed by this chapter for any period following the date the certificate of dissolution was filed with the Secretary of State, but only if the limited partnership files a certificate of cancellation with the Secretary of State pursuant to Section 15623 of the Corporations Code. In the case where a notice of proposed deficiency assessment of tax or a notice of tax due (whichever is applicable) is mailed after January 1, 2001, the first sentence of this subdivision shall not apply unless the certificate of cancellation is filed with the Secretary of State not later than 60 days after the date of the mailing of the notice.

(f) (1) Every limited partnership doing business in this state as described in subdivision (a) that files a certificate of limited partnership or registers with the Secretary of the State pursuant to subdivision (b) on or after January 1, 2021, and before January 1, 2024, shall not be subject to the tax imposed under this section for its first taxable year.

(2) This subdivision shall become operative only for a taxable year in which any budget measure appropriates one dollar (\$1) or more to the

Franchise Tax Board for the costs associated with administration of this subdivision.

SEC. 10. Section 17941 of the Revenue and Taxation Code is amended to read:

17941. (a) Except as provided in subdivision (g), for each taxable year beginning on or after January 1, 1997, a limited liability company doing business in this state (as defined in Section 23101) shall pay annually to this state a tax for the privilege of doing business in this state in an amount equal to the applicable amount specified in subdivision (d) of Section 23153 for the taxable year.

(b) (1) In addition to any limited liability company that is doing business in this state and is therefore subject to the tax imposed by subdivision (a), for each taxable year beginning on or after January 1, 1997, a limited liability company shall pay annually the tax prescribed in subdivision (a) if articles of organization have been accepted, or a certificate of registration has been issued, by the office of the Secretary of State. The tax shall be paid for each taxable year, or part thereof, until a certificate of cancellation of registration or of articles of organization is filed on behalf of the limited liability company with the office of the Secretary of State.

(2) If a taxpayer files a return with the Franchise Tax Board that is designated as its final return, the Franchise Tax Board shall notify the taxpayer that the annual tax shall continue to be due annually until a certificate of dissolution is filed with the Secretary of State pursuant to Section 17707.08 of the Corporations Code or a certificate of cancellation is filed with the Secretary of State pursuant to Section 17708.06 of the Corporations Code.

(c) The tax assessed under this section shall be due and payable on or before the 15th day of the fourth month of the taxable year.

(d) For purposes of this section, “limited liability company” means an organization, other than a limited liability company that is exempt from the tax and fees imposed under this chapter pursuant to Section 23701h or Section 23701x, that is formed by one or more persons under the law of this state, any other country, or any other state, as a “limited liability company” and that is not taxable as a corporation for California tax purposes.

(e) Notwithstanding anything in this section to the contrary, if the office of the Secretary of State files a certificate of cancellation pursuant to Section 17707.02 of the Corporations Code for any limited liability company, then paragraph (1) of subdivision (f) of Section 23153 shall apply to that limited liability company as if the limited liability company were properly treated as a corporation for that limited purpose only, and paragraph (2) of subdivision (f) of Section 23153 shall not apply. Nothing in this subdivision entitles a limited liability company to receive a reimbursement for any annual taxes or fees already paid.

(f) (1) Notwithstanding any provision of this section to the contrary, for taxable years beginning on or after January 1, 2020, a limited liability company that is a small business solely owned by a deployed member of the United States Armed Forces shall not be subject to the tax imposed

under this section for any taxable year the owner is deployed and the limited liability company operates at a loss or ceases operation.

(2) The Franchise Tax Board may promulgate regulations as necessary or appropriate to carry out the purposes of this subdivision, including a definition for “ceases operation.”

(3) For the purposes of this subdivision, all of the following definitions apply:

(A) “Deployed” means being called to active duty or active service during a period when a Presidential Executive order specifies that the United States is engaged in combat or homeland defense. “Deployed” does not include either of the following:

- (i) Temporary duty for the sole purpose of training or processing.
- (ii) A permanent change of station.

(B) “Operates at a loss” means a limited liability company’s expenses exceed its receipts.

(C) “Small business” means a limited liability company with total income from all sources derived from, or attributable to, the state of two hundred fifty thousand dollars (\$250,000) or less.

(4) This subdivision shall become inoperative for taxable years beginning on or after January 1, 2030.

(g) (1) Every limited liability company doing business in this state as described in subdivision (a) that organizes or registers with the Secretary of the State pursuant to subdivision (b) on or after January 1, 2021, and before January 1, 2024, shall not be subject to the tax imposed under this section for its first taxable year.

(2) This subdivision shall become operative only for a taxable year in which any budget measure appropriates one dollar (\$1) or more to the Franchise Tax Board for the costs associated with administration of this subdivision.

SEC. 11. Section 17948 of the Revenue and Taxation Code is amended to read:

17948. (a) Except as provided in subdivision (e), for each taxable year beginning on or after January 1, 1997, every limited liability partnership doing business in this state (as defined in Section 23101) and required to file a return under Section 18633 shall pay annually to the Franchise Tax Board a tax for the privilege of doing business in this state in an amount equal to the applicable amount specified in paragraph (1) of subdivision (d) of Section 23153 for the taxable year.

(b) In addition to any limited liability partnership that is doing business in this state and therefore is subject to the tax imposed by subdivision (a), for each taxable year beginning on or after January 1, 1997, every registered limited liability partnership that has registered with the Secretary of State pursuant to Section 16953 of the Corporations Code and every foreign limited liability partnership that has registered with the Secretary of State pursuant to Section 16959 of the Corporations Code shall pay annually the tax prescribed in subdivision (a). The tax shall be paid for each taxable year, or part thereof, until any of the following occurs:

(1) A notice of cessation is filed with the Secretary of State pursuant to subdivision (b) of Section 16954 or 16960 of the Corporations Code.

(2) A foreign limited liability partnership withdraws its registration pursuant to subdivision (a) of Section 16960 of the Corporations Code.

(3) The registered limited liability partnership or foreign limited liability partnership has been dissolved and finally wound up.

(c) The tax assessed under this section shall be due and payable on the date the return is required to be filed under Section 18633.

(d) If a taxpayer files a return with the Franchise Tax Board that is designated as its final return, the Franchise Tax Board shall notify the taxpayer that the annual tax shall continue to be due annually until a certificate of cancellation is filed with the Secretary of State pursuant to Section 16954 or 16960 of the Corporations Code.

(e) (1) Every limited liability partnership doing business in this state as described in subdivision (a) that registers with the Secretary of the State pursuant to subdivision (b) on or after January 1, 2021, and before January 1, 2024, shall not be subject to the tax imposed under this section for its first taxable year.

(2) This subdivision shall become operative only for a taxable year in which any budget measure appropriates one dollar (\$1) or more to the Franchise Tax Board for the costs associated with administration of this subdivision.

SEC. 12. Section 19533 of the Revenue and Taxation Code is amended to read:

19533. (a) In the event the debtor has more than one debt being collected by the Franchise Tax Board and the amount collected by the Franchise Tax Board is insufficient to satisfy the total amount owing, the amount collected shall be applied in the following priority:

(1) Payment of any taxes, additions to tax, penalties, interest, fees, or other amounts due and payable under Part 7.5 (commencing with Section 13201), Part 10 (commencing with Section 17001), Part 11 (commencing with Section 23001), Part 32 (commencing with Section 61000), or this part, amounts authorized to be collected under Section 19722 of this code, or payment of advanced premium subsidies in excess of the amount allowed under Title 25 (commencing with Section 100800) of the Government Code.

(2) Payment of delinquencies collected under Section 10878.

(3) Payment of any amounts due that are referred for collection under Article 5.5 (commencing with Section 19280) of Chapter 5.

(4) Payment of any delinquencies referred for collection under Article 7 (commencing with Section 19291) of Chapter 5.

(b) Notwithstanding the payment priority established by this section, voluntary payments designated by the taxpayer as payment for a personal income tax liability or as a payment on amounts authorized to be collected under Section 19722, shall not be applied pursuant to this priority, but shall instead be applied as designated.

SEC. 13. Section 23036 of the Revenue and Taxation Code is amended to read:

23036. (a) (1) The term “tax” includes any of the following:
- (A) The tax imposed under Chapter 2 (commencing with Section 23101).
 - (B) The tax imposed under Chapter 3 (commencing with Section 23501).
 - (C) The tax on unrelated business taxable income, imposed under Section 23731.
 - (D) The tax on “S” corporations imposed under Section 23802.
- (2) The term “tax” does not include any amount imposed under paragraph (1) of subdivision (e) of Section 24667 or paragraph (2) of subdivision (f) of Section 24667.
- (b) For purposes of Article 5 (commencing with Section 18661) of Chapter 2, Article 3 (commencing with Section 19031) of Chapter 4, Article 6 (commencing with Section 19101) of Chapter 4, and Chapter 7 (commencing with Section 19501) of Part 10.2, and for purposes of Sections 18601, 19001, and 19005, the term “tax” also includes all of the following:
- (1) The tax on limited partnerships, imposed under Section 17935, the tax on limited liability companies, imposed under Section 17941, and the tax on registered limited liability partnerships and foreign limited liability partnerships imposed under Section 17948.
 - (2) The alternative minimum tax imposed under Chapter 2.5 (commencing with Section 23400).
 - (3) The tax on built-in gains of “S” corporations, imposed under Section 23809.
 - (4) The tax on excess passive investment income of “S” corporations, imposed under Section 23811.
- (c) Notwithstanding any other provision of this part, credits are allowed against the “tax” in the following order:
- (1) Credits that do not contain carryover provisions.
 - (2) Credits that, when the credit exceeds the “tax,” allow the excess to be carried over to offset the “tax” in succeeding taxable years, except for those credits that are allowed to reduce the “tax” below the tentative minimum tax, as defined by Section 23455. The order of credits within this paragraph shall be determined by the Franchise Tax Board.
 - (3) The minimum tax credit allowed by Section 23453.
 - (4) Credits that are allowed to reduce the “tax” below the tentative minimum tax, as defined by Section 23455.
 - (5) Credits for taxes withheld under Section 18662.
- (d) Notwithstanding any other provision of this part, each of the following applies:
- (1) A credit may not reduce the “tax” below the tentative minimum tax (as defined by paragraph (1) of subdivision (a) of Section 23455), except the following credits:
 - (A) The credit allowed by former Section 23601 (relating to solar energy).
 - (B) The credit allowed by former Section 23601.4 (relating to solar energy).
 - (C) The credit allowed by former Section 23601.5 (relating to solar energy).

- (D) The credit allowed by Section 23609 (relating to research expenditures).
 - (E) The credit allowed by former Section 23609.5 (relating to clinical testing expenses).
 - (F) The credit allowed by Section 23610.5 (relating to low-income housing).
 - (G) The credit allowed by former Section 23612 (relating to sales and use tax credit).
 - (H) The credit allowed by Section 23612.2 (relating to enterprise zone sales or use tax credit).
 - (I) The credit allowed by former Section 23612.6 (relating to Los Angeles Revitalization Zone sales tax credit).
 - (J) The credit allowed by former Section 23622 (relating to enterprise zone hiring credit).
 - (K) The credit allowed by Section 23622.7 (relating to enterprise zone hiring credit).
 - (L) The credit allowed by former Section 23623 (relating to program area hiring credit).
 - (M) The credit allowed by former Section 23623.5 (relating to Los Angeles Revitalization Zone hiring credit).
 - (N) The credit allowed by former Section 23625 (relating to Los Angeles Revitalization Zone hiring credit).
 - (O) The credit allowed by Section 23633 (relating to targeted tax area sales or use tax credit).
 - (P) The credit allowed by Section 23634 (relating to targeted tax area hiring credit).
 - (Q) The credit allowed by former Section 23649 (relating to qualified property).
 - (R) For taxable years beginning on or after January 1, 2011, the credit allowed by Section 23685 (relating to qualified motion pictures).
 - (S) For taxable years beginning on or after January 1, 2014, the credit allowed by Section 23689 (relating to GO-Biz California Competes Credit).
 - (T) For taxable years beginning on or after January 1, 2016, the credit allowed by Section 23695 (relating to qualified motion pictures).
 - (U) For taxable years beginning on or after January 1, 2014, the credit allowed by Section 23686 (relating to the College Access Tax Credit Fund).
 - (V) For taxable years beginning on or after January 1, 2017, the credit allowed by Section 23687 (relating to the College Access Tax Credit Fund).
 - (W) For taxable years beginning on or after January 1, 2020, and before January 1, 2026, the credit allowed by Section 23636 (relating to the new advanced strategic aircraft credit).
- (2) A credit against the tax may not reduce the minimum franchise tax imposed under Chapter 2 (commencing with Section 23101).
- (e) Any credit which is partially or totally denied under subdivision (d) is allowed to be carried over to reduce the “tax” in the following year, and succeeding years if necessary, if the provisions relating to that credit include a provision to allow a carryover of the unused portion of that credit.

(f) Unless otherwise provided, any remaining carryover from a credit that has been repealed or made inoperative is allowed to be carried over under the provisions of that section as it read immediately prior to being repealed or becoming inoperative.

(g) Unless otherwise provided, if two or more taxpayers share in costs that would be eligible for a tax credit allowed under this part, each taxpayer is eligible to receive the tax credit in proportion to their respective share of the costs paid or incurred.

(h) Unless otherwise provided, in the case of an “S” corporation, any credit allowed by this part is computed at the “S” corporation level, and any limitation on the expenses qualifying for the credit or limitation upon the amount of the credit applies to the “S” corporation and to each shareholder.

(i) (1) With respect to any taxpayer that directly or indirectly owns an interest in a business entity that is disregarded for tax purposes pursuant to Section 23038 and any regulations thereunder, the amount of any credit or credit carryforward allowable for any taxable year attributable to the disregarded business entity is limited in accordance with paragraphs (2) and (3).

(2) The amount of any credit otherwise allowed under this part, including any credit carryover from prior years, that may be applied to reduce the taxpayer’s “tax,” as defined in subdivision (a), for the taxable year is limited to an amount equal to the excess of the taxpayer’s regular tax (as defined in Section 23455), determined by including income attributable to the disregarded business entity that generated the credit or credit carryover, over the taxpayer’s regular tax (as defined in Section 23455), determined by excluding the income attributable to that disregarded business entity. A credit is not allowed if the taxpayer’s regular tax (as defined in Section 23455), determined by including the income attributable to the disregarded business entity is less than the taxpayer’s regular tax (as defined in Section 23455), determined by excluding the income attributable to the disregarded business entity.

(3) If the amount of a credit allowed pursuant to the section establishing the credit exceeds the amount allowable under this subdivision in any taxable year, the excess amount may be carried over to subsequent taxable years pursuant to subdivisions (d), (e), and (f).

(j) (1) Unless otherwise specifically provided, in the case of a taxpayer that is a partner or shareholder of an eligible pass-thru entity described in paragraph (2), any credit passed through to the taxpayer in the taxpayer’s first taxable year beginning on or after the date the credit is no longer operative may be claimed by the taxpayer in that taxable year, notwithstanding the repeal of the statute authorizing the credit prior to the close of that taxable year.

(2) For purposes of this subdivision, “eligible pass-thru entity” means any partnership or “S” corporation that files its return on a fiscal year basis pursuant to Section 18566, and that is entitled to a credit pursuant to this part for the taxable year that begins during the last year a credit is operative.

(3) This subdivision applies to credits that become inoperative on or after the operative date of the act adding this subdivision.

SEC. 14. Section 23036.3 is added to the Revenue and Taxation Code, to read:

23036.3. (a) Notwithstanding any provision of this part or Part 10.2 (commencing with Section 18401) to the contrary, except as provided in subdivision (d), for taxpayers not required to be included in a combined report under Section 25101 or 25110, or taxpayers not authorized to be included in a combined report under Section 25101.15, for each taxable year beginning on or after January 1, 2020, and before January 1, 2023, the total of all credits otherwise allowable under any provision of Chapter 3.5 (commencing with Section 23604) including the carryover of any credit under a former provision of that chapter, for the taxable year shall not reduce the “tax,” as defined in Section 23036, by more than five million dollars (\$5,000,000).

(b) Notwithstanding any provision of this part or Part 10.2 (commencing with Section 18401) to the contrary, except as provided in subdivision (d), for taxpayers required to be included in a combined report under Section 25101 or 25110, or taxpayers authorized to be included in a combined report under Section 25101.15, for each taxable year beginning on or after January 1, 2020, and before January 1, 2023, the total of all credits otherwise allowable under any provision of Chapter 3.5 (commencing with Section 23604), including the carryover of any credit under a former provision of that chapter, by all members of the combined report shall not reduce the aggregate amount of “tax,” as defined in Section 23036, of all members of the combined report by more than five-million-dollars (\$5,000,000).

(c) Any amounts included in an election pursuant to Section 6902.5, relating to an irrevocable election to apply credit amounts under Section 17053.85, 17053.95, 17053.98, 23685, 23695, or 23698 against qualified sales and use tax, as defined in Section 6902.5, are not included in the five million dollar (\$5,000,000) limitation set forth in subdivision (a) or (b).

(d) The limitation under subdivision (a) or (b) shall not apply to the credit allowed by Section 23610.5 (relating to credit for low-income housing).

(e) The amount of any credit otherwise allowable for the taxable year under Section 23036 that is not allowed due to the application of this section shall remain a credit carryover amount under this part.

(f) The carryover period for any credit that is not allowed due to the application of this section shall be increased by the number of taxable years the credit or any portion thereof was not allowed.

(g) Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code does not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the Franchise Tax Board pursuant to this section.

SEC. 15. Section 23695 of the Revenue and Taxation Code is amended to read:

23695. (a) (1) For taxable years beginning on or after January 1, 2016, there shall be allowed to a qualified taxpayer a credit against the “tax,” as

defined in Section 23036, subject to a computation and ranking by the California Film Commission in subdivision (g) and the allocation amount categories described in subdivision (i), in an amount equal to 20 percent or 25 percent, whichever is the applicable credit percentage described in paragraph (4), of the qualified expenditures for the production of a qualified motion picture in California. A credit shall not be allowed under this section for any qualified expenditures for the production of a motion picture in California if a credit has been claimed for those same expenditures under Section 23685.

(2) Except as otherwise provided in this section, the credit shall be allowed for the taxable year in which the California Film Commission issues the credit certificate pursuant to subdivision (g) for the qualified motion picture, but in no instance prior to July 1, 2016, and shall be for the applicable percentage of all qualified expenditures paid or incurred by the qualified taxpayer in all taxable years for that qualified motion picture.

(3) The amount of the credit allowed to a qualified taxpayer shall be limited to the amount specified in the credit certificate issued to the qualified taxpayer by the California Film Commission pursuant to subdivision (g).

(4) For purposes of paragraphs (1) and (2), the applicable credit percentage shall be:

(A) Twenty percent of the qualified expenditures attributable to the production of a qualified motion picture in California, including, but not limited to, a feature, up to one hundred million dollars (\$100,000,000) in qualified expenditures, or a television series that relocated to California that is in its second or subsequent years of receiving a tax credit allocation pursuant to this section or Section 23685.

(B) Twenty-five percent of the qualified expenditures attributable to the production of a qualified motion picture in California where the qualified motion picture is a television series that relocated to California in its first year of receiving a tax credit allocation pursuant to this section.

(C) Twenty-five percent of the qualified expenditures, up to ten million dollars (\$10,000,000), attributable to the production of a qualified motion picture that is an independent film.

(D) Additional credits shall be allowed to a qualified motion picture whose applicable credit percentage is determined pursuant to subparagraph (A), in an aggregate amount not to exceed 5 percent of the qualified expenditures under that subparagraph, as follows:

(i) (I) Five percent of qualified expenditures relating to original photography outside the Los Angeles zone.

(II) For purposes of this clause:

(ia) “Applicable period” means the period that commences with preproduction and ends when original photography concludes. The applicable period includes the time necessary to strike a remote location and return to the Los Angeles zone.

(ib) “Los Angeles zone” means the area within a circle 30 miles in radius from Beverly Boulevard and La Cienega Boulevard, Los Angeles, California, and includes Agua Dulce, Castaic, including Lake Castaic, Leo Carrillo

State Beach, Ontario International Airport, Piru, and Pomona, including the Los Angeles County Fairgrounds. The Metro Goldwyn Mayer, Inc. Conejo Ranch property is within the Los Angeles zone.

(ic) “Original photography” includes principal photography and reshooting original footage.

(id) “Qualified expenditures relating to original photography outside the Los Angeles zone” means amounts paid or incurred during the applicable period for tangible personal property purchased or leased and used or consumed outside the Los Angeles zone and relating to original photography outside the Los Angeles zone and qualified wages paid for services performed outside the Los Angeles zone and relating to original photography outside the Los Angeles zone.

(ii) Five percent of the qualified expenditures relating to music scoring and music track recording by musicians attributable to the production of a qualified motion picture in California.

(iii) Five percent of the qualified expenditures relating to qualified visual effects attributable to the production of a qualified motion picture in California.

(b) For purposes of this section:

(1) “Ancillary product” means any article for sale to the public that contains a portion of, or any element of, the qualified motion picture.

(2) “Budget” means an estimate of all expenses paid or incurred during the production period of a qualified motion picture. It shall be the same budget used by the qualified taxpayer and production company for all qualified motion picture purposes.

(3) “Clip use” means a use of any portion of a motion picture, other than the qualified motion picture, used in the qualified motion picture.

(4) “Credit certificate” means the certificate issued by the California Film Commission pursuant to subparagraph (C) of paragraph (3) of subdivision (g).

(5) (A) “Employee fringe benefits” means the amount allowable as a deduction under this part to the qualified taxpayer involved in the production of the qualified motion picture, exclusive of any amounts contributed by employees, for any year during the production period with respect to any of the following:

(i) Employer contributions under any pension, profit-sharing, annuity, or similar plan.

(ii) Employer-provided coverage under any accident or health plan for employees.

(iii) The employer’s cost of life or disability insurance provided to employees.

(B) Any amount treated as wages under clause (i) of subparagraph (A) of paragraph (21) shall not be taken into account under this paragraph.

(6) “Independent film” means a motion picture with a minimum budget of one million dollars (\$1,000,000) that is produced by a company that is not publicly traded and publicly traded companies do not own, directly or indirectly, more than 25 percent of the producing company.

(7) “Jobs ratio” means the amount of qualified wages paid to qualified individuals divided by the amount of tax credit, not including any additional credit allowed pursuant to subparagraph (D) of paragraph (4) of subdivision (a), as computed by the California Film Commission.

(8) “Licensing” means any grant of rights to distribute the qualified motion picture, in whole or in part.

(9) “New use” means any use of a motion picture in a medium other than the medium for which it was initially created.

(10) “Pilot for a new television series” means the initial episode produced for a proposed television series.

(11) (A) “Postproduction” means the final activities in a qualified motion picture’s production, including editing, foley recording, automatic dialogue replacement, sound editing, scoring, music track recording by musicians and music editing, beginning and end credits, negative cutting, negative processing and duplication, the addition of sound and visual effects, sound mixing, film-to-tape transfers, encoding, and color correction.

(B) “Postproduction” does not include the manufacture or shipping of release prints or their equivalent.

(12) “Preproduction” means the process of preparation for actual physical production which begins after a qualified motion picture has received a firm agreement of financial commitment, or is greenlit, with, for example, the establishment of a dedicated production office, the hiring of key crew members, and includes, but is not limited to, activities that include location scouting and execution of contracts with vendors of equipment and stage space.

(13) “Principal photography” means the phase of production during which the motion picture is actually shot, as distinguished from preproduction and postproduction.

(14) “Production period” means the period beginning with preproduction and ending upon completion of postproduction.

(15) “Qualified entity” means a personal service corporation as defined in Section 269A(b)(1) of the Internal Revenue Code, a payroll services corporation, or any entity receiving qualified wages with respect to services performed by a qualified individual.

(16) “Qualified expenditures” means amounts paid or incurred for tangible personal property purchased or leased, and used, within this state in the production of a qualified motion picture and payments, including qualified wages, for services performed within this state in the production of a qualified motion picture.

(17) (A) “Qualified individual” means any individual who performs services during the production period in an activity related to the production of a qualified motion picture.

(B) “Qualified individual” shall not include either of the following:

(i) Any individual related to the qualified taxpayer as described in subparagraph (A), (B), or (C) of Section 51(i)(1) of the Internal Revenue Code.

(ii) Any 5-percent owner, as defined in Section 416(i)(1)(B) of the Internal Revenue Code, of the qualified taxpayer.

(18) (A) “Qualified motion picture” means a motion picture that is produced for distribution to the general public, regardless of medium, that is one of the following:

(i) A feature with a minimum production budget of one million dollars (\$1,000,000).

(ii) A movie of the week or miniseries with a minimum production budget of five hundred thousand dollars (\$500,000).

(iii) A new television series of episodes longer than 40 minutes each of running time, exclusive of commercials, that is produced in California, with a minimum production budget of one million dollars (\$1,000,000) per episode.

(iv) An independent film.

(v) A television series that relocated to California.

(vi) A pilot for a new television series that is longer than 40 minutes of running time, exclusive of commercials, that is produced in California, and with a minimum production budget of one million dollars (\$1,000,000).

(B) To qualify as a “qualified motion picture,” all of the following conditions shall be satisfied:

(i) At least 75 percent of the principal photography days occur wholly in California or 75 percent of the production budget is incurred for payment for services performed within the state and the purchase or rental of property used within the state.

(ii) Production of the qualified motion picture is completed within 30 months from the date on which the qualified taxpayer’s application is approved by the California Film Commission. For purposes of this section, a qualified motion picture is “completed” when the process of postproduction has been finished.

(iii) The copyright for the motion picture is registered with the United States Copyright Office pursuant to Title 17 of the United States Code.

(iv) Principal photography of the qualified motion picture commences after the date on which the application is approved by the California Film Commission, but no later than 180 days after the date of that approval unless death, disability, or disfigurement of the director or of a principal cast member, an act of God, including, but not limited to, fire, flood, earthquake, storm, hurricane, or other natural disaster, terrorist activities, or government sanction has directly prevented a production’s ability to begin principal photography within the prescribed 180-day commencement period.

(C) For the purposes of subparagraph (A), in computing the total wages paid or incurred for the production of a qualified motion picture, all amounts paid or incurred by all persons or entities that share in the costs of the qualified motion picture shall be aggregated.

(D) “Qualified motion picture” shall not include commercial advertising, music videos, a motion picture produced for private noncommercial use, such as weddings, graduations, or as part of an educational course and made by students, a news program, current events or public events program, talk

show, game show, sporting event or activity, awards show, telethon or other production that solicits funds, reality television program, clip-based programming if more than 50 percent of the content is comprised of licensed footage, documentaries, variety programs, daytime dramas, strip shows, one-half hour (air time) episodic television shows, or any production that falls within the recordkeeping requirements of Section 2257 of Title 18 of the United States Code.

(19) (A) “Qualified taxpayer” means a taxpayer who has paid or incurred qualified expenditures, participated in the Career Readiness requirement, and has been issued a credit certificate by the California Film Commission pursuant to subdivision (g).

(B) (i) In the case of any pass-thru entity, the determination of whether a taxpayer is a qualified taxpayer under this section shall be made at the entity level and any credit under this section is not allowed to the pass-thru entity, but shall be passed through to the partners or shareholders in accordance with applicable provisions of Part 10 (commencing with Section 17001) or Part 11 (commencing with Section 23001). For purposes of this paragraph, “pass-thru entity” means any entity taxed as a partnership or “S” corporation.

(ii) In the case of an “S” corporation, the credit allowed under this section shall not be used by an “S” corporation as a credit against a tax imposed under Chapter 4.5 (commencing with Section 23800) of Part 11 of Division 2.

(20) “Qualified visual effects” means visual effects where at least 75 percent or a minimum of ten million dollars (\$10,000,000) of the qualified expenditures for the visual effects is paid or incurred in California.

(21) (A) “Qualified wages” means all of the following:

(i) Any wages subject to withholding under Division 6 (commencing with Section 13000) of the Unemployment Insurance Code that were paid or incurred by any taxpayer involved in the production of a qualified motion picture with respect to a qualified individual for services performed on the qualified motion picture production within this state.

(ii) The portion of any employee fringe benefits paid or incurred by any taxpayer involved in the production of the qualified motion picture that are properly allocable to qualified wage amounts described in clauses (i), (iii), and (iv).

(iii) Any payments made to a qualified entity for services performed in this state by qualified individuals within the meaning of paragraph (17).

(iv) Remuneration paid to an independent contractor who is a qualified individual for services performed within this state by that qualified individual.

(B) “Qualified wages” shall not include any of the following:

(i) Expenses, including wages, related to new use, reuse, clip use, licensing, secondary markets, or residual compensation, or the creation of any ancillary product, including, but not limited to, a soundtrack album, toy, game, trailer, or teaser.

(ii) Expenses, including wages, paid or incurred with respect to acquisition, development, turnaround, or any rights thereto.

(iii) Expenses, including wages, related to financing, overhead, marketing, promotion, or distribution of a qualified motion picture.

(iv) Expenses, including wages, paid per person per qualified motion picture for writers, directors, music directors, music composers, music supervisors, producers, and performers, other than background actors with no scripted lines.

(22) “Residual compensation” means supplemental compensation paid at the time that a motion picture is exhibited through new use, reuse, clip use, or in secondary markets, as distinguished from payments made during production.

(23) “Reuse” means any use of a qualified motion picture in the same medium for which it was created, following the initial use in that medium.

(24) “Secondary markets” means media in which a qualified motion picture is exhibited following the initial media in which it is exhibited.

(25) “Television series that relocated to California” means a television series, without regard to episode length or initial media exhibition, with a minimum production budget of one million dollars (\$1,000,000) per episode, that filmed its most recent season outside of California or has filmed all seasons outside of California and for which the taxpayer certifies that the credit provided pursuant to this section is the primary reason for relocating to California.

(26) “Visual effects” means the creation, alteration, or enhancement of images that cannot be captured on a set or location during live action photography and therefore is accomplished in postproduction. It includes, but is not limited to, matte paintings, animation, set extensions, computer-generated objects, characters and environments, compositing (combining two or more elements in a final image), and wire removals. “Visual effects” does not include fully animated projects, whether created by traditional or digital means.

(c) (1) Notwithstanding subdivision (i) of Section 23036, in the case where the credit allowed by this section exceeds the taxpayer’s tax liability computed under this part, a qualified taxpayer may elect to assign any portion of the credit allowed under this section to one or more affiliated corporations for each taxable year in which the credit is allowed. For purposes of this subdivision, “affiliated corporation” has the meaning provided in subdivision (b) of Section 25110, as that section was amended by Chapter 881 of the Statutes of 1993, as of the last day of the taxable year in which the credit is allowed, except that “100 percent” is substituted for “more than 50 percent” wherever it appears in the section, and “voting common stock” is substituted for “voting stock” wherever it appears in the section.

(2) The election provided in paragraph (1):

(A) May be based on any method selected by the qualified taxpayer that originally receives the credit.

(B) Shall be irrevocable for the taxable year the credit is allowed, once made.

(C) May be changed for any subsequent taxable year if the election to make the assignment is expressly shown on each of the returns of the qualified taxpayer and the qualified taxpayer's affiliated corporations that assign and receive the credits.

(D) Shall be reported to the Franchise Tax Board, in the form and manner specified by the Franchise Tax Board, along with all required information regarding the assignment of the credit, including the corporation number, the federal employer identification number, or other taxpayer identification number of the assignee, and the amount of the credit assigned.

(3) (A) Notwithstanding any other law, a qualified taxpayer may sell any credit allowed under this section that is attributable to an independent film, as defined in paragraph (6) of subdivision (b), to an unrelated party.

(B) The qualified taxpayer shall report to the Franchise Tax Board prior to the sale of the credit, in the form and manner specified by the Franchise Tax Board, all required information regarding the purchase and sale of the credit, including the social security or other taxpayer identification number of the unrelated party to whom the credit has been sold, the face amount of the credit sold, and the amount of consideration received by the qualified taxpayer for the sale of the credit.

(4) In the case where the credit allowed under this section exceeds the "tax," the excess credit may be carried over to reduce the "tax" in the following taxable year, and succeeding eight taxable years, if necessary, until the credit has been exhausted.

(5) A credit shall not be sold pursuant to this subdivision to more than one taxpayer, nor may the credit be resold by the unrelated party to another taxpayer or other party.

(6) A party that has been assigned or acquired tax credits under this subdivision shall be subject to the requirements of this section.

(7) In no event may a qualified taxpayer assign or sell any tax credit to the extent the tax credit allowed by this section is claimed on any tax return of the qualified taxpayer.

(8) In the event that both the taxpayer originally allocated a credit under this section by the California Film Commission and a taxpayer to whom the credit has been sold both claim the same amount of credit on their tax returns, the Franchise Tax Board may disallow the credit of either taxpayer, so long as the statute of limitations upon assessment remains open.

(9) Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code does not apply to any standard, criterion, procedure, determination, rule, notice, or guideline established or issued by the Franchise Tax Board pursuant to this subdivision.

(10) Subdivision (i) of Section 23036 shall not apply to any credit sold pursuant to this subdivision.

(11) For purposes of this subdivision:

(A) An affiliated corporation or corporations that are assigned a credit pursuant to paragraph (1) shall be treated as a qualified taxpayer pursuant to paragraph (1) of subdivision (a).

(B) The unrelated party or parties that purchase a credit pursuant to paragraphs (3) to (10), inclusive, shall be treated as a qualified taxpayer pursuant to paragraph (1) of subdivision (a).

(d) (1) No credit shall be allowed pursuant to this section unless the qualified taxpayer provides the following to the California Film Commission:

(A) Identification of each qualified individual.

(B) The specific start and end dates of production.

(C) The total wages paid.

(D) The total amount of qualified wages paid to qualified individuals.

(E) The copyright registration number, as reflected on the certificate of registration issued under the authority of Section 410 of Title 17 of the United States Code, relating to registration of claim and issuance of certificate. The registration number shall be provided on the return claiming the credit.

(F) The total amounts paid or incurred to purchase or lease tangible personal property used in the production of a qualified motion picture.

(G) Information to substantiate its qualified expenditures.

(H) Information required by the California Film Commission under regulations promulgated pursuant to subdivision (g) necessary to verify the amount of credit claimed.

(I) Provides documentation verifying completion of the Career Readiness requirement.

(2) (A) Based on the information provided in paragraph (1), the California Film Commission shall recompute the jobs ratio previously computed in subdivision (g) and compare this recomputed jobs ratio to the jobs ratio that the qualified taxpayer previously listed on the application submitted pursuant to subdivision (g).

(B) (i) If the California Film Commission determines that the jobs ratio has been reduced by more than 10 percent for a qualified motion picture other than an independent film, the California Film Commission shall reduce the amount of credit allowed by an equal percentage, unless the qualified taxpayer demonstrates, and the California Film Commission determines, that reasonable cause exists for the jobs ratio reduction.

(ii) If the California Film Commission determines that the jobs ratio has been reduced by more than 20 percent for a qualified motion picture other than an independent film, the California Film Commission shall not accept an application described in subdivision (g) from that qualified taxpayer or any member of the qualified taxpayer's controlled group for a period of not less than one year from the date of that determination, unless the qualified taxpayer demonstrates, and the California Film Commission determines, that reasonable cause exists for the jobs ratio reduction.

(C) If the California Film Commission determines that the jobs ratio has been reduced by more than 30 percent for an independent film, the California Film Commission shall reduce the amount of credit allowed by an equal percentage, plus 10 percent of the amount of credit that would otherwise have been allowed, unless the qualified taxpayer demonstrates, and the

California Film Commission determines, that reasonable cause exists for the jobs ratio reduction.

(D) For the purposes of this paragraph, “reasonable cause” means unforeseen circumstances beyond the control of the qualified taxpayer, such as, but not limited to, the cancellation of a television series prior to the completion of the scheduled number of episodes or other similar circumstances as determined by the California Film Commission in regulations to be adopted pursuant to subdivision (e).

(e) (1) (A) Subject to the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code), the California Film Commission shall adopt rules and regulations to implement a Career Readiness requirement by which the California Film Commission shall identify training and public service opportunities that may include, but not be limited to, hiring interns, public service announcements, and community outreach and may prescribe rules and regulations to carry out the purposes of this section, including, subparagraph (D) of paragraph (4) of subdivision (a) and clause (iv) of subparagraph (D) of paragraph (2) of subdivision (g), and including any rules and regulations necessary to establish procedures, processes, requirements, application fee structure, and rules identified in or required to implement this section, including credit and logo requirements and credit allocation procedures over multiple fiscal years where the qualified taxpayer is producing a series of features that will be filmed concurrently.

(B) Notwithstanding any other law, prior to preparing a notice of proposed action pursuant to Section 11346.4 of the Government Code and prior to making any revision to the proposed regulation other than a change that is nonsubstantial or solely grammatical in nature, the Governor’s Office of Business and Economic Development shall first approve the proposed regulation or proposed change to a proposed regulation regarding allocating the credit pursuant to subdivision (i), computing the jobs ratio as described in subdivisions (d) and (g), and defining “reasonable cause” pursuant to subparagraph (E) of paragraph (2) of subdivision (d).

(2) (A) Implementation of this section for the 2015–16 fiscal year is deemed an emergency and necessary for the immediate preservation of the public peace, health, and safety, or general welfare and, therefore, the California Film Commission is hereby authorized to adopt emergency regulations to implement this section during the 2015–16 fiscal year in accordance with the rulemaking provisions of the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code).

(B) Nothing in this paragraph shall be construed to require the Governor’s Office of Business and Economic Development to approve emergency regulations adopted pursuant to this paragraph.

(3) The California Film Commission shall not be required to prepare an economic impact analysis pursuant to the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of

Title 2 of the Government Code) with regard to any rules and regulations adopted pursuant to this subdivision.

(f) If the qualified taxpayer fails to provide the copyright registration number as required in subparagraph (E) of paragraph (1) of subdivision (d), the credit shall be disallowed and assessed and collected under Section 19051 until the procedures are satisfied.

(g) For purposes of this section, the California Film Commission shall do the following:

(1) Subject to the requirements of subparagraphs (A) through (E), inclusive, of paragraph (2), on or after July 1, 2015, and before July 1, 2016, in one or more allocation periods per fiscal year, allocate tax credits to applicants.

(2) On or after July 1, 2016, and before July 1, 2020, in two or more allocation periods per fiscal year, allocate tax credits to applicants.

(A) Establish a procedure for applicants to file with the California Film Commission a written application, on a form jointly prescribed by the California Film Commission and the Franchise Tax Board for the allocation of the tax credit. The application shall include, but not be limited to, the following information:

(i) The budget for the motion picture production.

(ii) The number of production days.

(iii) A financing plan for the production.

(iv) The diversity of the workforce employed by the applicant, including, but not limited to, the ethnic and racial makeup of the individuals employed by the applicant during the production of the qualified motion picture, to the extent possible.

(v) All members of a combined reporting group, if known at the time of the application.

(vi) Financial information, if available, including, but not limited to, the most recently produced balance sheets, annual statements of profits and losses, audited or unaudited financial statements, summary budget projections or results, or the functional equivalent of these documents of a partnership or owner of a single member limited liability company that is disregarded pursuant to Section 23038. The information provided pursuant to this clause shall be confidential and shall not be subject to public disclosure.

(vii) The names of all partners in a partnership not publicly traded or the names of all members of a limited liability company classified as a partnership not publicly traded for California income tax purposes that have a financial interest in the applicant's qualified motion picture. The information provided pursuant to this clause shall be confidential and shall not be subject to public disclosure.

(viii) The amount of qualified wages the applicant expects to pay to qualified individuals.

(ix) The amount of tax credit the applicant computes the qualified motion picture will receive, applying the applicable credit percentages described in paragraph (4) of subdivision (a).

(x) A statement establishing that the tax credit described in this section is a significant factor in the applicant's choice of location for the qualified motion picture. The statement shall include information about whether the qualified motion picture is at risk of not being filmed or specify the jurisdiction or jurisdictions in which the qualified motion picture will be located in the absence of the tax credit. The statement shall be signed by an officer or executive of the applicant.

(xi) Any other information deemed relevant by the California Film Commission or the Franchise Tax Board.

(B) Establish criteria, consistent with the requirements of this section, for allocating tax credits.

(C) Determine and designate applicants who meet the requirements of this section.

(D) (i) For purposes of allocating the credit amounts subject to the categories described in subdivision (i) in any fiscal year, the California Film Commission shall do all of the following:

(ii) For each allocation date and for each category, list each applicant from highest to lowest according to the jobs ratio as computed by the California Film Commission.

(iii) Subject to the applicable credit percentage, allocate the credit to each applicant according to the highest jobs ratio, working down the list, until the credit amount is exhausted.

(iv) Pursuant to regulations adopted pursuant to subdivision (e), the California Film Commission may increase the jobs ratio by up to 25 percent if a qualified motion picture increases economic activity in California according to criteria developed by the California Film Commission that would include, but not be limited to, such factors as, the amount of the production and postproduction spending in California, the utilization of production facilities in California, and other criteria measuring economic impact in California as determined by the California Film Commission.

(v) Notwithstanding any other provision, any television series, relocating television series, or any new television series based on a pilot for a new television series that has been approved and issued a credit allocation by the California Film Commission under this section, Section 17053.95, 17053.85, or 23685 shall be issued a credit for each subsequent year, for the life of that television series whenever credits are allocated within a fiscal year.

(E) Subject to the annual cap and the allocation credit amounts based on categories described in subdivision (i), allocate an aggregate amount of credits under this section and Section 17053.95, and allocate any carryover of unallocated credits from prior years and the amount of any credits reduced pursuant to paragraph (2) of subdivision (d).

(3) Certify tax credits allocated to qualified taxpayers.

(A) Establish a verification procedure for the amount of qualified expenditures paid or incurred by the applicant, including, but not limited to, updates to the information in subparagraph (A) of paragraph (2) of subdivision (g).

(B) Establish audit requirements that must be satisfied before a credit certificate may be issued by the California Film Commission.

(C) (i) Establish a procedure for a qualified taxpayer to report to the California Film Commission, prior to the issuance of a credit certificate, the following information:

(I) If readily available, a list of the states, provinces, or other jurisdictions in which any member of the applicant’s combined reporting group in the same business unit as the qualified taxpayer that, in the preceding calendar year, has produced a qualified motion picture intended for release in the United States market. For purposes of this clause, “qualified motion picture” shall not include any episodes of a television series that were complete or in production prior to July 1, 2016.

(II) Whether a qualified motion picture described in subclause (I) was awarded any financial incentive by the state, province, or other jurisdiction that was predicated on the performance of primary principal photography or postproduction in that location.

(ii) The California Film Commission may provide that the report required by this subparagraph be filed in a single report provided on a calendar year basis for those qualified taxpayers that receive multiple credit certificates in a calendar year.

(D) Issue a credit certificate to a qualified taxpayer upon completion of the qualified motion picture reflecting the credit amount allocated after qualified expenditures have been verified and the jobs ratio computed under this section. The amount of credit shown in the credit certificate shall not exceed the amount of credit allocated to that qualified taxpayer pursuant to this section.

(4) Obtain, when possible, the following information from applicants that do not receive an allocation of credit:

(A) Whether the qualified motion picture that was the subject of the application was completed.

(B) If completed, in which state or foreign jurisdiction was the primary principal photography completed.

(C) Whether the applicant received any financial incentives from the state or foreign jurisdiction to make the qualified motion picture in that location.

(5) Provide the Legislative Analyst’s Office, upon request, any or all application materials or any other materials received from, or submitted by, the applicants, in electronic format when available, including, but not limited to, information provided pursuant to clauses (i) to (xi) inclusive, of subparagraph (A) of paragraph (2).

(6) The information provided to the California Film Commission pursuant to this section shall constitute confidential tax information for purposes of Article 2 (commencing with Section 19542) of Chapter 7 of Part 10.2.

(h) (1) The California Film Commission shall annually provide the Legislative Analyst’s Office, the Franchise Tax Board, and the board with a list of qualified taxpayers and the tax credit amounts allocated to each qualified taxpayer by the California Film Commission. The list shall include

the names and taxpayer identification numbers, including taxpayer identification numbers of each partner or shareholder, as applicable, of the qualified taxpayer.

(2) (A) Notwithstanding paragraph (6) of subdivision (g), the California Film Commission shall annually post on its internet website and make available for public release the following:

(i) A table which includes all of the following information: a list of qualified taxpayers and the tax credit amounts allocated to each qualified taxpayer by the California Film Commission, the number of production days in California the qualified taxpayer represented in its application would occur, the number of California jobs that the qualified taxpayer represented in its application would be directly created by the production, and the total amount of qualified expenditures expected to be spent by the production.

(ii) A narrative staff summary describing the production of the qualified taxpayer as well as background information regarding the qualified taxpayer contained in the qualified taxpayer's application for the credit.

(B) Nothing in this subdivision shall be construed to make the information submitted by an applicant for a tax credit under this section a public record.

(3) The California Film Commission shall provide each city and county in California with an instructional guide that includes, but is not limited to, a review of best practices for facilitating motion picture production in local jurisdictions, resources on hosting and encouraging motion picture production, and the California Film Commissions' Model Film Ordinance. The California Film Commission shall maintain on its internet website a list of initiatives by locality that encourage motion picture production in regions across the state. The list shall be distributed to each approved applicant for the program to highlight local jurisdictions that offer incentives to facilitate film production.

(i) (1) (A) The aggregate amount of credits that may be allocated for a fiscal year pursuant to this section and Section 17053.95 is the applicable amount described in the following, plus any amount described in subparagraph (B), (C), or (D):

(i) Two hundred thirty million dollars (\$230,000,000) in credits for the 2015–16 fiscal year.

(ii) Three hundred thirty million dollars (\$330,000,000) in credits for the 2016–17 fiscal year and each fiscal year thereafter, through and including the 2019–20 fiscal year.

(B) The unused allocation credit amount, if any, for the preceding fiscal year.

(C) The amount of previously allocated credits not certified.

(D) The amount of any credits reduced pursuant to paragraph (2) of subdivision (d).

(2) (A) Notwithstanding the foregoing, the California Film Commission shall allocate the credit amounts subject to the following categories:

(i) Independent films shall be allocated 5 percent of the amount specified in paragraph (1).

(ii) Features shall be allocated 35 percent of the amount specified in paragraph (1).

(iii) A relocating television series shall be allocated 20 percent of the amount specified in paragraph (1).

(iv) A new television series, pilots for a new television series, movies of the week, miniseries, and recurring television series shall be allocated 40 percent of the amount specified in paragraph (1).

(B) Within 60 days after the allocation period, any unused amount within a category or categories shall be first reallocated to the category described in clause (iv) of subparagraph (A) and, if any unused amount remains, reallocated to another category or categories with a higher demand as determined by the California Film Commission.

(C) Notwithstanding the foregoing, the California Film Commission may increase or decrease an allocation amount in subparagraph (A) by 5 percent, if necessary, due to the jobs ratio, the number of applications, or the allocation credit amounts available by category compared to demand.

(D) With respect to a relocating television series issued a credit in a subsequent year pursuant to clause (v) of subparagraph (D) of paragraph (2) of subdivision (g), that subsequent credit amount shall be allowed from the allocation amount described in clause (iv) of subparagraph (A).

(3) Any act that reduces the amount that may be allocated pursuant to paragraph (1) constitutes a change in state taxes for the purpose of increasing revenues within the meaning of Section 3 of Article XIII A of the California Constitution and may be passed by not less than two-thirds of all Members elected to each of the two houses of the Legislature.

(j) The California Film Commission shall have the authority to allocate tax credits in accordance with this section and in accordance with any regulations prescribed pursuant to subdivision (e) upon adoption.

SEC. 16. Section 24416.23 is added to the Revenue and Taxation Code, to read:

24416.23. (a) Notwithstanding Sections 24416, 24416.1, 24416.4, 24416.7, and 24416.22, former Sections 24416.2, 24416.5, 24416.6, and 24416.20, and Section 172 of the Internal Revenue Code, a net operating loss deduction shall not be allowed for any taxable year beginning on or after January 1, 2020, and before January 1, 2023.

(b) For any net operating loss or carryover of a net operating loss for which a deduction is denied by subdivision (a), the carryover period under Section 172 of the Internal Revenue Code shall be extended as follows:

(1) By one year, for losses incurred in taxable years beginning on or after January 1, 2021, and before January 1, 2022.

(2) By two years, for losses incurred in taxable years beginning on or after January 1, 2020, and before January 1, 2021.

(3) By three years, for losses incurred in taxable years beginning before January 1, 2020.

(c) The disallowance of any net operating loss deduction for any taxable year beginning on or after January 1, 2020, and before January 1, 2023, pursuant to subdivision (a) shall not apply to a taxpayer with income subject

to tax under this part of less than one million dollars (\$1,000,000) for the taxable year.

SEC. 17. Section 61015 of the Revenue and Taxation Code is amended to read:

61015. (a) The amount of the Individual Shared Responsibility Penalty imposed on a responsible individual for a taxable year with respect to the failures described in Section 61010 shall be equal to the lesser of either of the following amounts:

(1) The sum of the monthly penalty amounts determined under subdivision (b) for months in the taxable year during which one or more of the failures described in Section 61010 occurred.

(2) An amount equal to one-twelfth of the state average premium for qualified health plans that have a bronze level of coverage for the applicable household size involved, and are offered through the Exchange for plan years beginning in the calendar year with or within which the taxable year ends, multiplied by the number of months in which a failure described in Section 61010 occurred.

(b) For purposes of subdivision (a), the monthly penalty amount with respect to a responsible individual for any month during which a failure described in Section 61010 occurred is an amount equal to one-twelfth of the greater of either of the following amounts:

(1) An amount equal to the lesser of either of the following:

(A) The sum of the applicable dollar amounts for all applicable household members who failed to enroll in and maintain minimum essential coverage pursuant to Section 100705 of the Government Code during the month, except as provided by Section 61023.

(B) Three hundred percent of the applicable dollar amount determined for the calendar year during which the taxable year ends.

(2) An amount equal to 2.5 percent of the excess of the responsible individual's applicable household income for the taxable year over the amount of gross income that would trigger the responsible individual's requirement to file a state income tax return under Section 18501, also referred to as the applicable filing threshold, for the taxable year.

(c) For purposes of subdivisions (a) and (b):

(1) Except as provided in paragraph (2) and subdivision (d), the applicable dollar amount is six hundred ninety-five dollars (\$695).

(2) If an applicable individual has not attained 18 years of age as of the beginning of a month, the applicable dollar amount with respect to that individual for that month shall be equal to one-half of the applicable dollar amount as provided in paragraph (1) or subdivision (d).

(3) The maximum monthly penalty, under paragraph (1) or (2) of subdivision (a), for a responsible individual with an applicable household size of five or more individuals equals the maximum monthly penalty for a responsible individual with an applicable household size of five individuals.

(d) In the case of a calendar year beginning after 2019, the applicable dollar amount shall be equal to six hundred ninety-five dollars (\$695) and increased as follows:

(1) An amount equal to six hundred ninety-five dollars (\$695) multiplied by the cost-of-living adjustment determined pursuant to paragraph (2).

(2) A cost-of-living adjustment for a calendar year is an amount equal to the percentage by which the California Consumer Price Index for all items in the preceding calendar year exceeds the California Consumer Price Index for all items for the 2016 calendar year.

(3) If the amount of an increase under paragraph (1) is not a multiple of fifty dollars (\$50), that increase shall be rounded down to the next multiple of fifty dollars (\$50).

(4) No later than August 1 of each year, the Department of Industrial Relations shall annually transmit to the Franchise Tax Board the percentage change in the California Consumer Price Index for all items from June of the prior calendar year to June of the current calendar year, inclusive.

(e) For taxable years during which the Franchise Tax Board determines that a federal shared responsibility penalty applies, the Individual Shared Responsibility Penalty shall be reduced, but not below zero, by the amount of the federal penalty imposed on the responsible individual for each month of the taxable year during which the Individual Shared Responsibility Penalty is imposed.

SEC. 18. Section 61020 of the Revenue and Taxation Code is amended to read:

61020. An Individual Shared Responsibility Penalty shall not be imposed on a responsible individual for a month in which any of the following circumstances apply:

(a) If the responsible individual's required contribution, determined on an annual basis, for coverage for the month exceeds 8.3 percent of that responsible individual's applicable household income for the taxable year.

(1) For purposes of applying this subdivision, a responsible individual's applicable household income shall be increased by any exclusion from gross income for any portion of the required contribution made through a salary reduction arrangement for any applicable household member.

(2) For purposes of this subdivision, the term "required contribution" means either of the following:

(A) In the case of a responsible individual eligible to purchase minimum essential coverage consisting of coverage through an eligible employer-sponsored plan, the portion of the annual premium that would be paid by the responsible individual, without regard to whether paid through salary reduction or otherwise, for self-only coverage.

(B) In the case of a responsible individual eligible only to purchase minimum essential coverage in the individual market, the annual premium for the lowest cost bronze plan available in the individual market through the Exchange in the rating area in which the individual resides, reduced by any premium assistance for the taxable year determined as if the responsible individual was covered by a qualified health plan offered through the Exchange for the entire taxable year.

(3) For purposes of subparagraph (A) of paragraph (2), if a responsible individual is eligible for minimum essential coverage through an employer

by reason of a relationship to an applicable household member, the determination under this subdivision shall be made by reference to the portion of the premium required to be paid by the applicable household member for family coverage.

(4) In the case of plan years beginning in any calendar year after 2019, this subdivision shall be applied by substituting for “8.3 percent” an amount equal to 8 percent increased by the amount the United States Secretary of Health and Human Services determines reflects the excess of the rate of premium growth between the preceding calendar year and 2013 over the rate of income growth for that period. If the United States Secretary of Health and Human Services fails to determine this percentage for a calendar year, the Exchange shall determine the percentage.

(b) If the responsible individual’s applicable household income for the taxable year containing the month is less than the amount of adjusted gross income specified in paragraph (1) or (2) of subdivision (a) of Section 18501 for that taxable year.

(c) If the responsible individual’s gross income for the taxable year containing the month is less than the amount specified in paragraph (3) of subdivision (a) of Section 18501.

SEC. 19. Section 61030 of the Revenue and Taxation Code is amended to read:

61030. (a) The Franchise Tax Board may, in consultation with the Exchange, adopt regulations that are necessary and appropriate to implement this part.

(b) It is the intent of the Legislature that, in construing this part, the regulations promulgated by under Section 5000A of the Internal Revenue Code as of December 15, 2017, notwithstanding the specified date in paragraph (1) of subdivision (a) of Section 17024.5, shall apply to the extent that those regulations do not conflict with this part or regulations promulgated by the Franchise Tax Board pursuant to subdivision (a) in consultation with the Exchange.

(c) Until January 1, 2022, the Administrative Procedure Act (Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2 of the Government Code) shall not apply to any regulation, standard, criterion, procedure, determination, rule, notice, guideline, or any other guidance established or issued by the Franchise Tax Board pursuant to this part.

SEC. 20. Section 426 of the Vehicle Code is amended to read:

426. “New motor vehicle dealer” is a dealer, as defined in Section 285, who, in addition to the requirements of that section, either acquires for resale new and unregistered motor vehicles from manufacturers or distributors of those motor vehicles or acquires for resale new off-highway motorcycles, or all-terrain vehicles from manufacturers or distributors of the vehicles. A distinction shall not be made, nor any different construction be given to the definition of “new motor vehicle dealer” and “dealer” except for the application of the provisions of Chapter 6 (commencing with Section 3000) of Division 2 and Sections 4456, 4750.6, and 11704.5. Sections 3001 and 3003 do not, however, apply to a dealer who deals exclusively in

motorcycles, all-terrain vehicles, or recreational vehicles, as defined in subdivision (a) of Section 18010 of the Health and Safety Code.

SEC. 21. Section 4456 of the Vehicle Code is amended to read:

4456. (a) When selling a vehicle, dealers and lessor-retailers shall report the sale using the reporting system described in Section 4456.2. After providing information to the reporting system, the dealer or lessor-retailer shall do all of the following:

(1) The dealer or lessor-retailer shall attach for display a copy of the report-of-sale form provided by the reporting system on the vehicle before the vehicle is delivered to the purchaser.

(2) The dealer or lessor-retailer shall submit to the department an application accompanied by all fees and penalties due for registration or transfer of registration of the vehicle within 30 days from the date of sale, as provided in subdivision (c) of Section 9553, if the vehicle is a used vehicle, and within 20 days if the vehicle is a new vehicle. Penalties due for noncompliance with this paragraph shall be paid by the dealer or lessor-retailer. The dealer or lessor-retailer shall not charge the purchaser for the penalties.

(3) (A) For retail sales of vehicles occurring on and after January 1, 2021, the dealer shall also submit with the application payment of the applicable sales tax measured by the gross receipts from the sale of the vehicle as required by the Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code) to the department within 30 days from the date of sale.

(B) For purposes of this paragraph, “dealer” shall not include a new motor vehicle dealer as defined by Section 426, a manufacturer or remanufacturer holding a license issued pursuant to Chapter 4 (commencing with Section 11700) of Division 5, an automobile dismantler holding a license and certificate issued pursuant to Chapter 3 (commencing with Section 11500) of Division 5, or a lessor-retailer holding a license issued pursuant to Chapter 3.5 (commencing with Section 11600) of Division 5, and subject to the provisions of Section 11615.5.

(4) As part of an application to transfer registration of a used vehicle, the dealer or lessor-retailer shall include all of the following information on the certificate of title, application for a duplicate certificate of title, or form prescribed by the department:

(A) Date of sale and report-of-sale number.

(B) Purchaser’s name and address.

(C) Dealer’s name, address, number, and signature, or signature of authorized agent.

(D) Salesperson number.

(5) If the department returns an application and the application was first received by the department within 30 days of the date of sale of the vehicle if the vehicle is a used vehicle, and within 20 days if the vehicle is a new vehicle, the dealer or lessor-retailer shall submit a corrected application to the department within 50 days from the date of sale of the vehicle if the vehicle is a used vehicle, and within 40 days if the vehicle is a new vehicle,

or within 30 days from the date that the application was first returned by the department if the vehicle is a used vehicle, and within 20 days if the vehicle is a new vehicle, whichever is later.

(6) If the department returns an application and the application was first received by the department more than 30 days from the date of sale of the vehicle if the vehicle is a used vehicle, and more than 20 days if the vehicle is a new vehicle, the dealer or lessor-retailer shall submit a corrected application to the department within 50 days from the date of sale of the vehicle if the vehicle is a used vehicle, and within 40 days if the vehicle is a new vehicle.

(7) An application first received by the department more than 50 days from the date of sale of the vehicle if the vehicle is a used vehicle, and more than 40 days if the vehicle is a new vehicle, is subject to the penalties specified in subdivisions (a) and (b) of Section 4456.1.

(8) The dealer or lessor-retailer shall report the sale pursuant to Section 5901.

(9) If the vehicle does not display license plates previously issued by the department, the dealer or lessor-retailer shall attach the temporary license plates issued by the reporting system.

(b) (1) A transfer that takes place through a dealer conducting a wholesale vehicle auction shall be reported to the department electronically in a manner approved by the department. The report shall contain, at a minimum, all of the following information:

(A) The name and address of the seller.

(B) The seller's dealer number, if applicable.

(C) The date of delivery to the dealer conducting the auction.

(D) The actual mileage of the vehicle as indicated by the vehicle's odometer at the time of delivery to the dealer conducting the auction.

(E) The name, address, and occupational license number of the dealer conducting the auction.

(F) The name, address, and occupational license number of the buyer.

(G) The signature of the dealer conducting the auction.

(2) Submission of the electronic report specified in paragraph (1) to the department shall fully satisfy the requirements of subdivision (a) and subdivision (a) of Section 5901 with respect to the dealer selling at auction and the dealer conducting the auction.

(3) The electronic report required by this subdivision does not relieve a dealer of any obligation or responsibility that is required by any other law.

(c) A vehicle displaying a report-of-sale form or temporary license plate issued pursuant to paragraph (8) of subdivision (a) may be operated without license plates until either of the following, whichever occurs first:

(1) The license plates and registration card are received by the purchaser.

(2) A 90-day period, commencing with the date of sale of the vehicle, has expired.

(d) Notwithstanding subdivision (c), a vehicle may continue to display a report-of-sale form or temporary license plates after 90 days if the owner provides proof that the owner has submitted an application to the department

pursuant to Section 4457 and it has been no more than 14 days since the permanent license plates were issued to the owner. A violation of this paragraph is a correctable offense pursuant to Section 40303.5.

(e) This section shall become operative January 1, 2019.

SEC. 22. Section 4750.6 is added to the Vehicle Code, to read:

4750.6. (a) (1) The department shall withhold the registration or the transfer of registration of any vehicle sold at retail on and after January 1, 2021, to any applicant by any dealer holding a license issued pursuant to Chapter 4 (commencing with Section 11700) of Division 5 until the dealer pays to the department the sales tax measured by the gross receipts from the sale of the vehicle as required by the Sales and Use Tax Law (Part 1 (commencing with Section 6001) of Division 2 of the Revenue and Taxation Code), together with penalty, if any, unless the California Department of Tax and Fee finds that no sales tax is due.

(2) Notwithstanding paragraph (1), the department may register or transfer the registration of a vehicle described in paragraph (1) for which the sales tax has not been paid by the dealer if the applicant can establish an amount of sales tax reimbursement was paid to the dealer on the sale of that vehicle by providing documentation, including a receipt or an invoice, that was provided to the purchaser by the dealer.

(b) The department shall transmit to the California Department of Tax and Fee Administration all collections of sales tax and penalty made under this section. This transmittal shall be made within 30 days, accompanied by a schedule in such form as the department and California Department of Tax and Fee Administration may prescribe.

(c) The California Department of Tax and Fee Administration shall reimburse the department for its costs incurred in carrying out the provisions of this section. The reimbursement shall be effected under agreement between the agencies, approved by the Department of Finance.

(d) In computing any sales tax or penalty thereon under the provisions of this section, dollar fractions shall be disregarded in the manner specified in Section 9559 of this code. Payment of tax and penalty on this basis shall be deemed full compliance with the requirements of the Sales and Use Tax Law insofar as they are applicable to the use of vehicles to which this section relates.

(e) For purposes of this section, “dealer” shall not include a new motor vehicle dealer as defined by Section 426, a manufacturer or remanufacturer holding a license issued pursuant to Chapter 4 (commencing with Section 11700) of Division 5, an automobile dismantler holding a license and certificate issued pursuant to Chapter 3 (commencing with Section 11500) of Division 5, or a lessor-retailer holding a license issued pursuant to Chapter 3.5 (commencing with Section 11600) of Division 5, and subject to the provisions of Section 11615.5.

SEC. 23. Section 12 of Chapter 34 of the Statutes of 2019 is amended to read:

SEC. 12. (a) It is the intent of the Legislature to apply the requirements of Section 41 of the Revenue and Taxation Code to Sections 2 and 3 of this act.

(b) With respect to Section 6363.9 of the Revenue and Taxation Code, as added by this act, the Legislature finds and declares the following:

(1) The specific goals, purposes, and objectives of this act are to promote public health by increasing the affordability of, and expanding access to, diapers.

(2) (A) To measure the goals set forth in paragraph (1), the Legislative Analyst's Office shall review the effectiveness of the tax exemption and may request information from the California Department of Tax and Fee Administration and any other relevant state government entity.

(B) On or before July 1, 2022, the Legislative Analyst's Office shall submit a report, in compliance with Section 9795 of the Government Code, of the review completed pursuant to subparagraph (A) to the Assembly Committee on Revenue and Taxation and to the Senate Governance and Finance Committee. The report shall include, but is not limited to, both of the following:

(i) A recommendation on whether the exemption should be modified, extended, or allowed to become inoperative.

(ii) An assessment on whether more targeted approaches to providing families in need with adequate access to diapers are available.

(c) With respect to Section 6363.10 of the Revenue and Taxation Code, as added by this act, the Legislature finds and declares the following:

(1) The specific goals, purposes, and objectives of this act are to promote public health by increasing the affordability of, and expanding access to, menstrual hygiene products.

(2) (A) To measure the goals set forth in paragraph (1), the Legislative Analyst's Office shall review the effectiveness of the tax exemption and may request information from the California Department of Tax and Fee Administration and any other relevant state government entity.

(B) On or before July 1, 2022, the Legislative Analyst's Office shall submit a report, in compliance with Section 9795 of the Government Code, of the review completed pursuant to subparagraph (A) to the Assembly Committee on Revenue and Taxation and to the Senate Governance and Finance Committee. The report shall include, but is not limited to, both of the following:

(i) A recommendation on whether the exemption should be modified, extended, or allowed to become inoperative.

(ii) An assessment on whether more targeted approaches to providing individuals in need with adequate access to menstrual hygiene products are available.

SEC. 24. (a) It is the intent of the Legislature to apply the requirements of Section 41 of the Revenue and Taxation Code to Sections 9, 10, and 11 of this act.

(b) With respect to Sections 17935, 17941, and 17948 of the Revenue and Taxation Code, as amended by this act, the Legislature finds and declares as follows:

(1) The goal of this act is to help and reduce costs for first-year California small businesses. Existing law imposes an annual minimum franchise tax of eight hundred dollars (\$800) on every corporation, and an annual tax of eight hundred dollars (\$800) on every limited liability company (LLC), limited partnership (LP), and limited liability partnership (LLP), which may be difficult to afford for first-year businesses. As such, these taxes may stifle economic growth and job creation and may inhibit the formation of many small businesses.

(2) The performance indicator for this act is the number of first-year businesses that are affected by the act.

(3) Notwithstanding Section 19542 of the Revenue and Taxation Code, on or before January 1, 2023, and on or before January 1 each year thereafter through, and including, January 1, 2024, the Franchise Tax Board shall submit an annual report to the Legislature on the performance of first-year corporations, LLC, LPs, and LLPs in the state using the data in paragraph (2). The report required by this paragraph shall be submitted pursuant to Section 9795 of the Government Code.

SEC. 25. Notwithstanding Section 2230 of the Revenue and Taxation Code, no appropriation is made by this act and the state shall not reimburse any local agency for any sales and use tax revenues lost by it under Sections 2 and 3 of this act as required by Section 2230 of the Revenue and Taxation Code.

SEC. 26. This act is a bill providing for appropriations related to the Budget Bill within the meaning of subdivision (e) of Section 12 of Article IV of the California Constitution, has been identified as related to the budget in the Budget Bill, and shall take effect immediately.

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EXHIBIT H

INTRODUCTION

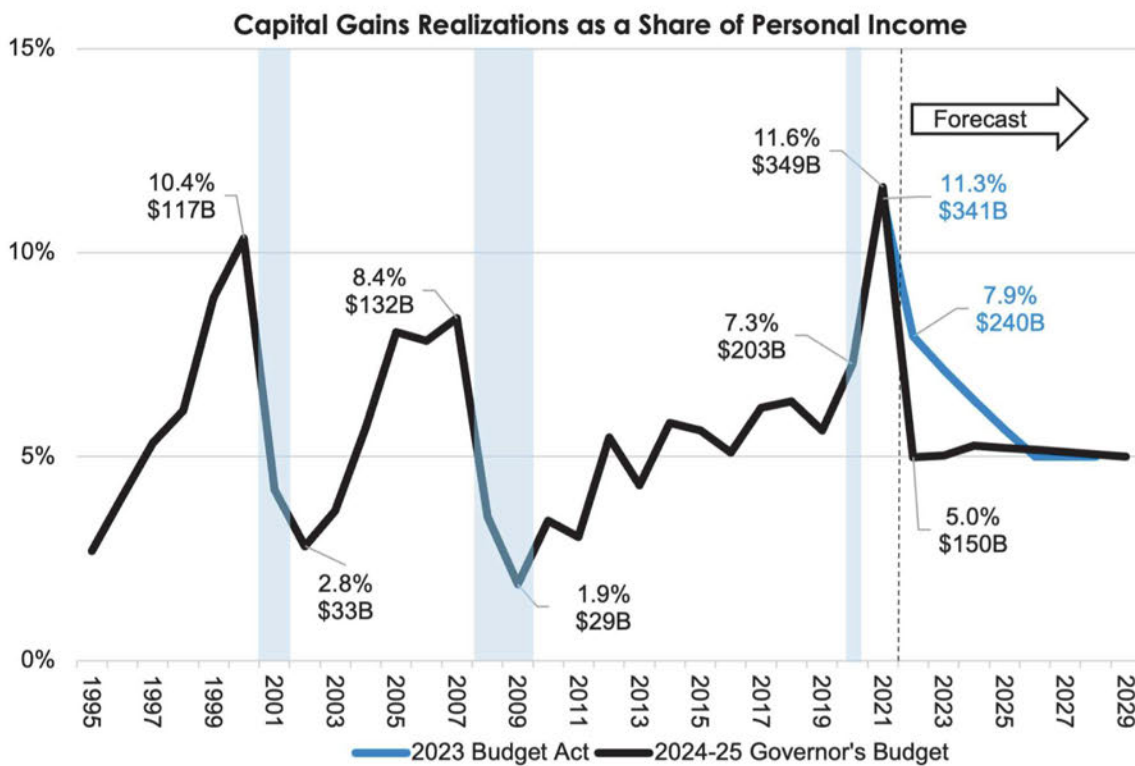
Even as the state faces a shortfall, California continues to expand access to high-quality education, healthcare, and opportunities for innovation and growth—fulfilling promises made while responsibly managing finances into the future. This budget maintains the state's fiscal stability using some of the money saved in historic budget reserves and responsibly closes the shortfall. This balanced budget will allow California to continue to drive important public policy, protect the services Californians depend on most, and support a private sector whose innovation is unmatched anywhere in the world.

The budget shortfall facing lawmakers in 2024—estimated at \$37.9 billion—is rooted in two separate but related developments during the past two years—the substantial decline in the stock market that drove down revenues in 2022 and the unprecedented delay in critical income tax collections. Normally, the bulk of cash data relating to the prior tax year is available by April, leading to a revised May budget informed by actual cash collections. Last year, due to federal tax deadline delays and California's subsequent conformity, the majority of the state's revenues did not arrive until October and November. That means the correction that would have come as part of last year's May Revision is instead being made in this January budget.

The Governor's proposed budgets in January and May 2023 warned of this increased uncertainty, and in June, the state passed a budget that planned accordingly, setting aside record reserves of just under \$38 billion. Now, the state faces a budget that must solve for last year's shortfall while adjusting state spending to ensure continued fiscal stability for years to come.

STEEP MARKET DROP AFTER RECORD RUN-UP

Revenues showed unprecedented strength in the two fiscal years following the COVID-19 Recession, as stock market growth outpaced the slower overall economic recovery. Fueling this growth were capital gains realizations, which have a sizable impact on California revenues. These increased to a record-high \$349 billion in 2021—a 72 percent increase from 2020—representing a record 11.6 percent share of personal income, following a 40 percent increase from 2019 to 2020.



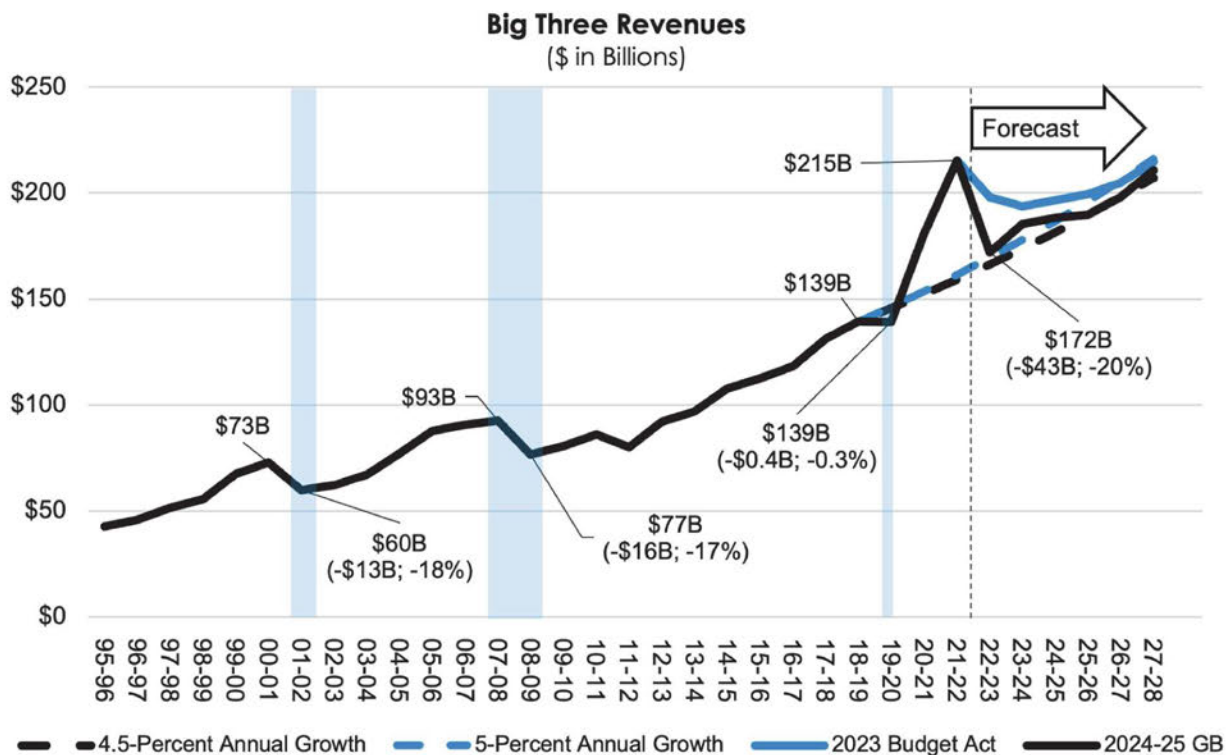
Shaded bars indicate previous U.S. recessions.
 Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

As the markets grew, so did state revenues. Over two fiscal years, from 2019-20 to 2021-22, the state's "Big Three" General Fund revenue sources—personal income, sales, and corporation taxes—grew by 55 percent. By comparison, the other two recent periods of comparable growth were the two years before the 2000-01 revenue peak, which saw growth of 31 percent prior to the Dot-Com Bust, and 31 percent from 2003-04 to 2005-06 before the Great Recession.

The stock market run-up through the end of 2021 led to the tax revenue surge that ended in 2022. The S&P 500 Index, which tracks the country's 500 leading companies, declined by 19 percent in 2022. Over the same period, the NASDAQ Composite Index,

which measures more than 2,500 stocks concentrated in technology companies that are a California mainstay—declined by 33 percent. These represent the most substantial annual declines in these key indices since the onset of the Great Recession in 2008, and a correction from strong prior market performance, a tightened monetary policy by the Federal Reserve Board that drove interest rates upward, and the expectation of a recession that never materialized.

Despite the downward revision in 2022, 2022-23 revenues are estimated to still be 23 percent higher than pre-pandemic levels in 2018-19. Furthermore, the Big Three revenues are projected to revert to levels consistent with a normal revenue growth trajectory, absent the COVID-19 surge and subsequent correction.



Shaded bars indicate previous U.S. recessions.
 Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

CONCENTRATION OF HIGH-INCOME EARNERS HEIGHTENED REVENUE IMPACT OF MARKET DROP

The 2022 market decline had an outsized impact on state revenues, since an extremely small share of California taxpayers are responsible for a large share of state revenues. Personal income tax represents roughly two-thirds of all General Fund revenues, and just

one percent of California's total tax returns—180,000—were responsible for half of all personal income tax paid by residents in 2021—or \$62.9 billion. This small share of Californians earns a significant proportion of their income from stock-based compensation and capital gains, making their income—and the tax revenue it generates—significantly more volatile and subject to swings in the financial markets as opposed to changes in the overall economy.

2023'S UNPRECEDENTED TAX FILING DELAY MASKED FULL SCOPE OF REVENUE DROP

With reliable tax filing deadlines, the degree of the revenue drop associated with the 2022 market declines would have become evident as tax receipts were received in the spring. However, due to federal disaster declarations resulting from severe winter storms, the Internal Revenue Service announced that taxpayers in declared counties could delay filing their federal tax returns—first until October 16, and subsequently to November 16. This delay, to which the state conformed for filing purposes, occurred in 55 of the state's 58 counties, comprising 99 percent of all California taxpayers, and affected tax collections that were due as early as January 2023. While past filing delays of several weeks have been manageable, never before had the state's revenue forecasters been confronted with a delay of up to 10 months in receiving critical tax and revenue data—a challenge compounded by the fact that the past several years have also included global financial and economic instability. The COVID-19 Pandemic led to unprecedented economic impacts through 2022. Global supply chains were disrupted, inflation reached record highs, Gross Domestic Product (GDP) contracted at levels unseen since the Great Depression. Beginning in 2023, economic and financial conditions have started to normalize.

Based on the limited data available in the spring of 2023, the enacted 2023-24 budget reflected a decline in the revenue forecast from January. However, because of the unprecedented tax filing and payment delay, the full scope of the estimated revenue decline was unclear until all the delayed tax returns and payments were received by the extended November 16 deadline, which was only two months before the 2024 budget must be proposed to the Legislature. Once processed, personal income tax and corporation tax receipts through November were \$25.7 billion—22 percent—lower than projected at Budget Act. This factor alone is a significant reason why the budget forecasts of the Big Three General Fund revenue sources through 2024-25 have decreased by approximately \$42.9 billion as compared to the 2023 Budget Act, before accounting for budget solutions.

Had the filing delay not been in place, most of the revenue drop would have been reflected in lower tax receipts before the May Revision and incorporated into the 2023 Budget Act projections. This would have resulted in a larger budget gap in 2023, additional solutions to close it, and a smaller shortfall for 2024 than what is now faced.

Lastly, the filing delay resulted in an abbreviated timeline to prepare the Budget. As such, the Administration will continue to assess whether additional corrective actions are necessary during the development of the May Revision.

IMPROVED CONDITIONS, BUT RISKS REMAIN

The stock market rose throughout 2023 and made up most of its losses from 2022, with the S&P 500 increasing by 24 percent in 2023, and the NASDAQ increasing by 43 percent. California's GDP has also remained strong in 2023, averaging 3.9 percent annualized growth through the first three quarters compared to a contraction of 2.2 percent over the same period in 2022. The stock market recovery and improved economic growth support the budget forecast assumptions that revenue growth will resume in 2023-24 following the steep correction in 2022-23, with potential upside through 2024-25 if the markets continue to outperform the forecast. In addition, the Federal Reserve has indicated it intends to cut interest rates throughout 2024, which may stimulate real estate transactions and other sectors of California's economy.

However, several risk factors could negatively impact the economy going forward. For instance, a significant financial shock from tightening financial conditions, stock market and asset price volatility and declines, and geopolitical turmoil are all issues that pose a risk to ongoing economic and revenue growth.

BUDGET RESERVES AND BALANCED SOLUTIONS

While closing a shortfall of \$37.9 billion poses a substantial challenge for lawmakers, it is more manageable because of the state's foresight in building the combined budgetary reserves to a record level in 2023. A withdrawal from the Budget Stabilization Account (BSA) is a significant and appropriate component of the budget's balanced solutions. As its title suggests, a withdrawal from the BSA will help the state maintain fiscal stability, continue its ongoing efforts to address priority issues, such as homelessness and combatting the effects of climate change, and avoid harmful cuts in programs that are essential to the well-being of Californians throughout the state.

INTRODUCTION

Even after the proposed withdrawals, total budget reserves in the coming fiscal year will remain substantial at \$18.4 billion. This includes \$11.1 billion in the BSA, \$3.9 billion in the Public School System Stabilization Account (PSSSA), and \$3.4 billion in the Special Fund for Economic Uncertainties.

The Budget incorporates the following balanced combination of measures to close the shortfall in the budget year:

- **Reserves—\$13.1 billion.** The budget draws upon funds from the state's reserves. Significant solutions in this category include:
 - Withdrawal from Mandatory BSA Balance and Transfer Suspension (\$10.4 billion),
 - Withdrawal from Discretionary BSA Balance (\$1.8 billion), and
 - Withdrawal from the Safety Net Reserve (\$900 million).
- **Reductions—\$8.5 billion.** The budget reduces funding for various items. Significant solutions in this category include:
 - Various Climate Reductions (\$2.9 billion),
 - Various Housing Program Reductions (\$1.2 billion),
 - State Vacant Position Funding Sweep (\$762.5 million),
 - School Facilities Aid Program (\$500 million),
 - Student Housing Revolving Loan Fund Program (\$494 million),
 - Legislative Requests (\$350 million),
 - University of California Los Angeles Institute of Immunology and Immunotherapy (\$300 million), and
 - Middle Class Scholarship Program (\$289 million).
- **Revenue/Internal Borrowing—\$5.7 billion.** The budget includes support from revenue sources and borrows internally from special funds. Significant solutions in this category include:
 - Increasing the Managed Care Organization Tax Support for Medi-Cal (\$3.8 billion) and
 - Conforming to Tax Cuts and Jobs Act Net Operating Loss Limitation (\$300 million).

- **Delays—\$5.1 billion.** The budget delays funding for multiple items and spreads it across the three-year period, beginning in 2025-26, without reducing the total amount of funding through this period. Significant solutions in this category include:
 - Transit and Intercity Rail Capital Program (\$1 billion),
 - Full Implementation of DDS Service Provider Rate Reform (\$613 million),
 - Preschool, Transitional Kindergarten and Full-Day Kindergarten Facilities Grant Program (\$550 million),
 - Clean Energy Reliability Investment Plan (\$400 million),
 - Behavioral Health Bridge Housing Program (\$235 million), and
 - Vulnerable Community Toxic Clean Up (\$175 million).
- **Fund Shifts—\$3.4 billion.** The budget shifts certain expenditures from the General Fund to other funds. Significant solutions in this category include:
 - Various shifts to the Greenhouse Gas Reduction Fund (\$1.8 billion),
 - State plans retirement contribution reductions using Prop 2 Debt Repayment Funding (\$1.3 billion), and
 - Unemployment Insurance Interest Payment (\$100 million).
- **Deferrals—\$2.1 billion.** The budget defers specific obligations to the 2025-26 fiscal year. Significant solutions in this category include:
 - June to July Payroll Deferral (\$1.6 billion) and
 - University of California and California State University Deferrals (\$499 million).

In addition to the solutions listed above that address the \$37.9 billion gap, the Budget includes withdrawals from the PSSSA of \$5.7 billion to maintain support for Local Educational Agencies and Community College Districts.

LIFTING THE LIMITS ON DEPOSITS TO BUDGET RESERVES

Proposition 2, passed by the voters in 2014, made changes to require 1.5 percent of General Fund tax revenue and a portion of General Fund revenues derived from capital gains to be set aside in reserves and used to pay down debt. The current deposit requirements for the BSA, or Rainy-Day Fund, were established in recognition of the volatility in capital gains revenue and to allow the state to set aside funds during

INTRODUCTION

stock market upswings to mitigate the impact of revenue drops during downturns. However, the state has been constrained in its ability to save during upswings due to Proposition 2's cap on mandatory deposits of 10 percent of General Fund revenues combined with the State Appropriations Limit.

The State Appropriations Limit, also known as the "Gann Limit," was enacted by the voters in 1979 to cap the amount of revenues from the proceeds of taxes that the state can appropriate in a given fiscal year. However, under current law, a deposit in the state savings account is effectively counted as an expenditure. Deposits into the state's reserve accounts are not exempt from the State Appropriations Limit and must count as appropriations subject to the limit. In recent years, strong growth in state revenues has outpaced the growth in the constitutional calculation that set the appropriations limit. This inadvertently, but effectively, created a cap on how much the state could set aside in reserves during the state's recent revenue surpluses, impeding the state's ability to make additional deposits that would have created even greater budget resiliency.

While both voter-approved initiatives promote fiscal prudence and long-term stability in state finance, their interaction has unintentionally eroded the effectiveness of both measures. The Administration and the Legislature should explore changes to law to allow the state to save more during economic upswings, enhancing the state's ability to protect vital programs and services during future budget downturns.

REVENUE ESTIMATES

The Governor's Budget revenue forecast is significantly downgraded as delayed cash data in November indicated the revenue decline from 2021-22 to 2022-23 was much larger than projected in the 2023 Budget Act forecast. Due to January 2023 winter storms impacting the state, the Internal Revenue Service (IRS) initially extended various income tax filing and payment deadlines for most individuals and businesses in California to October 16, 2023, before extending them on October 16 for an additional month, to November 16, 2023. The Franchise Tax Board conformed with the extensions for state taxpayers. As a result, the revenue forecast for the 2023 Budget Act was completed without critical cash data related to prior year and current year taxes that is normally available. Given the extension applied to 55 counties comprising over 99 percent of Californians and to payments spanning several months, uncertainty was high, and a large amount of cash was expected to shift to October.

While projections were modeled closely after past events, there was significant uncertainty around the actual percentage of individuals and businesses taking advantage of the extended deadlines. Moreover, cash data was unavailable at a critical time when revenues were expected to decline following unprecedented revenue growth in the two years through 2021-22 and the stock market correction in 2022. Uncertainty was particularly high as projecting revenues following such unprecedented growth is challenging, especially when the economy is not in a recession. Multiple revenue paths and outcomes would be consistent with revenues correcting and cash data would have normally determined the size of the correction. While the 2023 Budget Act captured the downward trend in revenues, it was not until

REVENUE ESTIMATES

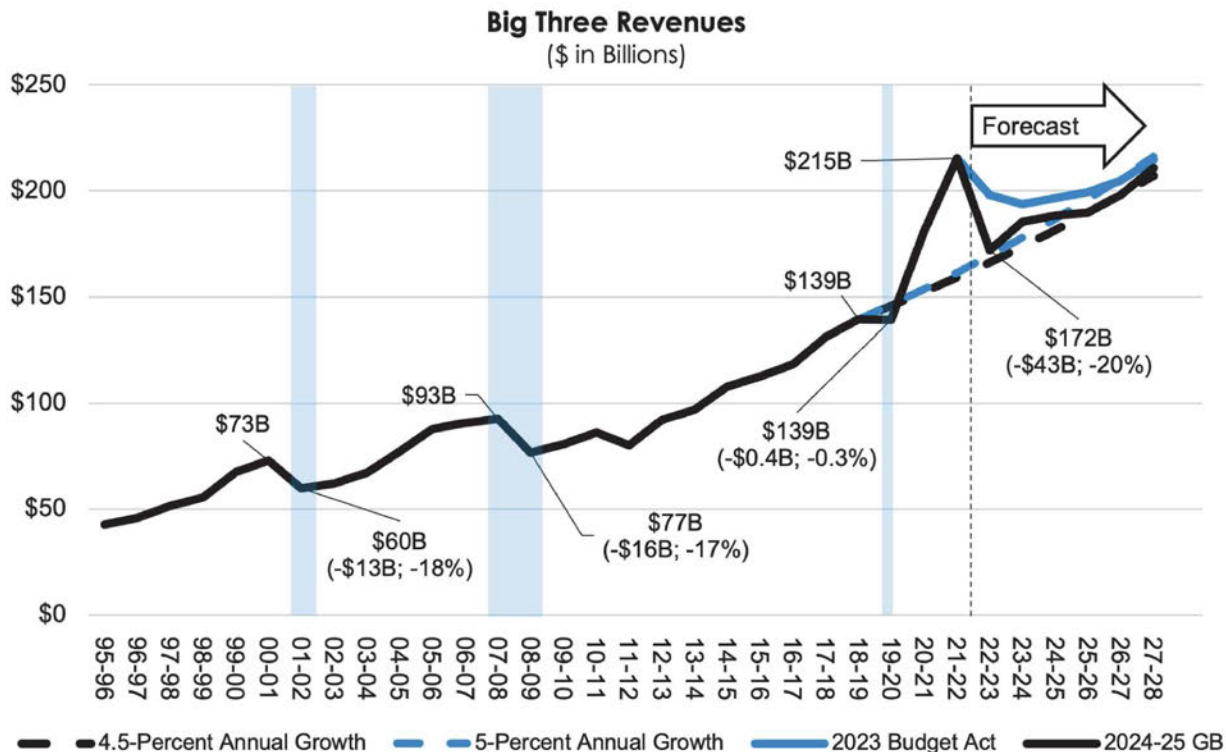
complete cash data was available in November that the magnitude of the decline was clear.

A total of \$42 billion was projected to shift from January through September to October 2023—\$28.4 billion in personal income tax and \$13.3 billion in corporation tax revenues which include \$8.3 billion related to the Pass-Through Entity Elective Tax (PTET). From April through November, however, cash receipts from personal income tax and corporation income tax combined were \$25.7 billion lower than projected in the 2023 Budget Act. Personal income tax receipts were down \$19.1 billion due to non-withholding payments falling short by \$17.6 billion and refunds exceeding the forecast by \$3.3 billion. On the other hand, personal income withholding receipts were up \$1.3 billion cumulatively through November and increased 5 percent from May through November compared to the same period in 2022. Corporation tax cash receipts were down \$6.6 billion, including a \$2-billion shortfall in PTET payments.

Before accounting for budget solutions, General Fund revenue is projected to be approximately \$44 billion lower than assumed in the 2023 Budget Act over the budget window—from fiscal year 2022-23 through fiscal year 2024-25. Most of this lower projection is due to an atypical sizeable downgrade of \$24.7 billion in prior year revenues, which negatively impacts revenues in the rest of the multi-year through a base effect. This is partially offset by a slightly upgraded economic outlook and stock market forecast.

While this downward revision is substantial, the Budget revenue forecast does not assume a recession, but rather reflects a correction of revenue growth and a reversion to trend following record growth in 2020-21 and 2021-22. Despite this correction, 2022-23 revenues were still 23 percent higher than in pre-pandemic 2018-19. The three largest sources of revenue—personal income tax, corporation tax, and sales tax—are estimated to have declined by 20 percent or \$43 billion from 2021-22 to 2022-23, a percentage decline that is comparable to the decreases during the 2001 Recession and the Great Recession. However, this current decline follows a record two-year growth of 55 percent or \$76 billion from 2019-20 to 2021-22. The next highest two-year growth in recent history was a 31-percent two-year growth through 2000-01.

Furthermore, given the assumptions of continued economic growth, the "Big Three" revenues are projected to rebound and grow at normal rates through the end of the forecast. As shown in the Big Three Revenues figure, following the revenue correction in 2022-23, Big Three revenues revert to levels consistent with normal revenue growth trajectory absent the COVID-19 surge and subsequent correction.



Shaded bars indicate previous U.S. recessions.
Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

Due to the state's increasing reliance on high-income taxpayers, who earn a significant proportion of their income from stock-based compensation, revenues have been increasingly volatile and unpredictable as they are more sensitive to financial market shocks and less correlated with the broader economy. This decoupling of revenue and economic growth became particularly stark in the past few years. While California experienced a record-high unemployment rate of 16.1 percent in April 2020, the Big Three revenues stayed roughly flat in 2019-20. In 2020-21, while California's unemployment rate averaged 9.3 percent, the Big Three revenues enjoyed a record-high growth of 30 percent. Finally, while California personal income—a proxy for the California economy—increased by 1.8 percent in 2022-23 and nonfarm employment increased by 3.3 percent, the Big Three revenues are estimated to have decreased by 20 percent. This decoupling of economic growth and revenue growth is illustrated in the California Economic Growth Versus Revenue Growth figure.

Going forward, the Budget forecast assumes continued but moderating economic growth along with a stock market that is not significantly different from its levels in mid-November. If financial markets perform significantly worse or better than assumed, the revenue picture will likely change accordingly. Several risks remain, including stock

REVENUE ESTIMATES

market volatility, an economic recession, or any shocks that would disproportionately impact high-income earners.



BUDGET WINDOW

The Governor's Budget General Fund Revenue Forecast figure compares the revenue forecasts, by source, in the 2023 Budget Act and the Governor's Budget. The downgrades relative to the 2023 Budget Act forecast are driven by sizeable shortfalls in personal income tax and corporation tax in 2022-23, which narrow but persist throughout the end of the forecast.

- Revenues from the Big Three**—before accounting for budget solutions—are projected to be lower by \$42.9 billion over the budget window due to a \$29.6-billion downgrade to the personal income tax forecast and a \$15.4-billion downward revision to the corporation tax forecast that are partially offset by a \$2.1-billion upward revision to the sales tax forecast.

**2024-25 Governor's Budget
General Fund Revenue Forecast
Reconciliation with the 2023 Budget Act**

(Dollars in Millions)

Source	2023 Budget Act	Governor's Budget	Change From Budget Act Forecast	
<u>Fiscal 2022-23 (Preliminary)</u>				
Personal Income Tax	\$122,769	\$101,749	-\$21,020	-17.1%
Corporation Tax	42,091	37,140	-4,951	-11.8%
Sales & Use Tax	33,072	33,186	114	0.3%
Insurance Tax	3,673	3,690	18	0.5%
Alcoholic Beverage	433	421	-12	-2.8%
Pooled Money Interest	2,133	2,391	258	12.1%
Cigarette	47	47	0	1.0%
Other Revenues	2,081	2,520	438	21.1%
Subtotal	\$206,299	\$181,144	-\$25,155	-12.2%
Transfer To/From BSA	-544	0	544	-100.0%
Other Transfers and Loans	-621	-728	-107	17.2%
Total	\$205,134	\$180,416	-\$24,718	-12.0%
<u>Fiscal 2023-24</u>				
Personal Income Tax	\$118,161	\$113,768	-\$4,393	-3.7%
Corporation Tax	42,081	36,913	-5,167	-12.3%
Sales & Use Tax	33,366	34,643	1,277	3.8%
Insurance Tax	3,881	3,894	13	0.3%
Alcoholic Beverage	438	427	-11	-2.6%
Pooled Money Interest	2,928	3,044	116	4.0%
Cigarette	43	43	0	0.4%
Other Revenues	5,379	3,206	-2,173	-40.4%
Subtotal	\$206,277	\$195,938	-\$10,339	-5.0%
Transfer To/From BSA	0	-1,424	-1,424	n/a
Other Transfers and Loans	2,411	2,345	-66	-2.7%
Total	\$208,688	\$196,859	-\$11,828	-5.7%
<u>Fiscal 2024-25</u>				
Personal Income Tax	\$118,903	\$114,730	-\$4,174	-3.5%
Corporation Tax	43,369	38,055	-5,313	-12.3%
Sales & Use Tax	34,383	35,123	740	2.2%
Insurance Tax	3,998	4,021	23	0.6%
Alcoholic Beverage	446	433	-13	-2.9%
Pooled Money Interest	1,648	1,791	144	8.7%
Cigarette	42	42	0	0.2%
Other Revenues	5,580	6,810	1,230	22.0%
Revenue Solutions	n/a	402	402	n/a
Subtotal	\$208,368	\$201,407	-\$6,961	-3.3%
Transfer To/From BSA (Solution)	-180	12,026	12,206	-6781.1%
Non-BSA Transfers and Loans Solutions	n/a	2,504	2,504	n/a
Other Transfers and Loans	-1,089	-1,238	-150	13.8%
Total	\$207,100	\$214,699	\$7,599	3.7%
Three-Year Total Excluding Solutions			-\$44,059	
Three-Year Total			-\$28,947	

REVENUE ESTIMATES

- **Minor Revenues**—insurance, alcoholic beverage, cigarette taxes and pooled money interest—are higher by \$536 million over the budget window due largely to a \$517-million upgrade in the pooled money interest forecast.
- **Other Minor not Otherwise Classified Revenues**—are \$505 million lower over the budget window, due largely to a lowered estimate for federal reimbursements of wildfire and COVID-19 Pandemic costs and a partial shift of those reimbursements to future years.
- **Revenue Solutions**—are projected to increase General Fund revenues by \$402 million in 2024-25.
- **Transfers and Loans Solutions**—excluding transfers to the Budget Stabilization Account (BSA)—are projected to increase General Fund revenues by \$2.5 billion in 2024-25.
- **BSA Transfers**—are projected to increase General Fund revenues by \$11.3 billion over the budget window, as the \$12-billion withdrawal in 2024-25 more than fully offsets the workload changes in 2022-23 and 2023-24 that decrease revenues by a total of \$880 million.

After accounting for all transfers, baseline General Fund revenues in the Budget are \$28.9 billion lower than projected in the 2023 Budget Act over the budget window.

PERSONAL INCOME TAX

The personal income tax is the state's largest revenue source. Excluding PTET credits, the personal income tax is estimated to account for over 65 percent of General Fund revenues before transfers in 2022-23 and is projected to comprise nearly 74 percent of all General Fund revenues before transfers in 2024-25.

Modeled closely after federal income tax law, California's personal income tax is imposed on net taxable income—gross income less exclusions and deductions. The tax rate structure is progressive over the income spectrum. Since the 2012 tax year, the marginal rates range from 1 percent to 12.3 percent, not including a 1-percent surcharge on taxable income above \$1 million for the Mental Health Services Act tax. (See the Mental Health Services Fund section for more information.) Proposition 30 created three additional income tax brackets beginning in 2012 with rates of 10.3 percent for taxable income above \$500,000, 11.3 percent for taxable income above \$600,000, and 12.3 percent for taxable income above \$1 million, with the

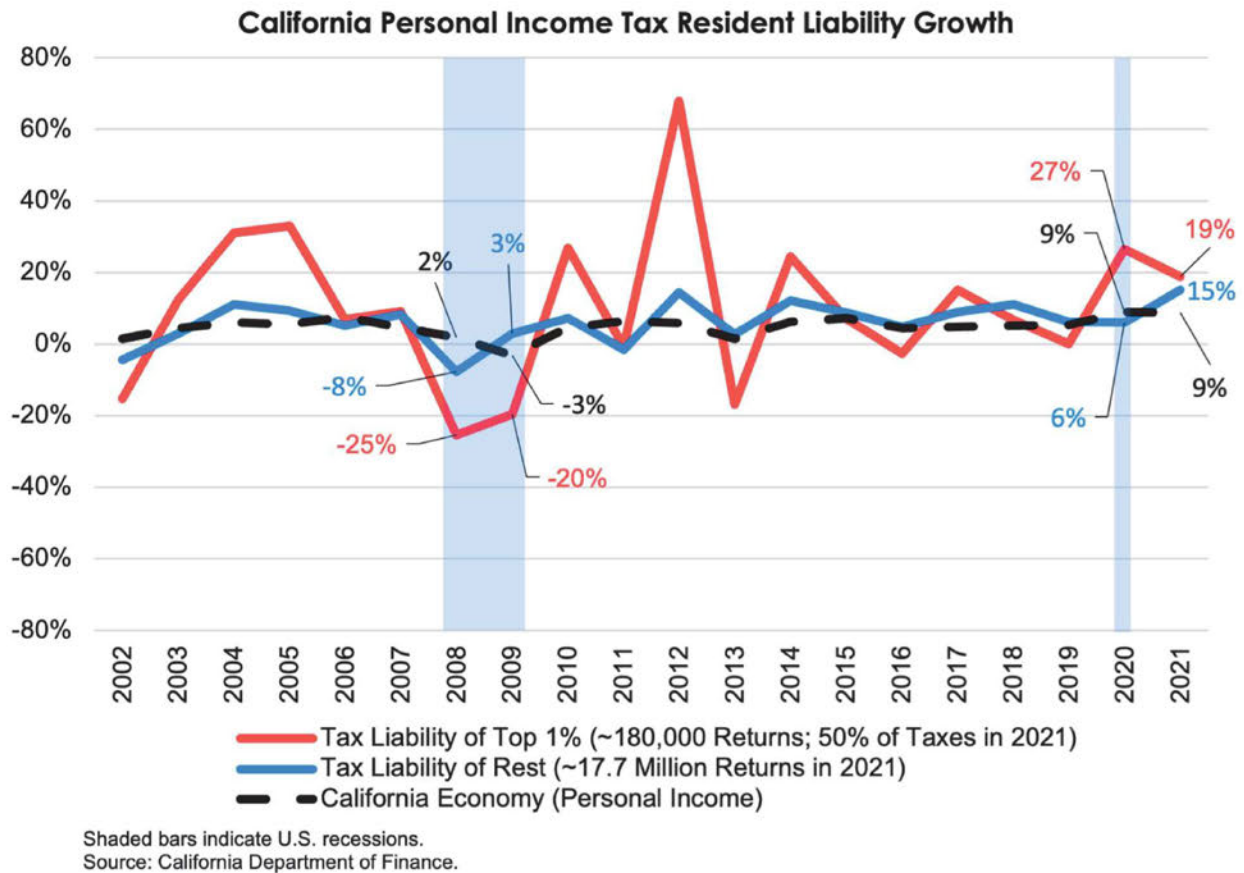
income thresholds indexed for inflation. Proposition 30 held these tax brackets in effect for seven years—from tax years 2012 to 2018. Voters approved Proposition 55 in November 2016, extending the three additional tax brackets through tax year 2030.

Within the personal income, in the ten years through 2021, wages comprised nearly 70 percent of adjusted gross income for all tax returns and capital gains were around 10 percent. In tax year 2021, wages represented 62 percent of adjusted gross income, a historic-low share, while capital gains comprised a record-high 17 percent of adjusted gross income. Since wages also include stock-based compensation, a significant share of personal income tax depends on financial markets and individuals' decisions on when to buy and sell stocks.

The highest-income Californians pay the largest share of the state's personal income tax. For the 2021 tax year, the top one percent of income earners, or about 180,000 tax returns, paid nearly 50 percent of personal income taxes, up 0.8 percentage point from 2020. Moreover, these high-income taxpayers' tax liability tends to be volatile as they earn a larger share of their total income from capital gains and stock-based compensation. As illustrated in the California Personal Income Tax Resident Liability Growth figure, the top one percent's tax liability, which has been greater than 40 percent of all personal income taxes for 17 of the last 18 years, is highly volatile and untethered from the growth of the broader economy.

These two related phenomena—significant reliance of the General Fund on capital gains and stock-based compensation, and on taxes paid by a small portion of the population—underscore the difficulty of forecasting personal income tax revenue. Proposition 2 helps address some of the state's revenue volatility by requiring the transfer of a portion of capital gains revenue greater than 8 percent of General Fund tax revenue to the Rainy Day Fund and to pay down state debts.

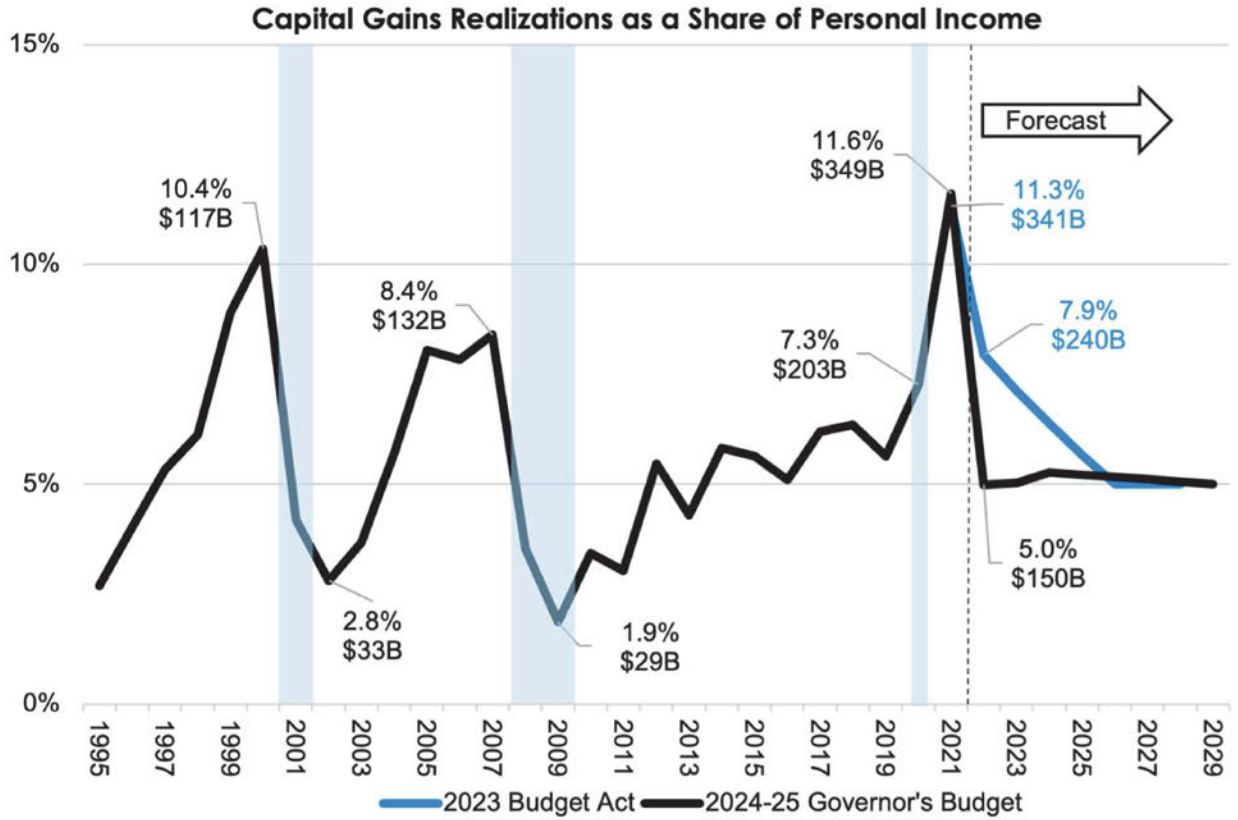
Before accounting for budget solutions, the personal income tax forecast is lower by \$29.6 billion over the budget window compared to the 2023 Budget Act forecast, with a shortfall of around \$21 billion in 2022-23, which decreases to \$4.4 billion in 2023-24 and to \$4.2 billion in 2024-25. The \$17.6-billion shortfall in non-withholding payments—estimated payments, final payments, and other payments—through November reflects weakness in payments related to tax years 2022 and 2023. The 2023 Budget Act forecast assumed the delayed IRS deadline would shift \$28.4 billion in personal income tax payments to October. The substantial shortfall in cash receipts indicates that tax year 2022 liability, particularly capital gains realizations, was far lower than projected in the 2023 Budget Act.



CAPITAL GAINS

The 2023 Budget Act forecast projected \$240 billion in capital gains realizations in 2022—a 30-percent year-over-year decline from record-high realizations reported in 2021. Cash data indicates the 2022 drop in capital gains realizations was much larger, estimated at around 57 percent and reflecting a more immediate correction to levels representing around 5 percent of personal income. In contrast, the 2023 Budget Act forecast assumed a more gradual reversion of capital gains realization occurring over several years through smaller consecutive yearly declines. With the steeper decline in 2022, capital gains realizations are projected to be around \$200 billion lower cumulatively through 2025, compared to the 2023 Budget Act forecast, and contributing nearly \$25 billion to the overall PIT shortfall in the budget window.

Capital gains realizations as a share of personal income reached a record-high of 11.6 percent in 2021, exceeding the 2007 pre-Great Recession peak of 8.4 percent and more than a full percentage point higher than the previous record of 10.4 percent in 2000. Following these peaks in 2007 and in 2000, capital gains as a percent of personal income declined to 1.9 percent in 2009 and to 2.8 percent in 2002, which represented peak-to-trough declines in capital gains realizations of 78 percent and 72 percent,



Shaded bars indicate previous U.S. recessions.
 Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

respectively. As shown in the Capital Gains as a Percentage of Personal Income figure, following its record share in 2021, capital gains realizations are assumed to revert to 5 percent of personal income in 2022, roughly in line with its historical average. Throughout the rest of the forecast, capital gains are assumed to stay around 5 percent of personal income.

The Capital Gains Proposition 2 Revenue figure shows Proposition 2 revenues from capital gains as a percentage of total General Fund tax revenue. The amount of capital gains revenue in the General Fund can vary greatly over time and from year to year. For instance, capital gains contributed only \$2.3 billion to the General Fund in 2009. By 2012, this revenue had increased to \$10.4 billion. Proposition 2 revenues increased to \$36 billion in 2021—its highest amount ever—and are estimated to have decreased to \$15 billion in 2022.

**Capital Gains Proposition 2 Revenue
As a Percent of General Fund Tax Revenues**
(Dollars in Billions)

Calendar Year	2009	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022 ^{e/}	2023 ^{e/}	2024 ^{e/}
Capital Gains Realizations	\$29	\$55	\$52	\$100	\$80	\$116	\$120	\$113	\$144	\$154	\$145	\$203	\$349	\$150	\$158	\$175
Prop 2 Revenue from Capital Gains	\$2.3	\$4.7	\$4.2	\$10.4	\$7.6	\$11.3	\$11.8	\$11.5	\$14.1	\$15.4	\$14.4	\$20.6	\$36.0	\$15.0	\$15.7	\$17.4
Fiscal Year	09-10	10-11	11-12	12-13	13-14	14-15	15-16	16-17	17-18	18-19	19-20	20-21	21-22	22-23 ^{e/}	23-24 ^{e/}	24-25 ^{e/}
Prop 2 Revenues from Capital Gains	\$3.0	\$4.5	\$6.0	\$9.6	\$8.7	\$11.4	\$11.7	\$12.3	\$14.5	\$15.1	\$16.3	\$25.2	\$29.7	\$15.2	\$16.2	\$17.6
Total General Fund Revenues ^{1/}	\$87	\$92	\$85	\$98	\$103	\$114	\$119	\$122	\$135	\$144	\$145	\$187	\$224	\$181	\$196	\$201
Capital Gains Percentage	3.4%	4.9%	7.1%	9.8%	8.5%	10.1%	9.9%	10.0%	10.7%	10.4%	11.2%	13.5%	13.3%	8.4%	8.3%	8.7%

^{e/}Estimated
^{1/}Excluding transfers
Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

OTHER PERSONAL INCOME COMPONENTS

Business, partnership, and nonresident incomes also contributed to the overall personal income tax downgrade whereas offsetting factors included higher projected withholding, a lower projected usage of PTET credits, and upgrades to several personal income components. Withholding receipts have been revised higher by nearly \$2.5 billion through 2024-25 due to stronger-than-expected cash results since May and an improved economic wage forecast in the near-term. Over the budget window, projected PTET credit usage is lower by \$3.1 billion, a result of lower payments on the business entity side, which is a positive for personal income tax revenues.

MENTAL HEALTH SERVICES FUND

A portion of personal income tax revenues is deposited into a special fund instead of the General Fund. Proposition 63, passed in November 2004, imposes a surcharge of 1 percent on taxable income over \$1 million. Revenue from the surcharge is transferred to the Mental Health Services Fund and used to fund mental health programs. The forecast projects annual revenues of \$2.6 billion for 2022-23, \$2.4 billion for 2023-24, and \$2.6 billion for 2024-25 for this fund. The General Fund and the Mental Health Services Fund shares of personal income tax revenues for 2022-23 through 2024-25 are shown in the Personal Income Tax Revenue figure.

Personal Income Tax Revenue

(Dollars in Millions)

	2022-23 Preliminary	2023-24 Forecast	2024-25 Forecast
General Fund	\$101,749	\$113,768	\$114,826
Mental Health Services Fund	\$2,567	\$2,392	\$2,596
Total	\$104,316	\$116,160	\$117,421

Source: California Department of Finance, 2024-25 Governor's Budget Forecast.

CORPORATION TAX

Before accounting for budget solutions, the corporation tax forecast is lower by \$15.4 billion over the budget window or around \$5 billion per year from 2022-23 to 2024-25. Corporation tax cash receipts were down \$6.6 billion through November, including a \$2-billion shortfall in PTET payments. The 2023 Budget Act forecast assumed the delayed IRS deadline would shift around \$5 billion in non-PTET payments and \$8.3 billion in PTET payments to October. Instead, non-PTET payments were down \$3.4 billion through November, suggesting that 2022 corporate liability was much lower than assumed in the 2023 Budget Act.

Corporate tax revenues through the end of the forecast were also subsequently lowered due to the base effect of lower liability in 2022. Expectations regarding future taxable profits growth are largely unchanged. Finally, credit and Net Operating Loss (NOL) usage assumptions were unchanged from the 2023 Budget Act as available 2022 tax data is less complete than normal and offered no conclusive new information on credit and NOL usage. Due to lower PTET payments related to tax year 2022, the forecast for PTET revenue contributes \$2.6 billion to the \$15.4-billion overall corporate tax shortfall over the budget window.

SALES AND USE TAX

Before accounting for budget solutions, the sales tax forecast is higher by \$2.1 billion in the budget window as cash receipts through November are tracking close to the forecast and taxable consumer spending and private investment growth are revised higher in the budget window.

Consumer spending growth has been revised up from an average of 1 percent to 2.3 percent in the budget window. Consumer spending growth has been stronger than expected through the third quarter of 2023 due to a tight labor market and rising

wages. Consumer spending growth is then expected to slow through 2024 in response to a drop in transfer receipts and the resumption of interest accrual on student loans, leading to decelerating consumer spending growth in 2024-25.

Private investment growth has been revised up from an average of 2.4 percent to 3.2 percent in the budget window. In particular, the upward revisions are in 2022-23 and 2023-24, due largely to strong actuals in 2023 from the unexpected resilience of businesses despite high borrowing costs. However, borrowing costs are expected to stay higher for longer and ultimately begin to affect businesses later, leading to deceleration of private investment growth in 2024-25.

Despite a slightly slower projected growth in consumer spending and private investment in 2024-25, the higher base in 2022-23 and faster growth in 2023-24 lead to an overall more positive sales tax forecast in the budget window.

FORECASTING RISKS AND UNCERTAINTY

Revenue forecasting is always subject to significant uncertainty, even if the underlying economy and the stock market are performing in line with expectations, particularly in the personal income and corporate income tax forecasts, as liability for those taxes also depend on taxpayer behavior and timing of when assets are sold, and when credits and NOLs are used. While the magnitude of potential revenue swings has likely declined as revenues have already come down from unsustainably high levels through 2021-22, revenues could still end up \$15 billion higher or lower per year in 2023-24 and 2024-25—even if the economy and asset markets perform largely in line with expectations.

The principal drivers that could lead to higher or lower revenues include higher or lower personal income tax withholding receipts, capital gains realizations, corporate taxable profits, and use of corporate net operating losses and business incentive tax credits. The timing of capital gains realizations is uncertain: if, for example, capital gains realizations average roughly 4 percent of personal income—their normal share in the early to mid-1990s—instead of 5 percent as projected, the personal income tax forecast would be lower by around \$12 billion in the budget window. Similarly, due to the backlog from the 2020 and 2021 suspension, it is plausible that usage of NOLs and business incentive tax credits by corporations could be higher or lower by about \$2 billion per year, which would generally increase or reduce corporation tax by about the same amount.

REVENUE IN A RECESSION

The Budget revenue forecast is based on a scenario that assumes continued but slowing economic growth and does not assume a recession. As discussed in the Economic Outlook Chapter, several risk factors could negatively impact the economy and lead to a recession. For instance, a significant financial shock from tightening financial conditions, stock market and asset price volatility and declines, and geopolitical turmoil are all issues that pose a risk to ongoing economic and revenue growth.

Even in a mild recession, revenue declines below the Budget forecast could be significant. The magnitude of the revenue loss would depend upon the depth and duration of a recession, as well as its relative impact on higher-income individuals. A mild recession in the second half of 2024 could lead to General Fund revenue losses between \$20 billion to \$30 billion relative to the Budget forecast over the budget window.

TAX PROPOSALS

The Budget includes several tax proposals, as described below. These revenue solutions combined are estimated to increase General Fund revenues by a total of \$402 million in 2024-25 and lead to ongoing revenue gains outside of the budget window.

NET OPERATING LOSS CONFORMITY

Under current federal law, as part of the Tax Cuts and Jobs Act, the use of NOLs carried forward from prior years is limited to 80 percent of subsequent year's net income and carrybacks are disallowed. Carrybacks allow businesses to apply losses to preceding years to receive a refund. California conformed in 2019 to also disallow carrybacks; however, the state did not conform to the 80-percent limitation.

The Budget proposes to conform state law to federal law by limiting NOLs that are carried forward from prior years to 80 percent of any subsequent year's net income, joining the majority of states in restricting NOL usage to 80 percent or less of taxable income. The change is proposed for tax years beginning on or after 2024 and is projected to lead to revenue gains of \$300 million in 2024-25, followed by ongoing annual gains of \$200 million thereafter.

CHARITABLE CONSERVATION EASEMENTS CONFORMITY

Under current federal law, property owners who elect to give up rights to develop certain land are allowed a deduction equal to the property development's value. However, this deduction has proven easy to abuse as the IRS has found that property investors often inflate the value of their property in order to get a larger deduction. As a result, the federal Consolidated Appropriations Act (CAA) of 2023:

- Limited the deduction for owners of pass-through entities to two and a half times the value of taxpayers' investment; and
- Disallowed the deductions for participants who had previously engaged in fraud.

For example, a partial owner who invested \$100 dollars is now limited to claiming a deduction of up to \$250. California law conforms with federal law in allowing deductions for charitable conservation easements; however, the state has not conformed to the 2023 changes listed above.

The Budget proposes to conform with federal law with respect to California's treatment of the charitable conservation easements deduction by adopting the changes made in the CAA beginning in tax year 2024. This proposal is projected to increase General Fund revenues by \$55 million in 2024-25 and 2025-26 and by \$25 million per year thereafter.

ELIMINATION OF BAD DEBT DEDUCTION

Since 2000, current California law allows retailers, lenders, and retailers' affiliates to deduct or claim a refund for sales and use tax paid on accounts used to purchase taxable goods on credit that are found worthless or charged off (subsequently referred to as "bad debt"). Typically, loans to purchase goods are offered by retailer-affiliate lenders such as banks, credit unions, and other financial companies who price in default risks through interest rates and late payment fees. Lenders can claim the deduction or refund even if a profit was made on the bad debt through interest and penalties paid.

The Budget proposes to eliminate the bad debt deduction and refund, effective in January 2025, joining the majority of states in disallowing deductions for non-retailer lenders for sales tax paid on bad debts. This proposal is projected to increase General Fund revenues by \$23.5 million in 2024-25 and about \$50.6 million per year thereafter.

ELIMINATION OF OIL AND GAS SUBSIDIES

The Budget proposes to eliminate the following oil and gas subsidies beginning in tax year 2024:

- **Immediate Deduction for Intangible Drilling Costs**—Under current California law and in conformity with federal law since 1987, 70 percent of intangible oil and gas drilling costs, such as survey work, ground clearing, drainage, and repairs, can immediately be deducted by corporations as a business expense, with the remainder spread over five years. For independent oil producers, 100 percent of intangible drilling costs can be deducted immediately. Normal tax law generally requires that expenses can be deducted only once their benefit is realized.
- **Percentage Depletion Rules for Fossil Fuels**—Under current California law and in conformity with federal law since 1993, businesses may deduct a fixed percentage of gross income that is higher than the normal cost-depletion method when it comes to resource depletion of mineral and other natural resources.
- **Enhanced Oil Recovery Costs Credit**—Under current California law, certain independent oil producers are allowed a nonrefundable credit equal to 5 percent of the qualified enhanced oil recovery costs for projects located in the state if the reference price of domestic crude oil falls above a specified threshold for the preceding year. Taxpayers who are retailers of oil or natural gas and those who are refiners of crude oil whose daily output exceeds 50,000 barrels are not eligible for the credit.

Eliminating these tax expenditures is projected to increase General Fund revenues by \$22 million in 2024-25 and by \$17 million per year thereafter.

EXHIBIT I

Temporary Limits on Business Tax Provisions

JANUARY 2022

Summary. This post provides background on temporary limits on the use of net operating loss deductions and business tax credits. It describes the Governor’s proposal to lift these limits one year early and provides some comments to the Legislature.

Background

State Temporarily Raised Business Taxes to Address Anticipated Budget Problem.

The onset of the COVID-19 pandemic had far-reaching negative impacts on the state economy and significantly impacted the state budget. In anticipation of a \$54 billion budget problem, Chapter 8 of 2020 (AB 85, Committee on Budget) limited the use of net operating loss deductions and business credits for 2020, 2021, and 2022 to temporarily increase tax revenue. This is a budget solution that the state previously has used, for example, to address the budget problem caused by the Great Recession in 2008.

Net Operating Loss Deductions Smooth Business Profits and Losses Over Time. Companies and individuals often incur operating losses associated with their business activities in some years. These companies are able to carry the net operating losses (NOLs) forward into future tax years and deduct NOLs from their operating income. The ability to deduct NOLs allows business taxpayers to smooth profits and losses over time. California tax law allows business taxpayers to carry forward such NOLs for up to 20 years.

NOL Suspension Affects About 4,000 Taxpayers.

Assembly Bill 85 suspended the use of NOL deductions by corporations and individuals that have net business income over \$1 million for 2020, 2021, and 2022. **Figure 1** provides summary information about those taxpayers that had business income over \$1 million and used NOL deductions in 2019. The figure shows that 339 personal income tax (PIT) payers and 3,866 corporation taxpayers had business income over \$1 million and used a NOL deduction. The figure also shows the use of NOL deductions by corporate taxpayers across industry sectors. In 2019, for example, 619 taxpayers operating in the manufacturing industry had more than \$1 million in income and deducted \$3 billion in NOLs in total. The administration estimates that the NOL suspension increased revenues by about \$2 billion in 2020-21.

Figure 1

NOLs Deducted by Selected Taxpayers 2019

	Number of Returns With NOLs, Business Income >\$1 Million	Amount of NOLs Claimed (Billions)
Personal Income Tax Returns		
Resident	314	\$1.9
Nonresident	25	0.1
Totals	339	\$2.0
Corporation Tax Returns		
Retail and wholesale trade	895	\$2.7
Industry unknown	724	3.9
Manufacturing	619	3.0
Services	454	1.2
Information	386	1.1
Other industries	788	3.7
Totals	3,866	\$15.6

NOLs = net operating losses.

Business Tax Credits Often Encourage Certain Types of Behavior. Tax credits are provisions in California's tax laws that allow taxpayers to directly reduce their taxes dollar for dollar. Most business tax credits provide an incentive for companies to alter their behavior in certain ways. For example, the New Employment Tax Credit allows a company to claim a credit if they hire a qualified new full-time employee. The largest state business tax credit is the credit for qualified research and development (R&D) expenditures. Taxpayers claimed about \$3.1 billion in R&D credits in 2019. All other business credits amount to less than \$1 billion combined.

Credit Limits Likely Affect Fewer Than 100 Corporations. Assembly Bill 85 limited the amount of most business tax credits any taxpayer could claim to \$5 million for 2020, 2021, and 2022. **Figure 2** lists the tax credits limited by AB 85 and the amounts of each claimed in 2019 by the affected corporation taxpayers. Some affected taxpayers may have had several credits, for example, an affected corporation may have had both California Competes and R&D credits. The \$5 million limit on credits likely has affected fewer than 100 corporation taxpayers. (No individual business owner was affected by this provision because none had more than \$5 million in credits available to apply against the PIT. Taxpayers are allowed to carry unused credits forward to use in a future tax year. While different credits can be carried forward for varying amounts of time, R&D credits never expire. The administration estimates that the limit on business credits increased revenues by about \$2 billion in 2020-21.

Interaction Between Suspending NOLs and Limiting Credits. Some corporations have large balances of both NOLs and credits. If the state restricts the use of NOLs, such corporations will increase their use of credits. For this reason, placing limits on both NOLs and credits results in a larger revenue effect than limiting either NOLs or credits separately. The administration estimates that this interaction effect increased revenues by an estimated \$600 million in 2020-21.

Governor's Proposal

Lifts Temporary Limits on Business Tax Provisions. The Governor's budget proposes to end, one year early, temporary limits on the ability of businesses to use NOL deductions and tax credits to reduce their tax payments. Lifting the NOL deduction and credit limits will reduce tax revenues by an estimated \$5.5 billion in 2022-23. **Figure 3** shows how the administration estimates that the proposal would affect General Fund revenues. Revenue increases in the years following 2022-23 because NOL deductions and credits that would have been used in future years instead will be used in 2022-23.

Ending NOL and Credit Limits Early Is Reasonable

Lifting the limits one year early would be reasonable for a couple of key reasons.

Figure 2

Tax Credits Used by Selected Corporation Taxpayers 2019

Credit	Number of Taxpayers	Amount (Millions)
Research and development	59	\$2,147
Enterprise zones	— ^a	258
Film production ^b	— ^a	109
Prior year alternative minimum tax	— ^a	63
California Competes	— ^a	27
New Advanced Strategic Aircraft	— ^a	19
Totals	80	\$2,623

^a Fewer than ten taxpayers. The number may not be displayed to protect taxpayer confidentiality.

^b Includes credits from both the first and second film tax credit programs.

Figure 3

Estimated Revenue Change From Governor's Proposal to End Limits on Business Taxes

	FY 22-23	FY 23-24	FY 24-25	FY 25-26
Personal income tax	-275	8.5	42.5	33
Corporation tax	-5,225	161.5	807.5	617
Totals	-5,500	170.0	850.0	650

FY = fiscal year.

Budget Solution No Longer Needed.

The state's actual revenue situation improved significantly faster than the state anticipated when it adopted the temporary limits on NOL deductions and credits. The unusual economic effects of the pandemic resulted in unexpected growth in General Fund revenues. The *2020-21 Budget Act* forecast 2022-23 revenues of \$132 billion—an amount that reflected a sharp decline in 2020-21, followed by slower than average growth. The Governor's budget now forecasts that 2022-23 General Fund revenues will be \$196 billion, or 49 percent, higher than the projection when these business tax provisions were enacted. The provisions were enacted to address the anticipated budget problem, not to raise revenue for new state spending.

Improved Budget Resilience in Future

Years. The temporary limits on NOLs and credits effectively shift tax revenue from future years to the present. Given the strong budget position at present, it is not prudent to increase revenues in the current year if those increases come at the expense of reduced revenues in future years, when the budgetary situation is less certain. In addition to increasing future revenue, the Governor's proposal could improve budget resilience by maintaining the option to again place temporary limits on NOLs and credits should the state face a similar budget problem in the future.

LAO PUBLICATIONS

This post was prepared by Brian Weatherford, and reviewed by Brian Uhler and Carolyn Chu. The Legislative Analyst's Office (LAO) is a nonpartisan office that provides fiscal and policy information and advice to the Legislature.

PROOF OF SERVICE

STATE OF CALIFORNIA
COUNTY OF LOS ANGELES

Re: *Legislature of the State of California, et al. v. Shirley N. Weber, Ph.D., et al.* . Case No. S281977

I am employed in the County of Los Angeles, State of California. I am over the age of 18 and not a party to the within action. My business address is 1250 Sixth Street, Suite 205, Santa Monica, California 90401. My electronic mail address is loliver@strumwooch.com.

On **January 31, 2024**, I served the foregoing document(s) described as **MOTION FOR JUDICIAL NOTICE; MEMORANDUM OF POINTS AND AUTHORITIES; DECLARATION OF DALE K. LARSON; [PROPOSED] ORDER** on all appropriate parties in this action, as listed below, by the method stated:

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LaKeitha Oliver

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et al. . Case No. S281977*

Via EFS

Richard Rios
Margaret R. Prinzing
Robin B. Johansen
Inez Kaminski
Olson Remcho, LLP
1901 Harrison Street, Suite 1550
Oakland, California 94612
Tel: (510) 346-6200 • Fax: (510) 574-7061
Email: mprinzing@olsonremcho.com

*Attorneys for Petitioners Legislature of the State of California,
Governor Gavin Newsom and John Burton*

Via EFS

Steven Reyes, Chief Counsel
Office of the Secretary of State
1500 11th Street
Sacramento, California 95814
Tel: (916) 653-7244
Email: steve.reyes@sos.ca.gov

*Attorneys for Respondent Secretary of State Shirley N. Weber,
Ph.D.*

Via EFS

Thomas W. Hiltachk
Bell, McAndrews & Hiltachk, LLP
455 Capital Mall, Suite 600
Sacramento, California 95814
Tel: (916) 442-7757
Email: tomh@bmhlaw.com

Attorney for Real Party in Interest Thomas W. Hiltachk

STATE OF CALIFORNIA
Supreme Court of California

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(HILTACHK)**

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Mary Mooney Office of the California Secretary of State 287376	mmooney@sos.ca.gov	e-Serve	1/31/2024 6:03:34 PM
Margaret Prinzing Olson Remcho, LLP 209482	mprinzing@olsonremcho.com	e-Serve	1/31/2024 6:03:34 PM
Anita Ceballos California School Boards Association	aceballos@csba.org	e-Serve	1/31/2024 6:03:34 PM
Eric Eisenhammer Dauntless Communications	eric@dauntlesscommunications.com	e-Serve	1/31/2024 6:03:34 PM
Ben Granholm	ben@swingstrat.com	e-Serve	1/31/2024 6:03:34 PM
Michael Colantuono Colantuono, Highsmith & Whatley, PC 143551	mcolantuono@chwlaw.us	e-Serve	1/31/2024 6:03:34 PM
Inez Kaminski Olson Remcho, LLP 345584	ikaminski@olsonremcho.com	e-Serve	1/31/2024 6:03:34 PM
Alexa Howard Office of the California Secretary of State 309197	lhoward@sos.ca.gov	e-Serve	1/31/2024 6:03:34 PM
Adrian Granda City of San Diego	ADGranda@sandiego.gov	e-Serve	1/31/2024 6:03:34 PM
Robin Johansen Olson Remcho LLP 79084	rjohansen@olsonremcho.com	e-Serve	1/31/2024 6:03:34 PM
Neil Sawhney	nsawhney@aclunc.org	e-	1/31/2024

ACLU of Northern California 300130		Serve	6:03:34 PM
Natalie Boust California Business Roundtable	natalie@cbrt.org	e-Serve	1/31/2024 6:03:34 PM
Mike Young California Environmental Voters	mike@envirovoters.org	e-Serve	1/31/2024 6:03:34 PM
Richard Rios Olson Remcho, LLP 238897	rrios@olsonremcho.com	e-Serve	1/31/2024 6:03:34 PM
Matthew Slentz Colantuono, Highsmith & Whatley, PC 285143	msslentz@chwlaw.us	e-Serve	1/31/2024 6:03:34 PM
Adam Skaggs Giffords Law Center 4211173	askaggs@giffords.org	e-Serve	1/31/2024 6:03:34 PM
Thomas Hiltachk Bell, McAndrews & Hiltachk, LLP 131215	tomh@bmhlaw.com	e-Serve	1/31/2024 6:03:34 PM
Paul Dress ARC	Paul.Dress@asm.ca.gov	e-Serve	1/31/2024 6:03:34 PM
Hector Barajas	hbarajas@gmail.com	e-Serve	1/31/2024 6:03:34 PM
Christopher Hoene California Budget & Policy Center	choene@calbudgetcenter.org	e-Serve	1/31/2024 6:03:34 PM
Coyote Marin Court Added	c.c.marin@ic.institute	e-Serve	1/31/2024 6:03:34 PM
Steven Reyes California Secretary of State	steve.reyes@sos.ca.gov	e-Serve	1/31/2024 6:03:34 PM
Christina Williamson Mastagni Holstedt, A.P.C.	cwilliamson@mastagni.com	e-Serve	1/31/2024 6:03:34 PM
Thomas Hiltachk Bell, McAndrews & Hiltachk, LLP 131215	kmerina@bmhlaw.com	e-Serve	1/31/2024 6:03:34 PM
LaKeitha Oliver	loliver@strumwooch.com	e-Serve	1/31/2024 6:03:34 PM
Michael Strumwasser Strumwasser & Woocher LLP 58413	mstrumwasser@strumwooch.com	e-Serve	1/31/2024 6:03:34 PM
Beverly Grossman Palmer Strumwasser & Woocher LLP 234004	bpalmer@strumwooch.com	e-Serve	1/31/2024 6:03:34 PM
Dale Larson Strumwasser & Woocher LLP 266165	dlarson@strumwooch.com	e-Serve	1/31/2024 6:03:34 PM
Salvador Perez Strumwasser & Woocher LLP 309514	sperez@strumwooch.com	e-Serve	1/31/2024 6:03:34 PM
Office of the Attorney General	PO Box 944255 Sacramento, CA 94244-2550	Mail	1/31/2024 6:03:34 PM

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1/31/2024

Date

/s/LaKeitha Oliver

Signature

Larson, Dale (266165)

Last Name, First Name (PNum)

Strumwasser & Woocher LLP

Law Firm