



APR 1 2004

Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Darrell Steinberg, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

Amendment to Budget Bill Item 2100-001-3036, Support, Alcoholic Beverage Control (ABC)

Alcoholic Beverage Control Licensing Program – Issue 121

It is requested that Item 2100-001-3036 be increased by \$496,000 from the Alcohol Beverage Control Fund to provide funding for five investigators and five office assistants to perform licensing functions. The ABC licenses and collects fees from 61 different types of alcohol manufacturers, importers, wholesalers, and retailers. These fees pay for administration and enforcement of the Alcoholic Beverage Control Act. Waiting times for an appointment to file an application for a license have increased substantially as has the backlog of licensing investigations. The positions will be added to the district offices with the longest waiting times. Extended wait times create hardships on new businesses and reduce associated tax revenue. This request will not result in a fee increase.

Department of Justice (DOJ) Legal Service Rate Increase – Issue 122

It is requested that Item 2100-001-3036 be increased by \$58,000 from the Alcohol Beverage Control Fund to provide funding for increased DOJ legal service fees. On January 27, 2004, the DOJ notified all of its billable clients that it was increasing its rates for legal and paralegal services effective April 1, 2004. The attorney billing rate increased by 18 percent and the paralegal billing rate increased by 72 percent. The ABC indicates that it has no practical means of limiting the number of hours worked by DOJ staff to the number of hours that can be funded for the legal services it requires. This request will not result in a fee increase.

The effect of my requested action is reflected on the attachment.

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If you have any questions or need additional information regarding this matter, please call Matt Paulin, Principal Program Budget Analyst, at (916) 322-2263.

DONNA ARDUIN

Director

By:



MICHAEL C. GENEST

Chief Deputy Director

for

Attachment

cc: Honorable Dede Alpert, Chair, Senate Appropriations Committee
Attention: Ms. Anne Maitland, Staff Director
Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Jeff Bell, Fiscal Director
Honorable Judy Chu, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Rick Keene, Vice Chair, Assembly Budget Committee
Attention: Mr. Peter Schaafsma, Staff Director
Honorable Joseph Dunn, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable John Dutra, Chair, Assembly Budget Subcommittee No. 4
Ms. Elizabeth Hill, Legislative Analyst (4)
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Mr. Jerry Jolly, Director, Alcoholic Beverage Control
Mr. Tony Nieto, Assistant Director for Administration, Alcoholic Beverage Control
Mr. Larry Mills, Budget Officer, Alcoholic Beverage Control



APR 1 2004

Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

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Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

Amendment to Various Budget Bill Items, Department of Housing and Community Development (HCD)

Housing and Emergency Shelter Trust Fund Act of 2002 Staffing (Issue 010)—It is requested that funding be increased from the continuous appropriation authority provided through Health and Safety Code Section 53533 (1)(A) by \$479,000 and 4.0 positions (3.8 personnel years). This increase in positions along with 10.0 (9.5 personnel years) existing positions that will be redirected will result in a total of 14.0 positions (13.3 personnel years) addressing the increased workload associated with administering the activities supported from the proceeds of the housing bond authorized by the Housing and Emergency Shelter Trust Fund Act of 2002 (Housing Act). The Housing Act was passed in the November 2002 General Election as Proposition 46, with the intent to increase the supply of affordable housing in California and to stimulate the economy through housing job creation.

Office of Migrant Services Program Augmentation (Issue 040)—It is requested that Health and Safety Code Section 53533(4)(A) be amended to authorize the HCD to expend \$1,400,000 from the funds provided from the Housing and Emergency Shelter Trust Fund Act of 2002 to the Joe Serna, Jr. Farmworker Housing Grant Fund to provide funding for the repair, rehabilitation, and replacement of equipment at various state-owned migrant centers. These repairs will prevent the closure of these centers while maintaining affordable rental rates for migrant workers. The attached trailer bill language is proposed to codify this action.

Enterprise Zone (EZ) Program Augmentation (Issue 030)—It is requested that Item 2240-001-0001 be amended by increasing Reimbursements by \$668,000 to add 6.0 positions (5.7 personnel years) to implement the provisions of Chapter 593, Statutes of 2003, which places the responsibility for the EZ Program with the HCD. It is proposed that EZs will reimburse the State for the cost of processing program extension requests and other related activities. The attached trailer bill language is proposed to codify this action.

Transfer the Office of Military Base Retention and Reuse (OMBRR) from HCD to the Office of the Secretary of the Business, Transportation, and Housing (BTH) Agency (Issue 060)—It is requested that Item 2240-001-0001 be reduced by \$153,000 (1.0 position/1.0 personnel year) to reflect transferring the OMBRR from the HCD to the BTH Agency. Historically, the OMBRR resided within the former Technology, Trade and Commerce Agency (TTCA). With the elimination of TTCA, the OMBRR was subsequently transferred to the HCD. The activities of the OMBRR more appropriately align with the economic benefit programs transferred from the TTCA to the BTH. See Item 0520-001-0001, Issue 010 for the conforming increase in expenditure authority in the BTH Agency along with proposed trailer bill language to codify this request is concurrently being requested for BTH .

Develop Community Affairs Program Enterprise System (Issue 020)—It is requested that the expenditure authority for the HCD be increased by \$200,000 to provide funding for development costs of the Community Affairs Program Enterprise System (CAPES), including an amendment to Item 2240-001-0001 to reflect a net increase of \$72,000 to the following Budget Act items:

<u>Item</u>	<u>Amount</u>
2240-001-0530	\$6,000
2240-001-0813	\$1,000
2240-001-0929	\$41,000
2240-001-0938	\$10,000
2240-001-0980	\$4,000
2240-001-0985	\$9,000
2240-001-6038	\$1,000

As well as the amounts from the following continuously appropriated authorities:

<u>Authority</u>	<u>Amount</u>
Health and Safety Code Section 50697.1	\$2,000
Health and Safety Code Section 50517.5	\$7,000
Health and Safety Code Section 50661	\$43,000
Health and Safety Code Section 50740	\$15,000
Health and Safety Code Section 53533 (1)(A)	\$27,000
Health and Safety Code Section 53533 (a)(4)(A)	\$12,000
Health and Safety Code Section 53533 (a)(5)(A)	\$22,000

The CAPES information technology system will integrate project and financial data for both State and federal housing programs. This integration will allow greater management of housing projects throughout the state.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Elliott Mandell, Principal Program Budget Analyst, at 322-2263.

DONNA ARDUIN

Director

By:



for MICHAEL C. GENEST
Chief Deputy Director

Attachment

cc: Honorable Dede Alpert, Chair, Senate Appropriations Committee
Attention: Ms. Anne Maitland, Staff Director
Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee
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Ms. Elizabeth Hill, Legislative Analyst (4)
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Mr. Matthew Franklin, Director, Department of Housing and Community Development
Mr. Rick Beard, Budget Officer, Department of Housing and Community Development
Mr. Al Lee, Acting Principal Fiscal Officer, Business, Transportation and Housing Agency

**Proposed Trailer Bill Language —Enterprise Zone (EZ) Program Augmentation
(Issue 030)**

SECTION 1.

The Legislature finds and declares as follows:

- (a) The findings and declarations of Section 7071 are herein restated.
- (b) Enterprise zones are a key tool for the state in retaining businesses and industries and in stimulating business and industrial growth throughout the state.
- (c) The original Enterprise Zone Act envisioned that taxpayers would easily be able to obtain certificates from the Employment Development Department, county or city Job Training Partnership Act administrative entity, or the local GAIN office verifying their hiring of tax credit qualifying employees. Due to resource constraints and program modifications the task of issuing certificates has been assumed, without clear statutory authorization, by local cities and counties administering enterprise zones.
- (d) Administration of the Enterprise Zone Act at the state level has previously been accomplished utilizing General Fund resources.
- (e) Responsibility for administration of the Act has been transferred to the Department of Housing and Community Development pursuant to Chapter 593, Statutes of 2003. The Department, however, has been given no resources for state administration. The Department has been unable to keep up with the day-to-day administration of the program in such areas as designating new zones, processing zone expansion and extension requests and updating information on eligible census tracts.
- (f) Due to the state's current fiscal crises, no General Funds are available for the administration of the Enterprise Zone Act. Local governments also are experiencing financial difficulty. Although some local government enterprise zones have assumed responsibility for issuing employment certificates, this can become a costly time consuming process. Given local budget constraints, this has resulted in lengthy delays in taxpayers being able to obtain certificates. Some enterprise zones have begun to charge for their services in issuing certificates.
- (g) The absence of state and local resources devoted to the administration of the enterprise zone program has severely compromised its effectiveness.
- (h) This bill would address these problems by providing a non-General Fund revenue source to support the state's administration of the Enterprise Zone Act, and by providing statutory authority to local government enterprise zones to issue employee certificates and to charge for this service.

SECTION 2. Section 17053.74 of the Revenue and Taxation Code is amended to read:

17053.74. (a) There shall be allowed a credit against the "net tax" (as defined in Section 17039) to a taxpayer who employs a qualified employee in an enterprise zone during the taxable year.

The credit shall be equal to the sum of each of the following:

- (1) Fifty percent of qualified wages in the first year of employment.
 - (2) Forty percent of qualified wages in the second year of employment.
 - (3) Thirty percent of qualified wages in the third year of employment.
 - (4) Twenty percent of qualified wages in the fourth year of employment.
 - (5) Ten percent of qualified wages in the fifth year of employment.
- (b) For purposes of this section:
- (1) "Qualified wages" means:

(A) (i) Except as provided in clause (ii), that portion of wages paid or incurred by the taxpayer during the taxable year to qualified employees that does not exceed 150 percent of the minimum wage.

(ii) For up to 1,350 qualified employees who are employed by the taxpayer in the Long Beach Enterprise Zone in aircraft manufacturing activities described in Codes 3721 to 3728, inclusive, and Code 3812 of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, "qualified wages" means that portion of hourly wages that does not exceed 202 percent of the minimum wage.

(B) Wages received during the 60-month period beginning with the first day the employee commences employment with the taxpayer. Reemployment in connection with any increase, including a regularly occurring seasonal increase, in the trade or business operations of the taxpayer does not constitute commencement of employment for purposes of this section.

(C) Qualified wages do not include any wages paid or incurred by the taxpayer on or after the zone expiration date. However, wages paid or incurred with respect to qualified employees who are employed by the taxpayer within the enterprise zone within the 60-month period prior to the zone expiration date shall continue to qualify for the credit under this section after the zone expiration date, in accordance with all provisions of this section applied as if the enterprise zone designation were still in existence and binding.

(2) "Minimum wage" means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.

(3) "Zone expiration date" means the date the enterprise zone designation expires, is no longer binding, or becomes inoperative.

(4) (A) "Qualified employee" means an individual who meets all of the following requirements:

(i) At least 90 percent of whose services for the taxpayer during the taxable year are directly related to the conduct of the taxpayer's trade or business located in an enterprise zone.

(ii) Performs at least 50 percent of his or her services for the taxpayer during the taxable year in an enterprise zone.

(iii) Is hired by the taxpayer after the date of original designation of the area in which services were performed as an enterprise zone.

(iv) Is any of the following:

(I) Immediately preceding the qualified employee's commencement of employment with the taxpayer was a person eligible for services under the federal Job Training Partnership Act (29 U.S.C. Sec. 1501 et seq.), or its successor, who is receiving, or is eligible to receive, subsidized employment, training, or services funded by the federal Job Training Partnership Act, or its successor.

(II) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible to be a voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN) provided for pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code, or its successor.

(III) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was an economically disadvantaged individual 14 years of age or older.

(IV) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a dislocated worker who meets any of the following:

(aa) Has been terminated or laid off or who has received a notice of termination or layoff from employment, is eligible for or has exhausted entitlement to unemployment insurance benefits, and is unlikely to return to his or her previous industry or occupation.

(bb) Has been terminated or has received a notice of termination of employment as a result of any permanent closure or any substantial layoff at a plant, facility, or enterprise, including an individual who has not received written notification but whose employer has made a public announcement of the closure or layoff.

(cc) Is long-term unemployed and has limited opportunities for employment or reemployment in the same or a similar occupation in the area in which the individual resides, including an

individual 55 years of age or older who may have substantial barriers to employment by reason of age.

(dd) Was self-employed (including farmers and ranchers) and is unemployed as a result of general economic conditions in the community in which he or she resides or because of natural disasters.

(ee) Was a civilian employee of the Department of Defense employed at a military installation being closed or realigned under the Defense Base Closure and Realignment Act of 1990.

(ff) Was an active member of the armed forces or National Guard as of September 30, 1990, and was either involuntarily separated or separated pursuant to a special benefits program.

(gg) Is a seasonal or migrant worker who experiences chronic seasonal unemployment and underemployment in the agriculture industry, aggravated by continual advancements in technology and mechanization.

(hh) Has been terminated or laid off, or has received a notice of termination or layoff, as a consequence of compliance with the Clean Air Act.

(V) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a disabled individual who is eligible for or enrolled in, or has completed a state rehabilitation plan or is a service-connected disabled veteran, veteran of the Vietnam era, or veteran who is recently separated from military service.

(VI) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was an ex-offender. An individual shall be treated as convicted if he or she was placed on probation by a state court without a finding of guilt.

(VII) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible for or a recipient of any of the following:

(aa) Federal Supplemental Security Income benefits.

(bb) Aid to Families with Dependent Children.

(cc) Food stamps.

(dd) State and local general assistance.

(VIII) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a member of a federally recognized Indian tribe, band, or other group of Native American descent.

(IX) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a resident of a targeted employment area, as defined in Section 7072 of the Government Code.

(X) An employee who qualified the taxpayer for the enterprise zone hiring credit under former Section 17053.8 or the program area hiring credit under former Section 17053.11.

(XI) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a member of a targeted group, as defined in Section 51(d) of the Internal Revenue Code, or its successor.

(B) Priority for employment shall be provided to an individual who is enrolled in a qualified program under the federal Job Training Partnership Act or the Greater Avenues for Independence Act of 1985 or who is eligible as a member of a targeted group under the Work Opportunity Tax Credit (Section 51 of the Internal Revenue Code), or its successor.

(5) "Taxpayer" means a person or entity engaged in a trade or business within an enterprise zone designated pursuant to Chapter 12.8 (commencing with Section 7070) of the Government Code.

(6) "Seasonal employment" means employment by a taxpayer that has regular and predictable substantial reductions in trade or business operations.

(c) The taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office or social services agency, or the local government administering the enterprise zone as appropriate, a certification which provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening

and referral to a certifying agency. The Employment Development Department shall develop a form for this purpose. **The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to subdivision (a) of Section 7086 of Chapter 12.8 of Division 7 of Title 1 of the Government Code.**

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

(d) (1) For purposes of this section:

(A) All employees of trades or businesses, which are not incorporated, that are under common control shall be treated as employed by a single taxpayer.

(B) The credit, if any, allowable by this section with respect to each trade or business shall be determined by reference to its proportionate share of the expense of the qualified wages giving rise to the credit, and shall be allocated in that manner.

(C) Principles that apply in the case of controlled groups of corporations, as specified in subdivision (d) of Section 23622.7, shall apply with respect to determining employment.

(2) If an employer acquires the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the "predecessor") or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section (other than subdivision (e)) for any calendar year ending after that acquisition, the employment relationship between a qualified employee and an employer shall not be treated as terminated if the employee continues to be employed in that trade or business.

(e) (1) (A) If the employment, other than seasonal employment, of any qualified employee, with respect to whom qualified wages are taken into account under subdivision (a) is terminated by the taxpayer at any time during the first 270 days of that employment (whether or not consecutive) or before the close of the 270th calendar day after the day in which that employee completes 90 days of employment with the taxpayer, the tax imposed by this part for the taxable year in which that employment is terminated shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that employee.

(B) If the seasonal employment of any qualified employee, with respect to whom qualified wages are taken into account under subdivision (a) is not continued by the taxpayer for a period of 270 days of employment during the 60-month period beginning with the day the qualified employee commences seasonal employment with the taxpayer, the tax imposed by this part, for the taxable year that includes the 60th month following the month in which the qualified employee commences seasonal employment with the taxpayer, shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that qualified employee.

(2) (A) Subparagraph (A) of paragraph (1) shall not apply to any of the following:

(i) A termination of employment of a qualified employee who voluntarily leaves the employment of the taxpayer.

(ii) A termination of employment of a qualified employee who, before the close of the period referred to in paragraph (1), becomes disabled and unable to perform the services of that employment, unless that disability is removed before the close of that period and the taxpayer fails to offer reemployment to that employee.

(iii) A termination of employment of a qualified employee, if it is determined that the termination was due to the misconduct (as defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California Code of Regulations) of that employee.

(iv) A termination of employment of a qualified employee due to a substantial reduction in the trade or business operations of the taxpayer.

(v) A termination of employment of a qualified employee, if that employee is replaced by other qualified employees so as to create a net increase in both the number of employees and the hours of employment.

(B) Subparagraph (B) of paragraph (1) shall not apply to any of the following:

(i) A failure to continue the seasonal employment of a qualified employee who voluntarily fails to return to the seasonal employment of the taxpayer.

(ii) A failure to continue the seasonal employment of a qualified employee who, before the close of the period referred to in subparagraph (B) of paragraph (1), becomes disabled and unable to perform the services of that seasonal employment, unless that disability is removed before the close of that period and the taxpayer fails to offer seasonal employment to that qualified employee.

(iii) A failure to continue the seasonal employment of a qualified employee, if it is determined that the failure to continue the seasonal employment was due to the misconduct (as defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California Code of Regulations) of that qualified employee.

(iv) A failure to continue seasonal employment of a qualified employee due to a substantial reduction in the regular seasonal trade or business operations of the taxpayer.

(v) A failure to continue the seasonal employment of a qualified employee, if that qualified employee is replaced by other qualified employees so as to create a net increase in both the number of seasonal employees and the hours of seasonal employment.

(C) For purposes of paragraph (1), the employment relationship between the taxpayer and a qualified employee shall not be treated as terminated by reason of a mere change in the form of conducting the trade or business of the taxpayer, if the qualified employee continues to be employed in that trade or business and the taxpayer retains a substantial interest in that trade or business.

(3) Any increase in tax under paragraph (1) shall not be treated as tax imposed by this part for purposes of determining the amount of any credit allowable under this part.

(f) In the case of an estate or trust, both of the following apply:

(1) The qualified wages for any taxable year shall be apportioned between the estate or trust and the beneficiaries on the basis of the income of the estate or trust allocable to each.

(2) Any beneficiary to whom any qualified wages have been apportioned under paragraph (1) shall be treated, for purposes of this part, as the employer with respect to those wages.

(g) For purposes of this section, "enterprise zone" means an area designated as an enterprise zone pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(h) The credit allowable under this section shall be reduced by the credit allowed under Sections 17053.10, 17053.17 and 17053.46 claimed for the same employee. The credit shall also be reduced by the federal credit allowed under Section 51 of the Internal Revenue Code.

In addition, any deduction otherwise allowed under this part for the wages or salaries paid or incurred by the taxpayer upon which the credit is based shall be reduced by the amount of the credit, prior to any reduction required by subdivision (i) or (j).

(i) In the case where the credit otherwise allowed under this section exceeds the "net tax" for the taxable year, that portion of the credit that exceeds the "net tax" may be carried over and added to the credit, if any, in succeeding taxable years, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.

(j) (1) The amount of the credit otherwise allowed under this section and Section 17053.70, including any credit carryover from prior years, that may reduce the "net tax" for the taxable year shall not exceed the amount of tax which would be imposed on the taxpayer's business income attributable to the enterprise zone determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) Attributable income shall be that portion of the taxpayer's California source business income that is apportioned to the enterprise zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101) of Part 11. That business income shall be further apportioned to the enterprise zone in accordance with Article 2 (commencing with Section 25120) of Chapter 17 of Part 11, modified for purposes of this section in accordance with paragraph (3).

(3) Business income shall be apportioned to the enterprise zone by multiplying the total California business income of the taxpayer by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two. For purposes of this paragraph:

(A) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the enterprise zone during the taxable year, and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the taxable year.

(B) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the enterprise zone during the taxable year for compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the taxable year.

(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "net tax" for the taxable year, as provided in subdivision (i).

(k) The changes made to this section by the act adding this subdivision shall apply to taxable years beginning on or after January 1, 1997.

SECTION 3.

Section 23622.7 of the Revenue and Taxation Code is amended to read:

23622.7. (a) There shall be allowed a credit against the "tax" (as defined by Section 23036) to a taxpayer who employs a qualified employee in an enterprise zone during the taxable year. The credit shall be equal to the sum of each of the following:

- (1) Fifty percent of qualified wages in the first year of employment.
- (2) Forty percent of qualified wages in the second year of employment.
- (3) Thirty percent of qualified wages in the third year of employment.
- (4) Twenty percent of qualified wages in the fourth year of employment.
- (5) Ten percent of qualified wages in the fifth year of employment.

(b) For purposes of this section:

(1) "Qualified wages" means:

(A) (i) Except as provided in clause (ii), that portion of wages paid or incurred by the taxpayer during the taxable year to qualified employees that does not exceed 150 percent of the minimum wage.

(ii) For up to 1,350 qualified employees who are employed by the taxpayer in the Long Beach Enterprise Zone in aircraft manufacturing activities described in Codes 3721 to 3728, inclusive, and Code 3812 of the Standard Industrial Classification (SIC) Manual published by the United States Office of Management and Budget, 1987 edition, "qualified wages" means that portion of hourly wages that does not exceed 202 percent of the minimum wage.

(B) Wages received during the 60-month period beginning with the first day the employee commences employment with the taxpayer. Reemployment in connection with any increase, including a regularly occurring seasonal increase, in the trade or business operations of the taxpayer does not constitute commencement of employment for purposes of this section.

(C) Qualified wages do not include any wages paid or incurred by the taxpayer on or after the zone expiration date. However, wages paid or incurred with respect to qualified employees who are employed by the taxpayer within the enterprise zone within the 60-month period prior to the zone expiration date shall continue to qualify for the credit under this section after the zone expiration date, in accordance with all provisions of this section applied as if the enterprise zone designation were still in existence and binding.

(2) "Minimum wage" means the wage established by the Industrial Welfare Commission as provided for in Chapter 1 (commencing with Section 1171) of Part 4 of Division 2 of the Labor Code.

(3) "Zone expiration date" means the date the enterprise zone designation expires, is no longer binding, or becomes inoperative.

(4) (A) "Qualified employee" means an individual who meets all of the following requirements:

(i) At least 90 percent of whose services for the taxpayer during the taxable year are directly related to the conduct of the taxpayer's trade or business located in an enterprise zone.

(ii) Performs at least 50 percent of his or her services for the taxpayer during the taxable year in an enterprise zone.

(iii) Is hired by the taxpayer after the date of original designation of the area in which services were performed as an enterprise zone.

(iv) Is any of the following:

(I) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible for services under the federal Job Training Partnership Act (29 U.S.C. Sec. 1501 et seq.), or its successor, who is receiving, or is eligible to receive, subsidized employment, training, or services funded by the federal Job Training Partnership Act, or its successor.

(II) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible to be a voluntary or mandatory registrant under the Greater Avenues for Independence Act of 1985 (GAIN) provided for pursuant to Article 3.2 (commencing with Section 11320) of Chapter 2 of Part 3 of Division 9 of the Welfare and Institutions Code, or its successor.

(III) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was an economically disadvantaged individual 14 years of age or older.

(IV) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a dislocated worker who meets any of the following:

(aa) Has been terminated or laid off or who has received a notice of termination or layoff from employment, is eligible for or has exhausted entitlement to unemployment insurance benefits, and is unlikely to return to his or her previous industry or occupation.

(bb) Has been terminated or has received a notice of termination of employment as a result of any permanent closure or any substantial layoff at a plant, facility, or enterprise, including an individual who has not received written notification but whose employer has made a public announcement of the closure or layoff.

(cc) Is long-term unemployed and has limited opportunities for employment or reemployment in the same or a similar occupation in the area in which the individual resides, including an individual 55 years of age or older who may have substantial barriers to employment by reason of age.

(dd) Was self-employed (including farmers and ranchers) and is unemployed as a result of general economic conditions in the community in which he or she resides or because of natural disasters.

(ee) Was a civilian employee of the Department of Defense employed at a military installation being closed or realigned under the Defense Base Closure and Realignment Act of 1990.

(ff) Was an active member of the armed forces or National Guard as of September 30, 1990, and was either involuntarily separated or separated pursuant to a special benefits program.

(gg) Is a seasonal or migrant worker who experiences chronic seasonal unemployment and underemployment in the agriculture industry, aggravated by continual advancements in technology and mechanization.

(hh) Has been terminated or laid off, or has received a notice of termination or layoff, as a consequence of compliance with the Clean Air Act.

(V) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a disabled individual who is eligible for or enrolled in, or has completed a state rehabilitation plan or is a service-connected disabled veteran, veteran of the Vietnam era, or veteran who is recently separated from military service.

(VI) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was an ex-offender. An individual shall be treated as convicted if he or she was placed on probation by a state court without a finding of guilt.

(VII) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a person eligible for or a recipient of any of the following:

- (aa) Federal Supplemental Security Income benefits.
- (bb) Aid to Families with Dependent Children.
- (cc) Food stamps.
- (dd) State and local general assistance.

(VIII) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a member of a federally recognized Indian tribe, band, or other group of Native American descent.

(IX) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a resident of a targeted employment area (as defined in Section 7072 of the Government Code).

(X) An employee who qualified the taxpayer for the enterprise zone hiring credit under former Section 23622 or the program area hiring credit under former Section 23623.

(XI) Immediately preceding the qualified employee's commencement of employment with the taxpayer, was a member of a targeted group, as defined in Section 51(d) of the Internal Revenue Code, or its successor.

(B) Priority for employment shall be provided to an individual who is enrolled in a qualified program under the federal Job Training Partnership Act or the Greater Avenues for Independence Act of 1985 or who is eligible as a member of a targeted group under the Work Opportunity Tax Credit (Section 51 of the Internal Revenue Code), or its successor.

(5) "Taxpayer" means a corporation engaged in a trade or business within an enterprise zone designated pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(6) "Seasonal employment" means employment by a taxpayer that has regular and predictable substantial reductions in trade or business operations.

(c) The taxpayer shall do both of the following:

(1) Obtain from ~~either~~ the Employment Development Department, as permitted by federal law, ~~or~~ the local county or city Job Training Partnership Act administrative entity, ~~or~~ the local county GAIN office or social services agency, or the local government administering the enterprise zone as appropriate, a certification that provides that a qualified employee meets the eligibility requirements specified in clause (iv) of subparagraph (A) of paragraph (4) of subdivision (b). The Employment Development Department may provide preliminary screening and referral to a certifying agency. The Employment Development Department shall develop a form for this purpose. The Department of Housing and Community Development shall develop regulations governing the issuance of certificates by local governments pursuant to subdivision (a) of Section 7086 of Chapter 12.8 of Division 7 of Title 1 of the Government Code.

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

(d) (1) For purposes of this section:

(A) All employees of all corporations which are members of the same controlled group of corporations shall be treated as employed by a single taxpayer.

(B) The credit, if any, allowable by this section to each member shall be determined by reference to its proportionate share of the expense of the qualified wages giving rise to the credit, and shall be allocated in that manner.

(C) For purposes of this subdivision, "controlled group of corporations" means "controlled group of corporations" as defined in Section 1563(a) of the Internal Revenue Code, except that:

(i) "More than 50 percent" shall be substituted for "at least 80 percent" each place it appears in Section 1563(a)(1) of the Internal Revenue Code.

(ii) The determination shall be made without regard to subsections (a)(4) and (e)(3)(C) of Section 1563 of the Internal Revenue Code.

(2) If an employer acquires the major portion of a trade or business of another employer (hereinafter in this paragraph referred to as the "predecessor") or the major portion of a separate unit of a trade or business of a predecessor, then, for purposes of applying this section

(other than subdivision (e)) for any calendar year ending after that acquisition, the employment relationship between a qualified employee and an employer shall not be treated as terminated if the employee continues to be employed in that trade or business.

(e) (1) (A) If the employment, other than seasonal employment, of any qualified employee with respect to whom qualified wages are taken into account under subdivision (a) is terminated by the taxpayer at any time during the first 270 days of that employment, whether or not consecutive, or before the close of the 270th calendar day after the day in which that employee completes 90 days of employment with the taxpayer, the tax imposed by this part for the taxable year in which that employment is terminated shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that employee.

(B) If the seasonal employment of any qualified employee, with respect to whom qualified wages are taken into account under subdivision (a) is not continued by the taxpayer for a period of 270 days of employment during the 60-month period beginning with the day the qualified employee commences seasonal employment with the taxpayer, the tax imposed by this part, for the taxable year that includes the 60th month following the month in which the qualified employee commences seasonal employment with the taxpayer, shall be increased by an amount equal to the credit allowed under subdivision (a) for that taxable year and all prior taxable years attributable to qualified wages paid or incurred with respect to that qualified employee.

(2) (A) Subparagraph (A) of paragraph (1) shall not apply to any of the following:

(i) A termination of employment of a qualified employee who voluntarily leaves the employment of the taxpayer.

(ii) A termination of employment of a qualified employee who, before the close of the period referred to in subparagraph (A) of paragraph (1), becomes disabled and unable to perform the services of that employment, unless that disability is removed before the close of that period and the taxpayer fails to offer reemployment to that employee.

(iii) A termination of employment of a qualified employee, if it is determined that the termination was due to the misconduct (as defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California Code of Regulations) of that employee.

(iv) A termination of employment of a qualified employee due to a substantial reduction in the trade or business operations of the taxpayer.

(v) A termination of employment of a qualified employee, if that employee is replaced by other qualified employees so as to create a net increase in both the number of employees and the hours of employment.

(B) Subparagraph (B) of paragraph (1) shall not apply to any of the following:

(i) A failure to continue the seasonal employment of a qualified employee who voluntarily fails to return to the seasonal employment of the taxpayer.

(ii) A failure to continue the seasonal employment of a qualified employee who, before the close of the period referred to in subparagraph (B) of paragraph (1), becomes disabled and unable to perform the services of that seasonal employment, unless that disability is removed before the close of that period and the taxpayer fails to offer seasonal employment to that qualified employee.

(iii) A failure to continue the seasonal employment of a qualified employee, if it is determined that the failure to continue the seasonal employment was due to the misconduct (as defined in Sections 1256-30 to 1256-43, inclusive, of Title 22 of the California Code of Regulations) of that qualified employee.

(iv) A failure to continue seasonal employment of a qualified employee due to a substantial reduction in the regular seasonal trade or business operations of the taxpayer.

(v) A failure to continue the seasonal employment of a qualified employee, if that qualified employee is replaced by other qualified employees so as to create a net increase in both the number of seasonal employees and the hours of seasonal employment.

(C) For purposes of paragraph (1), the employment relationship between the taxpayer and a qualified employee shall not be treated as terminated by either of the following:

(i) By a transaction to which Section 381(a) of the Internal Revenue Code applies, if the qualified employee continues to be employed by the acquiring corporation.

(ii) By reason of a mere change in the form of conducting the trade or business of the taxpayer, if the qualified employee continues to be employed in that trade or business and the taxpayer retains a substantial interest in that trade or business.

(3) Any increase in tax under paragraph (1) shall not be treated as tax imposed by this part for purposes of determining the amount of any credit allowable under this part.

(f) Rules similar to the rules provided in Section 46(e) and (h) of the Internal Revenue Code shall apply to both of the following:

(1) An organization to which Section 593 of the Internal Revenue Code applies.

(2) A regulated investment company or a real estate investment trust subject to taxation under this part.

(g) For purposes of this section, "enterprise zone" means an area designated as an enterprise zone pursuant to Chapter 12.8 (commencing with Section 7070) of Division 7 of Title 1 of the Government Code.

(h) The credit allowable under this section shall be reduced by the credit allowed under Sections 23623.5, 23625, and 23646 claimed for the same employee. The credit shall also be reduced by the federal credit allowed under Section 51 of the Internal Revenue Code. In addition, any deduction otherwise allowed under this part for the wages or salaries paid or incurred by the taxpayer upon which the credit is based shall be reduced by the amount of the credit, prior to any reduction required by subdivision (i) or (j).

(i) In the case where the credit otherwise allowed under this section exceeds the "tax" for the taxable year, that portion of the credit that exceeds the "tax" may be carried over and added to the credit, if any, in succeeding taxable years, until the credit is exhausted. The credit shall be applied first to the earliest taxable years possible.

(j) (1) The amount of the credit otherwise allowed under this section and Section 23612.2, including any credit carryover from prior years, that may reduce the "tax" for the taxable year shall not exceed the amount of tax which would be imposed on the taxpayer's business income attributable to the enterprise zone determined as if that attributable income represented all of the income of the taxpayer subject to tax under this part.

(2) Attributable income shall be that portion of the taxpayer's California source business income that is apportioned to the enterprise zone. For that purpose, the taxpayer's business income attributable to sources in this state first shall be determined in accordance with Chapter 17 (commencing with Section 25101). That business income shall be further apportioned to the enterprise zone in accordance with Article 2 (commencing with Section 25120) of Chapter 17, modified for purposes of this section in accordance with paragraph (3).

(3) Business income shall be apportioned to the enterprise zone by multiplying the total California business income of the taxpayer by a fraction, the numerator of which is the property factor plus the payroll factor, and the denominator of which is two. For purposes of this paragraph:

(A) The property factor is a fraction, the numerator of which is the average value of the taxpayer's real and tangible personal property owned or rented and used in the enterprise zone during the income year, and the denominator of which is the average value of all the taxpayer's real and tangible personal property owned or rented and used in this state during the income year.

(B) The payroll factor is a fraction, the numerator of which is the total amount paid by the taxpayer in the enterprise zone during the income year for compensation, and the denominator of which is the total compensation paid by the taxpayer in this state during the income year.

(4) The portion of any credit remaining, if any, after application of this subdivision, shall be carried over to succeeding taxable years, as if it were an amount exceeding the "tax" for the taxable year, as provided in subdivision (i).

(k) The changes made to this section by the act adding this subdivision shall apply to taxable years on or after January 1, 1997.

Section 4.

Section 7076 of the Government Code is amended to read:

7076. (a) (1) The agency shall provide technical assistance to the enterprise zones designated pursuant to this chapter with respect to all of the following activities:

- (A) Furnish limited onsite assistance to the enterprise zones when appropriate.
- (B) Ensure that the locality has developed a method to make residents, businesses, and neighborhood organizations aware of the opportunities to participate in the program.
- (C) Help the locality develop a marketing program for the enterprise zone.
- (D) Coordinate activities of other state agencies regarding the enterprise zones.
- (E) Monitor the progress of the program.
- (F) Help businesses to participate in the program.

(2) Notwithstanding existing law, the provision of services in subparagraphs (A) to (F), inclusive, shall be a high priority of the agency.

(3) The agency may, at its discretion, undertake other activities in providing management and technical assistance for successful implementation of this chapter.

(b) The applicant shall be required to begin implementation of the enterprise zone plan contained in the final application within six months after notification of final designation or the enterprise zone shall lose its designation.

(c) The agency may establish, revise from time to time, and charge and collect fees and charges as reimbursement for the costs of its administration of this chapter. Said fees shall include, but are not limited to, assessing each enterprise zone a reasonable fee for each certificate it issues pursuant to subdivision (c) of Section 17053.74 of Chapter 2 of Part 10 of Division 2 of the Revenue and Taxation Code and subdivision (c) of Section 23622.7 of Chapter 3.5 of Part 11 of Division 2 of the Revenue and Taxation Code.

(d) A local government may assess and collect a reasonable fee, as determined by the agency, for issuance of certificates pursuant to subdivision (c) of Section 17053.74 of Chapter 2 of Part 10 of Division 2 of the Revenue and Taxation Code and subdivision (c) of Section 23622.7 of Chapter 3.5 of Part 11 of Division 2 of the Revenue and Taxation Code. Said fee may include, but need not be limited to, an amount equal to the fee charged by the agency to the local government pursuant to subdivision (c).

Section 5.

Section 7086 of the Government Code is amended to read:

7086. (a) The agency shall design, develop, and make available the applications and the criteria for selection of enterprise zones pursuant to Section 7073, and shall adopt all regulations necessary to carry out this chapter.

(b) The agency shall adopt regulations concerning the designation procedures and application process as emergency regulations in accordance with Chapter 3.5 (commencing with Section 11340) of Part 1 of Division 3 of Title 2. The adoption of the regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare, notwithstanding subdivision (e) of Section 11346.1. Notwithstanding subdivision (e) of Section 11346.1, the regulations shall not remain in effect more than 180 days unless the agency complies with all provisions of Chapter 3.5 as required by subdivision (e) of Section 11346.1.

(c) The Department of General Services, with the cooperation of the Employment Development Department, the Department of Industrial Relations, and the Office of Planning and Research, and under the direction of the State and Consumer Services Agency, shall adopt appropriate rules, regulations, and guidelines to implement Section 7084.

(d) The agency shall adopt regulations governing the imposition and collection of fees pursuant to subdivisions (c) and (d) of Section 7076, and the issuance of certificates by local governments pursuant to subdivision (c) of Section 17053.74 of Chapter 2 of Part 10 of Division 2 of the Revenue and Taxation Code and subdivision (c) of Section 23622.7 of Chapter 3.5 of Part 11 of Division 2 of the Revenue and Taxation Code. The adoption of said regulations shall be deemed to be an emergency and necessary for the immediate preservation of the public peace, health and safety, or general welfare. Notwithstanding subdivision (e) of Section 11346.1, said regulations shall remain in effect for no more than 360 days unless the agency complies with all provisions of Chapter 3.5 as required by subdivision (e) of Section 11346.1.

Section 6.

This act is an urgency statute necessary for the immediate preservation of the public peace, health, or safety within the meaning of Article IV of the Constitution and shall go into immediate effect. The facts constituting the necessity are:

In order to ensure the fiscal integrity and continuity of the enterprise zone program, it is necessary for this act to take effect as an urgency statute.

**Proposed Trailer Bill Language — Office of Migrant Services Program Augmentation
(Issue 050)**

Amend Health and Safety Code Section 53533(4)(A) as follows:

Twenty-five million dollars (\$25,000,000) shall be used for projects that serve migratory agricultural workers as defined in subdivision (i) of Section 7602 of Title 25 of the California Code of Regulations. If, after July 1, 2003, funds remain after the approval of all feasible applications, the department shall be deemed an eligible recipient for the purposes of reconstructing migrant centers, operated through the Office of Migrant Services pursuant to Chapter 8.5 (commencing with Section 50710) that would otherwise be scheduled for closure due to health and safety considerations or are in need of significant repairs to ensure the health and safety of the residents. Of the dollars allocated by this section, the department shall receive ~~four million one hundred thousand dollars (\$4,100,000)~~ **five million five hundred thousand dollars (\$5,500,000)** for these purposes.



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Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Darrell Steinberg, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

Amendment to Budget Bill Item 2320-001-0317, Support, Department of Real Estate (DRE)

Workload Augmentation (Issue 010)—It is requested that Item 2320-001-0317 be increased by \$775,000 to provide funding for 13.0 positions (12.4 personnel years) to address department-wide workload issues. A recent increase in real estate market activity has generated substantial workload for DRE in real estate licensure and subdivision offerings. This request will allow DRE to sufficiently address current backlog issues and reduce the wait times for both real estate licensure and in fulfilling programmatic duties regarding the subdivision of property.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Elliott Mandell, Principal Program Budget Analyst, at 322-2263.

DONNA ARDUIN
Director
By:

for MICHAEL C. GENEST
Chief Deputy Director

Attachment

cc: On following page

cc: Honorable Dede Alpert, Chair, Senate Appropriations Committee
Attention: Ms. Anne Maitland, Staff Director
Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Jeff Bell, Fiscal Director
Honorable Judy Chu, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Rick Keene, Vice Chair, Assembly Budget Committee
Attention: Mr. Peter Schaafsma, Staff Director
Honorable Joseph Dunn, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable John Dutra, Chair, Assembly Budget Subcommittee No. 4
Ms. Elizabeth Hill, Legislative Analyst (4)
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Mr. John Liberator, Chief Deputy Commissioner, Department of Real Estate
Ms. Diane Westphal, Manager of Fiscal and Business Services, Department of Real Estate
Mr. Al Lee, Acting Principal Fiscal Officer, Business, Transportation and Housing Agency



APR 1 2004

Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Darrell Steinberg, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

Amendment to Various Budget Bill Items, California Transportation Commission (CTC)

Position Restoration (Issue 101)—Restore 3.0 positions as one-year limited-term and increase Item 2600-001-0042 by \$113,000 and Item 2660-001-0046 by \$201,000. Consistent with the Administration's mid-year proposal to move the Traffic Congestion Relief Program (TCRP) projects into the traditional transportation programming process, the Governor's Budget proposed to eliminate 3.0 positions created to support the TCRP. Subsequent to the release of the Governor's Budget, the CTC reported that the positions authorized for TCRP workload have been redirected for base workload because the TCRP workload is significantly less than anticipated. According to the CTC, these positions have absorbed the workload of positions abolished in past vacancy eliminations. This proposal is to restore 3.0 positions as one-year limited term to afford sufficient time to perform a zero-based analysis of the CTC's workload without negatively impacting the CTC's mission. The analysis of the CTC's workload will be performed in the fall and reported as part of the 2005-06 Governor's Budget.

Reduction of Pro Rata Allocation (Issue 102)—Decrease Item 2600-001-0042 by \$484,000 to reflect a technical adjustment to pro rata costs in 2004-05 and amend Item 2600-001-0046 to reflect this change. The CTC is currently over budgeted for pro rata by \$484,000 in the budget year due to an error that was made during the budget development process. This error does not affect the pro rata for any other department. Reducing the CTC's operating expenses and equipment by this amount will correct the CTC's level of funding for pro rata and will not negatively impact the CTC's programs since pro rata is a line-item budget.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Sue Bost, Assistant Program Budget Manager, at 322-2263.

DONNA ARDUIN

Director

By:

for MICHAEL C. GENEST
Chief Deputy Director

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APR 1 2004

-2-

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Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Ms. Sunne McPeak, Secretary, Business, Transportation, and Housing Agency
Mr. Ms. Diane C. Eidam, Executive Director, California Transportation Commission
Mr. Kathie Jacobs, Assistant Executive Director, California Transportation Commission
Mr. Al Lee, Acting Financial Officer, Business, Transportation and Housing Agency

APR 1 2004

Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Darrell Steinberg, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

**Amendment to Various Budget Bill Items, Support, Department of Transportation
(Caltrans)**

Cash Management of Local Assistance Projects (Issue 101)—It is requested that Item 2660-001-0042 be increased by \$1,480,000 to provide 17.0 two-year limited term positions in various programs to fully implement the Administration's mid-year proposal for locally-subvented federal funds. The added positions would enable Caltrans to conform the management of local funds to the current management of State funds and accelerate the receipt of \$800 million in federal funds. The Mid-Year Spending Reduction Proposals include the use of \$606 million of these reimbursements to: (1) Reimburse the General Fund for transportation-related general obligation bond debt service (\$406 million), and (2) Loan \$200 million to the General Fund pursuant to Article XIX, Section 6(b)(1) of the Constitution (referred to as a Proposition 2 loan).

Los Angeles Regional Transportation Management Center (LARTMC) Occupancy (Issue 104)—It is requested that Item 2660-001-0042 be increased by \$1,223,000 (\$848,000 State Highway Account and \$375,000 reimbursements) to fund moving, startup, and initial operations expenses for the new LARTMC. This request includes funding for a building manager position for nine months (0.75 personnel year). This request anticipates occupancy in May 2005 consistent with the project schedule. In addition to funding for Caltrans' costs, this request includes \$375,000 in reimbursement authority for Caltrans to receive reimbursements from the California Highway Patrol (CHP) for their share of the costs in this co-location facility. (See CHP issue #505). Annualized costs, beginning in 2005-06, are projected to decrease by \$61,000 for the Caltrans share of costs and increase by \$382,000 for the CHP share of costs through increased reimbursements.

Major Maintenance Contracts (Issue 107)—It is requested that Item 2660-001-0042 be increased by \$45,798,000 on a one-time basis to increase funding for preventive maintenance performed on the State's highways. Caltrans indicates preventive maintenance is at least six times more cost effective than rehabilitation or reconstruction projects. Funding is requested as one-year limited term, with the intent that maintenance workload and funding will be examined in more detail this fall. Any further adjustments will be proposed as part of the proposed 2005-06 budget.

New District 7 Headquarters Building Operation and Maintenance (Issue 109)—It is requested that Item 2660-001-0042 be increased by \$3,598,000 for operations and maintenance (O&M) of the new Caltrans District 7 Headquarters to be performed by the Department of General Services (DGS). To conform to DGS performing the O&M activities, this

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request includes the elimination of 2.0 Caltrans positions that performed related activities in the existing facility (half-year funding is proposed for the two positions in 2004-05 for transition purposes). Annualized costs, beginning in 2005-06, are projected to decrease by \$78,000 due to the full-year effect of the position reduction.

Relocation/Moving Expenses for New District 7 Headquarters Building (Issue 110)—It is requested that Item 2660-001-0042 be increased by \$821,000 for costs related to relocating staff from interim leased space and the existing district headquarters building into the new Los Angeles District 7 Headquarters.

Non-Article XIX State Highway Account Transfer to the General Fund (Issue 121)—It is requested that the following language be added to Item 2660-014-0042 to specify that the transfer of funds is a reimbursement to the General Fund for transportation-related general obligation bond debt service. A portion of non-Article XIX revenue is derived from the sale and lease of real property acquired with federal assistance and this proposed language will specify the revenue is being expended for highway and mass transit purposes to conform to the requirements of federal Title 23 of the U.S. Code. It is also requested that this same language be added to Item 2660-014-0042 in the proposed amendments to the 2003 Budget Act.

2. This transfer of money shall constitute a reimbursement to the General Fund for debt service payments related to the following general obligation bonds: Clean Air and Transportation Improvements (1990); Passenger Rail and Clean Air (1990); and Seismic Retrofit (1996).

Project Resourcing Schedule Management (PRSM) System Reappropriation (Issue 108)—It is requested that language be added to Item 2660-492 to reappropriate \$7,057,000 from Item 2660-001-0042, Budget Act of 2001, reappropriated by Item 2660-492, Budget Act of 2003. This project would allow improved reporting and scheduling of transportation projects, and is also intended to allow Caltrans to meet statutory project-reporting requirements related to Chapter 622, Statutes of 1997 (SB 45). In October 2002, Caltrans discontinued the procurement process because only one bid had been received and it was double the estimated cost. Caltrans will reexamine the scope of the project to ensure it is consistent with the approved feasibility study report and rebid the project.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Sue Bost, Assistant Program Budget Manager, at 322-2263.

DONNA ARDUIN

Director

By:



for MICHAEL C. GENEST
Chief Deputy Director

Attachment

cc: On following page

APR 1 2004

-3-

cc: Honorable Dede Alpert, Chair, Senate Appropriations Committee
Attention: Ms. Anne Maitland, Staff Director
Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Jeff Bell, Fiscal Director
Honorable Judy Chu, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Rick Keene, Vice Chair, Assembly Budget Committee
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Ms. Elizabeth Hill, Legislative Analyst (4)
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Ms. Sunne McPeak, Secretary, Business, Transportation, and Housing Agency
Mr. Tony Harris, Interim Director, Department of Transportation
Mr. Larry Barnes, Acting Budget Officer, Department of Transportation
Mr. Al Lee, Acting Financial Officer, Business, Transportation and Housing Agency



APR 1 2004

Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Darrell Steinberg, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

Amendment to Budget Bill Item 2660-311-0042, Capital Outlay, Department of Transportation

It is requested that Item 2660-311-0042 be increased by \$1,338,000 to provide funding for preliminary plans to seismically retrofit the Department of Transportation's (CalTrans) Oakland district office building. This retrofit would upgrade the building from a seismic Risk Level V to a Risk Level III, which is consistent with the state seismic program performance standards. Future project costs for construction and working drawings will be needed in the 2005-06 fiscal year and are estimated to be \$33.4 million. Provisional language is also requested to clarify that this project will be subject to the oversight of the State Public Works Board.

It is further requested that provisional language be added to this item to provide CalTrans with the authority to exercise purchase option agreements on seven modular office units. CalTrans has not been able to identify space at the adjacent State office buildings to absorb the staff currently occupying these modular office units. Purchasing these office units is the most cost effective approach for meeting the Department's space needs. Because the cost of exercising these purchase options is minimal (one dollar per unit), provisional language is being requested which would direct the Department to absorb these costs within their support budget.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Kathryn Amann, Principal Program Budget Analyst, at (916) 445-9694.

DONNA ARDUIN

Director

By:

for MICHAEL C. GENEST
Chief Deputy Director

Attachment

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APR 1 2004

-2-

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Attention: Ms. Anne Maitland, Staff Director
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Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Mr. Tony Harris, Acting Director, Department of Transportation
Ms. Diane Mariana, Acting Division Chief, Division of Business Services, Facilities and
Security, Department of Transportation
Mr. Larry Barnes, Acting Division Chief, Budgets, Department of Transportation
Ms. Gwen Arafiles, Chief of Statewide Facilities Budgets, Department of Transportation



APR 1 2004

Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Darrell Steinberg, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

Amendment to Budget Bill Items 2720-001-0042 and 2720-001-0044, Support, California Highway Patrol (CHP)

Interagency Service Rate Increases (Issue 500)—It is requested that Item 2720-001-0044 be increased by \$1,916,000 for service rate increases including Attorney General and Department of Personnel Administration legal services, Department of General Services telecommunications technician and engineering rates, Stephen P. Teale Data Center services, materials, and equipment, and Department of Industrial Relations (workers' compensation) assessments.

Transportation Management Center (TMC) Operations and Support (Issue 505)—It is requested that Items 2720-001-0042 and 2720-001-0044 be increased by \$369,000 and \$6,000, respectively, for a total of \$375,000 to provide funding for the CHP's share of the operations and management costs for the new Los Angeles Regional Transportation Management Center (LARTMC).

The Department of Transportation (Caltrans) has been responsible for the construction costs of the LARTMC. Once completed, the CHP will co-locate communications staff from the Los Angeles Communications Center as well as TMC staff in the new facility along with Caltrans' TMC staff. The CHP is responsible for a 49 percent share of the total operating costs of the LARTMC. The CHP will provide these funds to Caltrans as a reimbursement.

The amount requested represents the CHP's share of costs associated with an anticipated occupancy date of May 2005. The full-year occupancy costs, expected to be incurred in 2005-06, are estimated to be approximately \$1.55 million. The CHP share of that annualized cost is projected to be about \$760,000. See related discussion for Caltrans Issue #104.

The effect of my requested action is reflected on the attachment.

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If you have any questions or need additional information regarding this matter, please call Elliott Mandell, Principal Program Budget Analyst, at 322-2263.

DONNA ARDUIN

Director

By:



for MICHAEL C. GENEST
Chief Deputy Director

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Honorable Judy Chu, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Rick Keene, Vice Chair, Assembly Budget Committee
Attention: Mr. Peter Schaafsma, Staff Director
Honorable Joseph Dunn, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable Manny Diaz, Chair, Assembly Budget Subcommittee No. 5
Ms. Elizabeth Hill, Legislative Analyst (4)
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Mr. Dwight O. Helmick, Commissioner, California Highway Patrol
Ms. Janet Barentson, Budget Officer, California Highway Patrol
Mr. Al Lee, Acting Principal Fiscal Officer, Business, Transportation, and Housing Agency

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Honorable Wesley Chesbro, Chair
Senate Budget and Fiscal Review Committee

Attention: Mr. Danny Alvarez, Staff Director (2)

Honorable Darrell Steinberg, Chair
Assembly Budget Committee

Attention: Mr. Christopher W. Woods, Chief Consultant (2)

**Amendment to Budget Bill Item 2740-001-0042, 2740-001-0044, 2740-001-0064, Support,
Department of Motor Vehicles (DMV)**

**Workers' Compensation, Health Benefits, and Industrial Disability Leave (IDL) Costs
(Issue 500)**—It is requested that Items 2740-001-0042, 2740-001-0044, and 2740-001-0064 be increased by \$935,000, \$8,745,000, and \$6,378,000, respectively, for a total of \$16,058,000 to provide increased funding for Workers' Compensation, Health Benefits, and Industrial Disability Leave (IDL) costs.

The DMV retained savings of approximately \$16.9 million realized from the implementation of Control Section (CS) 4.10 of the 2003 Budget Act. These savings were initially targeted in both the current year and the budget year to offset costs in several areas including workers' compensation, health benefits, and IDL costs. Subsequently, the DMV was granted a hiring freeze exemption to fill approximately 400 positions in order to reduce wait times at field offices. Current year costs related to the positions will be funded by using a portion of the CS 4.10 savings; the budget year costs of these positions will require the use of the full CS 4.10 savings. Consequently, this request is to provide budget year funding for the workers' compensation, health benefits, and IDL cost increases.

The effect of my requested action is reflected on the attachment.

If you have any questions or need additional information regarding this matter, please call Elliott Mandell, Principal Program Budget Analyst, at 322-2263.

DONNA ARDUIN
Director
By:

for
MICHAEL C. GENEST
Chief Deputy Director

Attachment

cc: On following page

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-2-

cc: Honorable Dede Alpert, Chair, Senate Appropriations Committee
Attention: Ms. Anne Maitland, Staff Director
Honorable Richard Ackerman, Vice Chair, Senate Budget and Fiscal Review Committee
Attention: Mr. Jeff Bell, Fiscal Director
Honorable Judy Chu, Chair, Assembly Appropriations Committee
Attention: Mr. Geoff Long, Chief Consultant
Honorable Rick Keene, Vice Chair, Assembly Budget Committee
Attention: Mr. Peter Schaafsma, Staff Director
Honorable Joseph Dunn, Chair, Senate Budget and Fiscal Review Subcommittee No. 4
Honorable Manny Diaz, Chair, Assembly Budget Subcommittee No. 5
Ms. Elizabeth Hill, Legislative Analyst (4)
Ms. Diane Cummins, Senate President pro Tempore's Office
Mr. Craig Cornett, Assembly Speaker's Office (2)
Ms. Julie Sauls, Chief Consultant, Assembly Republican Leader's Office
Mr. Chon Gutierrez, Interim Director, Department of Motor Vehicles
Mr. Larry Holcomb, Budget Officer, Department of Motor Vehicles
Mr. Al Lee, Acting Principal Fiscal Officer, Business, Transportation, and Housing Agency