



JOHN CHIANG
California State Controller

January 28, 2009

Michael Genest, Director
Department of Finance
State Capitol, Room 1145
Sacramento, CA 95814

Re: Savings and Revenue Generating Proposals

Dear Mr. Genest:

As stewards of the State's finances, we share a common goal to maintain the fiscal integrity of our state. However, I believe furloughs are not an appropriate or effective method for the Controller's Office to accomplish our constitutionally-mandated functions and to maintain the fiscal health of the State. Now more than ever, the functions of my office are critical in dealing with the current unprecedented financial crisis. My office is needed to ensure payment of the State's bills and managing cash, appropriations, and auditing expenditure claims. These responsibilities are critical and cannot be neglected. I cannot accomplish these tasks without the support of the dedicated men and women of the State Controller's Office.

Therefore, I have taken the following actions in lieu of the furlough request by the Governor's Executive Order. First, I am restricting hiring within my office to filling only the most critical positions and have invoked purchasing restrictions to reduce travel, training, and other operating expenses. SCO will capture these savings and will report at year end. These restrictions will remain in place for 18 months, or until the Governor and Legislature reach an agreement on the \$40 billion budget deficit.

In addition, during the prior Controller's administration, the department initiated a major expansion and remodeling project at the SCO's C Street campus, in which funding for modular furniture was included. The BCP was approved for 2007-08, and assumed the modular furniture would be made in a single purchase and financed over a period of seven years. The annual cost was estimated at \$996,000 (\$608,000 GF and \$388,000 reimbursements) each year for seven years, and this amount was placed in the Controller's budget, effective July 1, 2007.

In an effort to deliver the project at a fraction of the originally-projected costs, I directed my staff to find and implement cost efficiencies in all aspects of the project, including the financing, materials, design, and construction. I am pleased to report that the SCO can complete this project

for approximately \$3 million instead of the estimated \$7 million. The \$4 million in savings would be captured by SCO submitting a negative BCP for -\$996,000, effective 2010-11.

As your department and the Legislature have concurred in the past, there are significant downsides to terminating mid-stream this Cannery Business Park project and furniture purchases. The greatest risks include breach of contract with risk of eviction and damages that could easily be in the millions of dollars. Also, we would have not only been in violation of ADA and OSHA standards, but we would have exposed employees to a variety of other health and safety risks. Again, I am proud to have re-engineered this project to produce the desired end result at less than half of the originally projected cost.

In addition to the cost-saving measures noted above, I submit for your consideration the following revenue generating proposals that will produce approximately \$16 million in additional revenue and/or cost savings to the state. This amount far exceeds the savings proposed through a furlough and avoids reducing necessary services that the Controller provides to the citizens and taxpayers of California.

Revenue Generating Proposals

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| 1 | Statewide Debt Collection:
We propose to perform compliance audits of state agency revenue collection systems to provide additional collection options, resulting in higher net revenues. Each year the State discharges approximately \$1 billion in debt. This proposal will audit debt collection procedures to ensure State agency debt will be collected in a more timely manner and increase actual collections. For the cost of \$761,000 General Fund dollars and 5.3 positions, the state would net \$5,039,000 in revenues that would otherwise be uncollectible. | \$5,039,000 |
| 2 | General Audits:
If the SCO is provided with funding for ten auditors at an estimated cost of \$900,000, my office will form three audit teams to perform fiscal audits of those departments that offer the greatest opportunity for revenue enhancement or savings. A reasonable and quantifiable return on investment is 10:1 – every dollar spent on auditors returns \$10 in additional revenues or cost avoidance for a net annual savings of \$8.1 million for this proposal. | \$8,100,000 |
| 3 | Unclaimed Property Holder Compliance Initiative:
The State Controller's Office (SCO) requests 4.3 permanent positions and \$386,000 from the Unclaimed Property Fund to assist in reuniting owners with their lost property by developing and implementing a holder compliance program to identify and contact non-reporters or inconsistent reporters of unclaimed property and to offer businesses reporting options and incentives to encourage compliance with the | \$3,416,000 |

Unclaimed Property Law. In the second fiscal year of the program a greater amount of holders will be reporting, resulting in a greater amount of revenue and property returned to the rightful owner. This proposal would generate \$566,000 in the first year, and \$3,416,000 in on-going years.

Total

\$16,555,000

I request your support for this revised approach, and my staff is willing to meet with you or your representatives to discuss this proposal in more detail. My office will continue to evaluate proposals and share with your office new concepts when identified to help with the state budget deficit. If you have any questions or comments, please do not hesitate to contact me or my Chief of Staff, Collin Wong-Martinusen.

Sincerely,

A handwritten signature in black ink, appearing to read "John Chiang", is written over a large, stylized, handwritten flourish that loops around the signature.

JOHN CHIANG
California State Controller

cc: Veronica Chung-Ng, Program Budget Manager, Department of Finance
Bill Steffenhagen, Assistant Program Budget Manager, Department of Finance
Oscar Chaves, Principal Program Budget Analyst, Department of Finance
Gregory Bruss, Budget Analyst, Department of Finance