SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Norma Torres
Senator Tom Berryhill

Wednesday, May 21, 2014
9:00 AM
Rose Ann Vuich Hearing Room 2040

PART B
Consultant: Brady Van Engelen and Mark Ibele

Item Number and Title

0100	California State Legislature
0509	Governor's Office of Business Development
0690	Office of Emergency Services
0840	State Controller's Office
0890	Secretary of State
1110	Department of Consumer Affairs
7730	Franchise Tax Board
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9210	Local Government Financing
	Control Section 1.50
	Control Section 11.00

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AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

Control Section 12.00

Issue 1 – State Appropriations Limit

Background: The Administration requests that the budget bill be amended to reflect the updated change in the State Appropriations Limit (SAL). The revised limit of $89.902 billion is the result of applying the growth factor of 0.48 percent. The revised 2014-15 limit is $564 million below the $90.5 billion estimate in January.

Staff Comment: Staff has no concerns with this technical change.

Staff Recommendation: Approve the revision to the State Appropriations Limit.

State Legislature

Issue 1 – Legislative Budget

Background: The Legislature's budget for 2014-15 was proposed in January to be $115.692 million for the Senate and $152.438 million for the Assembly. Under the terms of Proposition 140, the growth in the Legislature's budget is constitutionally limited to the growth in the state's appropriation limit (SAL). The year-to-year SAL increase is calculated to be 0.48 percent in the Governor's May Revision. Applying this to the legislative budget would result in funding of $116.247 million for the Senate and $153.170 million for the Assembly. The budget of the Legislative Analyst's Office, funded from transfers from the Senate and the Assembly, would increase by the same percentage.

Staff Comment: The Senate's budget was reduced in 2010-11 and has been held at the same level for the subsequent three years, before a slight increase last year. If the Senate's budget had been adjusted by SAL each year since 2010-11, the budget would have grown by over $8 million more. Legislative increases were foregone because of the state's budget constraints. The combined spending by the Senate and the Assembly is now well below the State Appropriations Limit. Current year spending is nearly $30 million below the limit.

Staff Recommendation: Staff recommends that the Legislature's budget be adjusted as provided in the State Constitution by incorporating the updated SAL.

Governor's Office of Business and Economic Development (GO-Biz)

Issue 1 – Zero Emission Vehicle Action Plan Ombudsman

Governor's Budget Proposal: The Governor has submitted a spring finance letter requesting that the Governor's Office of Business and Economic Development's (GO-Biz) reimbursement authority be increased in Fiscal Year (FY) 2014-15 by $150,000 and $50,000 in FY 2015-16, and an increase of one two-year limited-term position to support efforts to achieve federal and state air quality emission standards.

Background: The requested limited-term position will assist projects funded through AB 118 (Nunez), Chapter 750, Statutes of 2007, to obtain local and state permits and develop and oversee a high level stakeholder working-group dedicated to developing zero emission vehicle fueling and charging stations throughout the state. The position will be funded through an interagency agreement between GO-Biz and the California Energy Commission (CEC).

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve requested limited-term position and increase in reimbursement authority.

Issue 2 – Administrative Staffing

Spring Finance Letter: The Governor has submitted a spring finance letter requesting $251,000 (General Fund) for FY 2014-15 and $277,000 (General Fund) ongoing, and 4.0 positions to provide administrative support to the Governor's Office of Business and Economic Development (GO-Biz).

Background: AB 29 (John A. Perez), Chapter 475, Statutes of 2011, created GO-Biz. In FY 2011-12 GO-Biz was provided 19.0 loaned positions. During the first year of operation, GO-Biz contracted with the Department of General Services for accounting functions, and utilized the California State Library for some human resource-related functions. In FY 2012-13, GO-Biz was provided 28.0 positions, however, only 1.0 position was dedicated to support administrative functions. Due to the Governor's Reorganization Plan No. 2, GO-Biz has absorbed additional functions, and staffing at GO-Biz now totals 84.0 personnel.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve spring finance letter request.

Issue 3 – Small Business Development Centers

Governor's Budget Proposal: The Governor's May Revision includes a request for a one-time increase of $2.0 million (General Fund) to support the Governor's Office of Business and Economic Development (GO-Biz) efforts to draw down federal funds that will be made available to the Small Business Development Centers (SBDC) located throughout the state.

Background: SBDCs provide training to small business owners, and provide counseling to help small businesses to overcome obstacles that may limit growth. There are 45 SBDCs throughout the state and all SBDC locations would have the opportunity to apply and access the funds.

California's SBDC network has the ability to access $12.66 million in federal funds. Those funds are made available if there is a local match a one-to-one ratio. Up to fifty percent of the match can be an in-kind match, and the other $6.33 million must be in the form of a local cash match. The $2 million provided through the competitive grant program will secure $2 million in federal grant funds, and may attract additional cash matching to the SBDC network.

Staff Recommendation: Approve Governor's May Revision request for one-time funding of $2.0 million.

Department of Consumer Affairs

Issue 1 – Business and Professions Code Section 35: Supplemental Reporting Language

Background: As follow-up to the supplemental reporting language requested in the 2012-13 Budget, DCA submitted a report to the Legislature detailing a list of its boards that have or do not have statutes, rules, regulations or agreements allowing military experience to be used to meet professional licensure requirements and a description of the statutes, rules, regulations, or agreements.

Unfortunately, in many instances the remaining questions were either not answered or information provided was incomplete. We respectfully request that the Department of Consumer Affairs shall prepare a report describing its implementation of Business and Professions Code Section (BPC) 35.

No later than October 1, 2014, the department shall report to the Subcommittee the following:

- A list of the boards and the date on which they completed their last analysis of compliance with BPC 35.
- An explanation from those boards that do not accept military education, experience or training pursuant to BPC 35 on why they do not have statutes, rules, regulations or agreements allowing military education, training or experience to be used to meet professional licensure requirements.
- A description of the department's actions to direct the boards to implement this code section including any memoranda to boards or other evidence of the department's actions.
- A description of how the department has interacted with the Department of Veterans Affairs and the Military Department regarding this issue.

STAFF COMMENTS: This information is vital in understanding how our military education, training and experience is being translated into education, training, and experience of state agencies across California. Collecting this information will help address issues affecting our veterans.

Commission on State Mandates

Issue 1 – Mandate Suspensions

The Governor's budget proposes the suspension of numerous mandates in order to achieve budgetary savings. Almost all of these mandates have been suspended for several years, typically as part of the budget process. In general, mandate suspension has not been subject to thorough policy review that would evaluate the costs and benefits of the mandate, but rather have been suspended solely for the purpose of budgetary savings. The policy decision to establish the mandate in the first place has not generally been a major part of the discussion.

Mandates proposed for suspension include mandates suspended in prior years plus two new mandates with statewide cost estimates. The two new mandates with costs estimates are Local Agency Ethics and Tuberculosis Control. The Local Agency Ethics mandate was suspended at the Subcommittee's March 27 hearing. The proposed suspension of the Tuberculosis Control mandate was rejected in Subcommittee 3. In addition, the proposal to suspend various election mandates was rejected in Subcommittee 4 at its March 27 hearing. The mandates listed below proposed for suspension have all been suspended in prior years.

Mandates Suspended in Governor's Budget*
General Fund Savings 2014-15
(Dollars in Thousands)

Suspended Mandate Title	Savings
Adult Felony Restitution	$0
AIDS/Search Warrant	1,596
Airport Land Use Commission/Plans	1,263
Animal Adoption	36,305
Conservatorship: Developmentally Disabled Adults	349
Coroners' Costs	222
Crime Statistics Reports for the Dept. of Justice and as Amended	158,627
Crime Victims' Domestic Violence Incident Reports II	2,007
Deaf Teletype Equipment	0
Developmentally Disabled Attorneys' Services	1,201
DNA Database & Amendments to Postmortem Exams: Non-ID Bodies	310
Domestic Violence Background Checks	19,222
Domestic Violence Information	0
Elder Abuse, Law Enforcement Training	0
Extended Commitment, Youth Authority	0
False Reports of Police Misconduct	10
Firearm Hearings for Discharged Inpatients	157
Grand Jury Proceedings	0
Handicapped Voter Access Information	0
Identity Theft	83,470
In-Home Supportive Services II	443

Inmate AIDS Testing	0
Judiciary Proceedings for Mentally Retarded Persons	274
Law Enforcement Sexual Harassment Training	0
Local Coastal Plans	0
Mandate Reimbursement Process I	6,910
Mandate Reimbursement Process II (consolidation of MRPI and MRPII)	0
Mentally Disordered Offenders' Treatment as a Condition of Parole	4,910
Mentally Disordered Offenders’ Extended Commitments Proceedings	7,222
Mentally Disordered Sex Offenders’ Recommitments	340
Mentally Retarded Defendants Representation	36
Missing Person Report III	0
Not Guilty by Reason of Insanity	5,214
Open Meetings Act/Brown Act Reform	111,606
Pacific Beach Safety: Water Quality and Closures	344
Perinatal Services	2,338
Personal Safety Alarm Devices	0
Photographic Record of Evidence	-78
Pocket Masks (CPR)	0
Post Conviction: DNA Court Proceedings	410
Postmortem Examinations: Unidentified Bodies, Human Remains	-466
Prisoner Parental Rights	0
Senior Citizens Property Tax Postponement	481
Sex Crime Confidentiality	0
Sex Offenders: Disclosure by Law Enforcement Officers	0
SIDS Autopsies	0
SIDS Contacts by Local Health Officers	0
SIDS Training for Firefighters	0
Stolen Vehicle Notification	1,117
Structural and Wildland Firefighter Safety	0
Very High Fire Hazard Severity Zones	0
Victims’ Statements-Minors	0
Total Suspended	**$445,840**

*Not previously acted upon through the budget process.

Staff Recommendation: Approve the Governor’s proposal to suspend the mandates listed above, which have not yet been acted on by the Subcommittee.

Vote:

California Military Department (CMD)

Issue 1 – Military Council

Governor's Budget Request: The Governor's May Revise includes a request for a permanent $85,000 (General Fund) augmentation for staff and support operations of the Governor's Military Council (council).

Background: In 2013, partly in response to federal budget cuts, the Administration created the Military Council to guide the state government on initiatives that would either grow, or maintain, the operating environment for military and defense industry operations. The council is comprised of 21 retired Air Force, Army, Navy, Marine Corps and Coast Guard flag officers, bipartisan representation from the State Assembly and the State Senate, civilian experts, retired Department of Defense experts, and the California Adjutant General.

The council was formed using existing resources; the CMD provides $65,000 to the Office of Planning and Research (OPR) through an interagency agreement. OPR provides the CMD with administrative support and limited travel funding. The requested funds will support one redirected office-technician positions and travel costs for council members.

Staff Comment: Staff has no issues, or concerns, with this request.

Staff Recommendation: Approve the Governor's May Revise request.

Vote:

California Department of Veterans Affairs

Issue 1 – Conversion to Civil Service

Governor's Budget Proposal: The Governor's May Revision includes a request for $114,000 (General Fund) and 3.0 positions, and $112,000 and 3.0 positions ongoing to convert contracted landscaping functions in the California Department of Veterans Affairs (CDVA) veterans home located in Chula Vista to civil service positions.

Background: The Chula Vista Veterans Home, which opened in 2000, was staffed with one groundskeeper and additional landscaping services were provided through a contract. The contract associated with grounds keeping at the Chula Vista facility is set to expire on June 30, 2014. The State Personnel Board (SPB) has rejected previous requests made by CDVA to continue contracts for services that can be provided by civil servants.

Staff Comment: The current contract rate is set at $115,000; the cancellation of the contract will partially offset costs associated with this request.

Staff Recommendation: Approve the Governor's May Revision request.

Vote:

Issue 2 – Veterans Homes of California Current Year and Budget Year Savings

Governor's Budget Proposal: The Governor's May Revision includes a request for a one-time reduction of $17.202 million (General Fund) in FY 2013-14 and a reduction of $16.883 million (General Fund) in FY 2014-15.

Background: The reduction is in response to the continued delay of the skilled nursing facility at the West Los Angeles Veterans Home, just-in-time hiring utilized at the Redding and Fresno Veterans Homes, and the delay of the opening of the community-based adult services facilities at Lancaster and Ventura.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve the May Revision request.

Vote:

Statewide General Administrative Cost Departments

Governor's Budget Proposal: The Governor has submitted trailer bill language, requesting to amend Government Code §11270. The requested amendments would make technical changes by updating the names of various state agencies.

Background: The requested amendments are technical in nature. They are designed to align the names of state agencies, many of which have been realigned with the Governor's Organization Plan No. 2, with the name that is currently referenced in the Budget Act.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Adopt proposed trailer bill language.

Vote:

Issues Proposed for Discussion / Vote

0509 GOVERNOR'S OFFICE OF BUSINESS DEVELOPMENT (GO-BIZ)

Issue 1 – Additional Funding and Positions

Governor's Budget: The Governor's budget calls for ten limited-term positions for activities associated with the Governor's Office for Business and Economic Development (GO-Biz). The request calls for $965,000 in on-going funding and $30,000 in one-time funding. The department is hiring for six to seven of these positions in the current year, and the Budget Change Proposal (BCP) would allow for the continued funding of these positions in the budget year. This issue was held open when the item was heard on March 20, based on the fact that the validity of the timing of the hiring and the duration of the limited-term positions was unclear from the proposal and discussion with GO-Biz and DOF. GO-Biz has managed to administer the program for the first year without the full resources and the program does not fully ramp up until 2015-16. Moreover, it appeared that the contracts for the current year may be delayed, which would push back the full roll-out of the program. Finally, given that revenue impacts tax preferences from the three tax programs identified above may not exceed $750 million annually, the CCTC may never actually realize its maximum allocated cap. Therefore, full staffing may not be necessary at this time.

Since the state has decided to move in the direction of negotiated agreements, it is important that adequate staffing be provided to oversee and ensure the integrity of the program. An alternative approach the committee may wish to consider is to approve funding for the positions, along with Supplemental Language (SRL) requiring GO-Biz to report regarding the staffing resources and needs.

Staff Comments: As part of the staffing analysis, it would be beneficial to have access to data from other states regarding their administrative designs for similar programs. Last year, GO-Biz was provided funding for a deputy director for legal affairs and a systems software specialist, positions that would seem to overlap with the current request. The subcommittee may wish to ask the department for further justification for the additional positions in these areas. GO-Biz also estimates that a large percentage of its activities will relate to small business applications and that "the majority" of small businesses in the state will apply for the credits. The basis of this claim may be of interest to the committee.

Staff Recommendation: Approve request with SRL that addresses staffing needs as outlined in staff comments.

Vote:

0690 OFFICE OF EMERGENCY SERVICES

Issue 1 – Drought Response and Management

Governor's Budget Request: The Governor's May Revise includes a request for one-time funding of $4.4 million (General Fund) for the Office of Emergency Services (OES) to address operating costs associated with the 2014 drought.

Background: One of the primary functions of OES is to coordinate the state's response efforts to major disasters in support of local governments. However, many of the staff at OES are supported by federal funds. When staff are redirected due to a state emergency, there are no funds dedicated to support the costs associated with those positions.

On January 17, 2014, Governor Brown declared a drought state of emergency. Shortly thereafter, OES activated the State Operations Center and Regional Operations Centers to assist local government agencies. OES estimates that costs associated with staffing levels of twenty-five personnel and operating the facilities will total $4.4 million in Fiscal Year (FY) 2014-15.

Staff Comment: Staff has no issues or concerns with this request.

Staff Recommendation: Approve the Governor's May Revision request.

Vote:

Issue 2 – Victim Identification Notification Everywhere (VINE)

Governor's Budget Request: The Office of Emergency Services (OES) is requesting $1.8 million local assistance from the Victim-Witness Assistance Fund (0425) for FY 2014-15 and 2015-16, to support the VINE program.

Background: The VINE program affords crime victims and other concerned citizens the opportunity to call a toll-free number or log onto a secure web portal to receive real-time information regarding the custody status of offenders held in jail or prison. They can also register by phone, email, pager or TTD/TTY device when an offender is released, transferred, or has escaped. Operators assist callers who need help obtaining offender information or registering for notification. The service is of no charge to the public. Through the American Recovery and Reinvestment Act grant from the OES, the VINE Network was expanded into a statewide victim identification network, which allows any victim in the state to find where their offender is incarcerated.

Staff Comment: It has been brought to staff's attention that utilizing the Victim Witness Assistance Fund to support the VINE program may not be the most appropriate fund source. It is unclear if the program meets the statutory requirements of Penal Code Section §13835.2, which states that funds appropriated from the Victim-Witness Assistance Fund shall be made available through the Office of Emergency Services to any public or private nonprofit agency for the assistance of victims and witnesses that meet a comprehensive set of requirements.

As noted earlier, VINE is an automated service that allows victims to track an offender's custody status. It has served as a valuable criminal justice tool, but it is clearly not a local assistance center. VINE is owned and operated by Appriss, a private, for-profit company. The Legislature may wish to reject this proposal as it does not meet the statutory requirements. The program has served as a valuable resource, and staff hopes that local entities will appreciate its value and continue to fund the program.

Staff Recommendation: Reject Governor's budget request.

Vote:

0840 STATE CONTROLLER'S OFFICE

Issue 1 – 21st Century Project Assessment

Governor's Budget Request: The Governor's May Revision includes a request for $2.461 million (General Fund) and 1.0 positions to support an independent assessment of the State Controller's 21st Century Project system configuration.

Background: The SCO is responsible for disbursement of pay to the state's 275,000 employees. In 2004, the Department of Finance (DOF) approved the justification documents submitted by the SCO requesting an updated payroll system that would provide a greater level of integration. The SCO procured Commercial Off-the-Shelf (COTS) software in 2005 and intended on utilizing that COTS software to update the state's payroll system.

The Department of General Services (DGS) awarded the second contract to a different vendor, SAP, on February 2, 2010. An updated Special Project Report (SPR 4), that was issued prior to the contract being awarded, identified the method that would eventually be utilized to implement the new MyCalPAYS system. The first, and smallest phase, would consist of converting payroll for the approximately 1,300 SCO staff to the new payroll system.

The initial pilot was deployed in June of 2012 and revealed a significant volume of errors. The SCO issued a cure letter in October of 2012 to SAP, requesting that the vendor deliver the resources necessary to correct the identified errors. SCO was not satisfied with the response and subsequently terminated the contract with SAP in February 2013. Due to the contract being terminated, the Technology Agency had little choice but to suspend the 21st Century Project.

The SCO has proposed an assessment, to be conducted in coordination with the Department of Technology that will include the following:

- Determining how well the current software design and system meet the state's business and legal requirements, including identifying which requirements are not satisfied by the system.
- Determining what portion of the current software design and system may be salvageable.
- Determining the estimated cost to complete the system ensuring that it is compliant with the state's business and legal requirements, with no material changes to the system.

The SCO notes that the anticipated completion date of the requested report would be June 2015. However, the bid process will be managed by the Department of Technology, and the timing may be contingent on the type of bid utilized by the Department of Technology.

Staff Comment: The proposed assessment will be limited in scope, and will not include an assessment on the project management aspects of the 21st Century Project. When the project was initially suspended by the Director of the Technology Department, Secretary Ramos, he indicated that the suspension placed on the project would not be lifted until an assessment related to the project management aspect of the 21st Century Project has been completed. However, the proposal represents the first step in what should be a comprehensive review of the 21st Century Project, and staff expects a request related to the assessment of the project management aspects of the 21st Century Project to be presented in the near future. Prior to approval, staff would recommend that Senate Budget Subcommittee No. 4 seek a commitment from the SCO, and the Department of Technology, that the report will be made available to the Legislature upon completion.

Staff Recommendation: Approve the Governor's May Revision request.

Vote:

0860 BOARD OF EQUALIZATION

Issue 1 – Centralized Revenue Opportunity System

Governor's Budget: The Administration proposed budget bill language (BBL) that would add to the administrative flexibility of the department in bringing the Centralize Revenue Opportunity System (CROS) on-line. This issue was heard in Subcommittee on March 20 and held open. BBL is a reasonable means to grant additional flexibility for a project of this scale, especially given the uncertainties and intricacies of technology projects; however, there were concerns about the lack of a limit on the allowable budget augmentation. In response, the Administration has revised the BBL as follows:

> *The Department of Finance may augment the amount appropriated in Schedule (2) for support of the Centralized Revenue Opportunity System (CROS) project by up to $500,000 to provide for contractually required vendor support requirements. The Director of Finance may authorize the augmentation not sooner than 30 days after notification in writing to the Joint Legislative Budget Committee. This provision shall apply to any item currently assessed for the support of the CROS project. Any funds provided that are not expressly used for the specified purposes shall revert to the fund from which they were appropriated.*

Background: BOE is in the process of consolidating and modernizing its existing taxpayer information systems through the CROS project. As designed, CROS would replace the BOE's existing two systems of tax information and return management, expand online business and taxpayer services, and provide an agency-wide data warehouse. The acquisition of CROS will be achieved through a performance-based, benefits funded procurement approach. This approach is similar to that used by the Franchise Tax Board (FTB) and the Employment Development Department (EDD) for their respective information and data management systems. The approach does not require up-front vendor funding, as the development and implementation costs are paid under a benefits-funded contract, with payment allowed only when increased revenues are received. Contractor payments would be dependent on the generation of additional revenues attributable to the project and would be capped overall. Following approval from the DOF and the Department of Technology, the BOE published a Request for Proposals on July 1, 2013, and held a bidders conference the next month. The BOE expected draft proposals in February 2014 and final proposals in August 2014. The CROS project expects to award a vendor contract in March 2015. The final date of the contract upon completion of the CROS project is expected to be June 2020. The project generated $38.7 million of additional revenue in 2012-13 and is expected to generate revenues of $66.5 million in 2013-14.

Staff Recommendation: Adopt revised BBL to allow for augmentation with a capped amount of $500,000.

Vote:

0890 SECRETARY OF STATE

Issue 1 – California Museum

Background: The California Museum (museum), located within the Secretary of State complex, serves as one the state's primary state history museums. The museum operates in partnership with, and on behalf of the State. The Secretary of State provides in-kind goods and services to the museum, providing 28,000 square feet of rent-free space, a small budget for operating expenses and equipment, and custodial services shared by the state archives.

The museum receives over 50,000 student fieldtrip participants and 75,000 general admission visitors annually. The museum was initially established with bond funding in 1998. The original funds used to establish the museum have diminished and annual revenue generated by ticket sales, facility rentals, grants, private donations, and sponsorships total approximately $755,000. The revenue provides for 5.0 full-time staff and supports basic operational expenses that are incurred by the museum.

Staff Comment: Most comparable museums of the same size as the California Museum have operating budgets that exceed over $5.0 million and 20.0 full-time staff. Current funding levels of the museum do not provide for the development of future exhibits. The exhibits provide a meaningful educational benefit to the state. The Legislature may wish to consider a permanent augmentation of the Secretary of State's budget by $2.0 million, who have currently have a cost-sharing agreement with the California Museum. The funding could then be utilized by the California Museum to support the development of future exhibits that provide an educational benefit to the state.

Staff Recommendation: Augment the Secretary of State.s budget by $2.0 million (General Fund) annually. The Secretary of State will provide the $2.0 million in funding to the museum with the understanding that the funds are to be utilized to develop, maintain, and enhance exhibits at the California Museum.

Vote:

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Issue 1 – Enforcement Officers

Background: The Department of Alcoholic Beverage Control has 24 offices throughout the state, with 133 authorized agents to enforce about 86,000 permanent licenses as well as an additional 37,000 special one-day licenses. Enforcement actions conducted are predominantly related to public safety crimes such as fights, gang activity, illegal drug sales, prostitution, gambling, sales of alcohol to minors, and to obviously intoxicated persons cases occurring in and around the licensed businesses.

As of January 1, 2014, the department's Trade Enforcement Unit investigative staff consisted of two full-time agents and one supervising agent, who are actively working approximately 72 of the 287 pending trade practice investigations. Generally, these types of violations have a one year statute of limitations for the department to complete the investigation and file an enforcement action against the licensee.

Most trade practices investigations result from complaints generated from the alcoholic beverage industry. These complaints are mainly from ABC licensees that are adhering to laws and regulations and who want to compete on a level playing field when it comes to marketing and selling their products. The department is charged with safeguarding the public against the threat of corrupt and unfair business practices.

Staff Comment: California's craft beer industry has experienced tremendous growth over recent years. There are currently 430 craft breweries in California. Their continued growth and success rely upon a marketplace that is carefully regulated and consistently enforced for all licensees and consumers statewide. The department has been unable, in recent years; to adequately enforce the tied-house safeguards due to a challenging agent-to-licensee staffing ratio.

The Legislature may wish to consider approving an increase in expenditure authority of the Department of Alcoholic Beverage Control by $1.0 million (Alcohol Beverages Control Fund) and increasing positional authority by 10.0 positions to address the ongoing workload associated with the investigation and prosecution of violations of the tied-house laws.

Staff Recommendation: Increase Department of Alcoholic Beverage Control budget by $1.0 million (Alcohol Beverages Control Fund) and increase positional authority of the department by 10.0 positions and adopt supplemental reporting language.

Vote:

7502 DEPARTMENT OF TECHNOLOGY

Issue 1 – CalCloud Services Offering

Governor's Budget Request: The Governor's May Revision includes a request for $2.987 million (Technology Services Revolving Fund) in FY 2014-15 and $7.761 million in FY 2015-16 (Technology Services Revolving Fund) to provide state departments with a cost-effective "cloud" based environment to be established and managed by the Department of Technology (department).

Background: Cloud computing is a model for convenient, on demand network access to a shared pool of computer resources that can be accessed immediately with minimal resources required by the service provider. Cloud services include the delivery of software, infrastructure, and storage over the internet. This service will allow the department to occupy less floor space and provide a greater level of support to the department's customers.

Staff Comment: On February 27, 2014, a finance letter was approved for current year spending of $80,000 (Technology Services Revolving Fund), and the CalCloud contract was signed and executed with International Business Machines (IBM). The overall cost of the five-year contract with IBM will total $34.03 million. After FY 2014-15, the annual cost of the CalCloud contract will total $7.761 million through FY 2018-19.

Staff Recommendation: Approve Governor's May Revision request, approve increase in the Department of Technology's expenditure authority of $2.897 million (Technology Services Revolving Fund) FY 2014-15, and $7.761 million in FY 2015-16 to provide CalCloud services.

Vote:

Issue 2 – Project Management Office

Governor's Budget Request: The Governor's May Revision includes a request for the authorization of 2.0 positions and $208,000 (General Fund) for FY 2014-15 and $304,000 (General Fund) in FY 2015-16, to form the initial elements of the Statewide Project Management Office within the Department of Technology (department).

Background: The department has reviewed many of the troubled Information Technology (IT) projects that have occurred in the last two and half years and from that review, the department has learned that project teams often lack the experience and expertise to manage large technology initiatives. The department envisions developing a cadre of experienced project managers who are capable of leading large-scale technology projects, a benefit usually not currently available to departments that take on IT projects. According to the department, the Statewide Project Management Office will be able to provide support in the areas of project management, relationship management, project support, and organization change management.

Staff Comment: According to the Department of Finance, costs associated with the Statewide Project Management Office services will transition off the General Fund in FY 2016-17, and will be fully supported by the Technology Services Revolving Fund through fee-for-service charges obtained from specific project costs. Staff expects the requested positions to support the development of a larger, long-term plan for the statewide project management office. The long-term plan should include the development of plans, standards, and guidelines for which projects will require additional assistance.

Staff Recommendation: Approve requested positional authority and funds associated with the development of the Statewide Project Management Office on a two-year limited-term basis with the expectation that the requested positions will support the development of a long-term plan.

Vote:

7730 FRANCHISE TAX BOARD

Issue 1: Additional Staffing for New Legislation

Governor's Budget: The department requested an augmentation in the budget year, and budget year plus one for additional staff and overtime to administer three new tax components: the California Competes Tax Credits, New Employment Tax Credit, and Like-Kind Exchange Information Reporting. The request is for $954,000 and six two-year, limited-term positions in 2014-15 and $961,000 and eight two-year, limited-term positions in 2015-16. Additionally, the department requests for $579,000 in overtime costs. This issue was heard by the Subcommittee on March 20th and held open, based on concerns similar to those raised about the California Competes Tax Credit, discussed under Issue 1, Item 0509, Governor's Office of Business and Economic Development, relating to the need for a full complement of resources at this time. FTB's resource requirements should conform to those for GO-Biz.

Background: As part of last year's budget package, the Legislature approved AB 93 and SB 90, which together formed the basis of the revisions to local economic development programs. This legislative package included the elimination of enterprise zone programs, and enactment of a sales tax exemption for certain capital purchases, a geographic specific hiring credit, and a targeted tax credit for specific businesses. The sales tax exemption is administered by the Board of Equalization and the hiring credit—the New Employment Tax Credit (NETC)—by the Franchise Tax Board. The targeted tax credit—termed the California Competes Tax Credit (CCTC)—is administered by GO-Biz. Additional information about these legislative changes is provided under Item 0590.

- Under the NETC, effective from January 1, 2014, through January 1, 2021, participating companies must hire qualified, full-time employees and pay wages for work performed in an eligible census tract or former enterprise zone. As part of the process, a tentative credit must be requested from FTB. FTB must process the tentative credit request, provide a database for the credits, develop guidelines and regulations for the program, verify compliance, and engage in other activities to effectively administer the program.

- Under the CCTC, agreements will be struck between the state and selected businesses that would provide for tax credits related to investments and employment in the state. The credits would be awarded through December 31, 2020. FTB's four requested audit positions would review the proposed contract agreements, review books and records of the businesses to ensure compliance, inform GO-Biz of any potential contract breeches, and recapture any credits claimed but not earned.

- Under the Like-Kind Exchange Information Reporting, FTB staff will provide outreach to businesses, and engage in administrative support to gather data from the filed forms, and validate and document the information provided. Like-Kind Exchanges provide a mechanism to delay the payment of tax on capital gains generated by the sale of business property when replacement property is purchased from the sale proceeds. The reporting requirement will provide a mechanism to collect taxes owed when a final sale of such exchanged property occurs.

Staff Comment: The California Competes Tax Credit is an entirely new program for the state and will involve highly detailed agreements between the state and businesses. The program will be operated in tandem with GO-Biz and will involve the commitment of substantial resources in the form of foregone revenues. Over the five year period of time of the program, almost $800 million could be allocated to the awarded tax credits. Given that GO-Biz has no experience in drawing up contracts of the type anticipated under the program, it is vital that sufficient oversight be exercised over the program. FTB has considerable experience with auditing tax returns and ascertaining whether requirements of a particular tax program have been met. For adequate auditing to occur, the agreements must require quantitative measures and the requested data must be available to FTB. Consequently, it is important that FTB be involved in structuring the more technical requirements of the agreements to guarantee that adequate audits can be conducted.

Staff Recommendation: Approve request with supplemental reporting language, conforming to Item 0509, Issue 1. .

Vote:

Issue 2: Tax Protest Workload

Governor's Budget Request: The Governor's May Revision includes a request for an increase of $3.6 million (General Fund) and 26.0 three-year limited-term positions to address an increased caseload in the processing and adjudication of docketed and undocketed tax protests at the Franchise Tax Board (FTB).

Background: The FTB has experienced an increased volume of protest inventory of both docketed tax protests, which are assigned to FTB's legal division, and undocketed protests, which are assigned to its audits division. As of July 1, 2013, FTB had almost 600 cases in docketed protest status and almost 800 cases in undocketed status. To address the backlog; FTB has begun the Aged Protest Closing Project which focuses on cases over 36 months of age. FTB expects to close over 175 of these cases. However, to support this effort, some staff were redirected, which does not represent a long-term solution to the increasing inventory.

Staff Comment: The FTB legal staff has been affected by staffing reductions and hiring freezes and overall would benefit from increasing staffing. Thus we recommend that this potential be addressed through Budget Bill Language (BBL) that would allow—upon DOF and legislative approval—the conversion of up to 14 limited term positions to permanent. The BBL drafted by the Legislative Analyst's Office (LAO) would read as follows:

> *Provision 6.*
> *Of the funds appropriated in this item, $3,562,000 shall be used to fund 26.0 three-year limited-term positions through the 2016-17 fiscal year for the processing and adjudication of docketed and undocketed tax protests. The Franchise Tax Board may convert no more than 14 Tax Counsel III positions to ongoing positions subject to approval of the Department of Finance, not sooner than 30 days after notification in writing to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee.*

Staff Recommendation: Approve Governor's May Revision staffing request along with proposed provisional language.

Vote:

7760 DEPARTMENT OF GENERAL SERVICES

Issue 1 – Water Conservation/Drought Response

Governor's Budget Request: The Governor's May Revision includes a request for a one-time increase in the Service Revolving Fund expenditure authority of $5.4 million so the Department of General Services (DGS) can implement water efficiency and conservation measures.

Background: On January 17, 2014, Governor Brown issued a declaration for a drought emergency which established DGS as the lead agency for developing and implementing water use reduction measures for all state agencies. According to DGS, the requested funds will support the purchase and installation of approximately 3,718 plumbing fixtures, 60 irrigation controllers, and 4,500 sprinkler heads in 58 DGS-controlled state-owned buildings. These adjustments will result in a reduction of 73.2 million gallons of water usage by state-owned facilities annually. The requested funds from the Service Revolving Fund will result in an increase of $0.05 per square foot for building rental rates.

Staff Comment: The request did not include a timeline as to when DGS will complete the workload associated with this request. While the water conservation measures may be needed, it is unclear to staff how much work will be completed in response to the drought emergency declared by Governor Brown on January 17, 2014. However, staff acknowledges that the state should be increasing conservation efforts throughout the state.

Staff Recommendation: Approve Governor's May Revision request; authorize a one-time increase of DGS expenditure authority by $5.4 million (Service Revolving Fund) to implement water efficiency and conservation measures.

Vote:

Issue 2 – School Facility Program – Office of State Audits and Evaluations (OSAE)

Governor's Budget Request: The Governor's May Revision includes a request to shift $560,000 in 2006 State School Facilities expenditure authority approved in FY 2015-16 to FY 2014-15, and $594,000 approved in FY 2017-18 to FY 2016-17 to accelerate, by one fiscal year, bond authority used to fund oversight of the Kindergarten-University Public Education Facilities Bond Act of 2006 (Proposition 1D) by the Department of Finance.

Background: Since FY 2009-10, OSAE has performed audits of Proposition 1D bond funds in accordance with a budget change proposal (BCP) adopted by the Legislature in FY 2008-09. The BCP appropriated Proposition 1D bond funding to the Office of Public School Construction for reimbursement of bi-annual audits performed by OSAE. The bi-annual audits were in accordance with the School Facilities Program regulations governed by the State Allocation Board.

The Office of Public School Construction (OPSC) developed a project risk assessment model identifying high risk projects, which will require an on-site audit. That assessment has shown that, between FY 2014-15 and FY 2016-17, an estimated 889 projects will require on-site audits to be conducted by OSAE. The School Facilities Program regulations require that the audit be conducted within two years of completion. As a result, OSAE will incur workload earlier than forecasted in the approved 2008-09 BCP.

Staff Comment: Staff has no concerns or issues with this request.

Staff Recommendation: Approve Governor's May Revision request.

Vote:

Issue 3 – Office of Public School Construction – Emergency Repair Program

Governor's Budget Request: The Governor's May Revision includes a request to transfer $83,000 from the School Deferred Maintenance Fund to the School Facilities Emergency Repair Account in order to fund operational costs associated with the School Facilities Emergency Repair Program.

Background: AB 97 (Committee on Budget), Chapter 47, Statutes of 2013, shifted control over deferred maintenance expenditures, earnings, and funds to local governing boards of school districts. The Office of Public School Construction (OPSC) no longer administers apportionments under this program. However, OPSC continues to administer the School Facilities Emergency Repair Program as a result of a settlement reached in 2004 (Williams Settlement), which requires a total of $800 million to be contributed to the program.

Staff Comment: The request is a net zero proposal and reduces expenditure authority from the State School Deferred Maintenance Fund by $83,000 and establishes expenditure authority in the School Facilities Emergency Repair Account of a commensurate amount to continue funding for 1.0 existing OPSC position to perform School Facilities Emergency Repair Program functions in order to meet the state's obligation under the *Williams Settlement*.

Staff Recommendation: Conform to action taken either in Senate Budget Committee or Senate Budget Subcommittee No. 1 with regards to the Proposition 98 package.

Vote:

Issue 4 – Transfer of School Site Utilization Funds to the School Facility Program

Governor's Budget Request: The Governor's May Revision includes a request of $5.4 million (State School Site Utilization Fund) in FY 2014-15 and $2.75 million (State School Site Utilization Fund) in FY 2015-16.This request will support the Office of Public School Construction's efforts to utilize State School Facility Program (SFP) funds for ongoing state operations.

Background: The Unused Site Program, first established in 1974, requires that school districts pay a fee, with a few minor exceptions, for properties that are not used for school-related purposes after a certain amount of time. The average amount of fees collected from this program annually is approximately $2.75 million.

Staff Comment: This request includes trailer bill language, which will make changes to the Education Code so that two years of Unused Site Program fee revenue (totaling $5.4 million) will be made available to the Office of Public School Construction (OPSC), and $2.75 million annually on an ongoing basis. The funds will be utilized for the administration of the Leroy F. Greene School Facilities Act of 1998, which requires the certification by the State Allocation Board for modernization projects at school facilities.

Staff Recommendation: Approve Governor's May Revision request.

Vote:

Issue 5 – Capital Area Development Authority

Background: In the mid 1960s, the State of California acquired 42 blocks of property south of the Capitol for development of a state office campus. The properties acquired by the state consisted primarily of housing in a neighborhood that was, before the acquisition program began, one of the most populous in the central city. By 1969, only three state office buildings had been built when the building program was officially curtailed. The State of California and the City of Sacramento formed the Capitol Area Development Authority (CADA) in 1978.

In May 2011, the Administration proposed that the state sell properties no longer needed for state programmatic purposes, including those managed by CADA. In response to the Governor's directive, the DGS initiated a plan to sell five CADA-managed properties per year, with the entire portfolio to be sold in about 10 years.

Subsequently, CADA has provided a legislative proposal that would: (1) allow for the sale of CADA-managed property to CADA with the intent of maintaining the viability of affordable housing in the Capitol Area, (2) allows for DGS to withdrawal from the CADA Joint Powers Agreement (JPA), and (3) specifies that the state is not responsible for debts, liabilities, or obligations of the JPA.

Staff Comment: The draft proposal provided by CADA takes into account that if the state continues to sell CADA-managed properties on a piecemeal basis that the ability to support affordable housing within the Capital area will be disrupted. Revenue derived from market rate housing subsidizes the affordable housing units managed by CADA. If there isn't an orderly wind-down of CADA they will become unable to meet future legal obligations which may lead to future lawsuits.

Staff Recommendation: Adopt placeholder trailer bill language that will (1) allow for the sale of CADA-managed property to CADA with the intent of maintaining the viability of affordable housing in the Capitol Area, (2) allows for DGS to withdrawal from the CADA Joint Powers Agreement (JPA), and (3) specifies that the state is not responsible for debts, liabilities or obligations of the JPA.

Vote:

9210 LOCAL GOVERNMENT FINANCING

Issue 1 - Subventions to Alpine, Amador, and San Mateo Counties

Governors Budget: The Governor's January budget proposed a General Fund subvention of $8.5 million to backfill Alpine, Amador, and San Mateo counties due to circumstances that reduced property tax directed to those county governments, and cities within those counties, in 2012-13. These circumstances also occurred in these counties in the prior year, and the state provided a subvention. The revenue losses will likely continue to some degree in the future, but the Administration indicates its current proposal is of a one-time nature. The issue was heard by the Subcommittee at its March 27 hearing and held open until after the May Revision, when the final backfill amounts are calculated. The May Revision calls for an additional $4.2 million for a total of $12.7 million.

Background: Legislation enacted early in the Schwarzenegger Administration shifted local property tax from schools to cities and counties to accommodate two state fiscal initiatives. Schools were then backfilled with state funds for each of these initiatives. Overall, the fiscal changes resulted in a large net revenue gain for cities and counties as the replacement revenue streams have grown faster than the relinquished revenue streams. However, unique circumstances reportedly reversed this outcome in 2010-11 for Amador County and in 2011-12 and 2012-13 for Alpine, Amador, and San Mateo counties, and it is possible this outcome could occur for a few additional counties in the future.

In the 2004 primary election, voters approved Proposition 58, which allowed the state to sell Economic Recovery Bonds (ERBs) to pay its accumulated budget deficit. The local sales tax for cities and counties was reduced by one-quarter cent and the state sales tax was increased by one-quarter cent to create a dedicated funding source to repay the ERBs. Property tax was redirected from schools to cities and counties, and the state backfilled schools via the Proposition 98 funding guarantee. This financing mechanism is sometimes called the Triple Flip, and the process was intended to hold local governments harmless. At the time the ERBs are repaid (in 2016-17, or earlier under the Governor's budget proposal), the local sales tax rate will be restored, and no flip—triple or otherwise—will be necessary.

Also in 2004, the Legislature enacted the VLF Swap. The measure was designed to provide a more reliable funding mechanism to backfill cities and counties for the local revenue decrease resulting from the action that reduced the VLF tax on motor vehicles from 2.0 percent of a vehicle's value to 0.65 percent of a vehicle's value. Here again, the state redirected property tax from schools to cities and counties to make up for the VLF cut and backfilled schools for the property tax loses with state funds.

The backfill for the Triple Flip and the VLF Swap must originate from property taxes either shifted from the Education Revenue Augmentation Fund (ERAF) or from non-basic aid K-12 and community college districts (but not from so-called 'basic aid' schools). This funding mechanism stopped fully working for Amador County reportedly in 2010-11 due to all the schools in those counties becoming basic aid schools. Basic aid schools receive sufficient local property tax to fully fund the per-student amounts required by the Proposition 98 guarantee, and therefore, the state's funding is minimal. Due to this basic aid situation, current law will not provide backfill for such schools for any property tax shifted to cities and counties. County auditors have reportedly reduced or discontinued the shift of property tax from schools to those cities and counties.

Staff Comments: The overall approach to this issue has generally been ad hoc in nature, and a response to facts and circumstances. This would be of significant concern if the magnitude of the General Fund relief were to continue indefinitely or increase in magnitude. However, the DOF indicates that the unwinding of the Triple Flip should result in a general decrease in existing relief to counties and lessen the chances that the problem will extend to additional counties.

Staff Recommendation: Approve the proposal, as revised by the May Revision request.

Vote:

Issue 2 - State-County Assessor's Partnership Agreement Program

Governor's Budget: The Governor's budget proposes $7.5 million and trailer bill language (TBL) to enact a state-county program to improve assessments for property tax purposes throughout California. The budget proposal establishes a State-County Assessors' Partnership Agreement Program (SCAPAP) to enhance local property assessment efforts. The SCAPAP would begin on a three-year pilot basis, funded at $7.5 million per year, and administered by the DOF.

The SCAPAP will be limited to nine county assessors' offices competitively selected from a mix of urban, suburban, and rural counties. To participate in the SCAPAP, the county must submit an application to DOF demonstrating work to be performed. The county must also agree to provide its Assessor's office with a specified amount of matching county funds each fiscal year to generate additional property tax revenues for local agencies by doing the following:

- Enroll newly-constructed property and incorporate property ownership changes.
- Reassess property to reflect current market values.
- Enroll property modifications that change the property's taxable value.
- Respond to assessed valuation appeals.

Under the proposal, DOF will review the applications and select participants on the strength of each county's proposal. As the three-year program term nears its expiration date, the DOF proposes to evaluate the results and issue findings to the Legislature. The Administration and the Legislature would then determine whether to continue the program in its current form, expand the program to more counties, or allow it to expire.

Each year, participating counties would have to report to the Administration the number and taxable value of properties added to the local property tax roll as a result of activities undertaken with grant funds. In addition to new or updated assessments, each county would report the total amount of property taxes preserved when staff successfully defended a property owner's appeal to reduce their property's taxable value. The Administration would determine whether each county's pilot was successful, based on whether a county pilot resulted in additional property tax revenues being allocated to schools that are at least three times larger than the amount of the state grant in that county. (Additional revenue from the program includes revenue accelerated, increased, or preserved by staff hired using state grants and county matching funds.) The Administration's calculation would not vary by county based on the schools' share of countywide property taxes in that county. The Director of Finance would have authority to terminate the grant program in any county that does not meet this level of return. The Administration's grant program is a three-year pilot program, after which the Administration would use its findings to make a recommendation as to whether the program should be continued in its current form, expanded to include additional county assessors' offices, or terminated in 2017-18.

Background: County assessors are responsible for assessing real and qualifying personal property for property tax purposes, and for maintaining and updating property tax rolls. Beginning in 1995, the state provided annual General Fund loans to county assessors' offices to enable them to more quickly enroll newly-constructed property and account for property ownership changes. The additional property tax revenue received by schools through these efforts reduced the state's Proposition 98 General Fund costs, and the loans to the assessors were thereafter forgiven. The loan program was reconstituted in 2002 as a grant program, known as the Property Tax Administration Grant Program. This program operated until 2005‑06, when it was eliminated as a savings measure.

The underlying rationale for property tax assistance programs is that the counties may not be receiving proper 'price signals' (net of return). That is, because the property tax revenues that go to the state may not be incorporated in the counties' staffing calculus, a less than optimal amount of resources may be devoted to assessment activities. While most local governments that receive property taxes reimburse the county for their proportionate share of administrative costs, schools and community colleges ("schools") are not required to pay these costs. Instead, counties pay the schools' share of costs as well as their own. Statewide, counties pay about two-thirds of the cost to administer the tax while receiving less than one-third of the revenues they collect. As a result of this imbalance, there have been long-standing concerns that—without an additional incentive—counties might not fund property tax administration at an efficient level. If property tax administration were not funded appropriately, this could have a fiscal effect on the state because local property taxes that go to schools generally offset required state spending on education.

LAO Perspective: The LAO provided a thorough review and analysis of the Administration's proposal, and further developed some of the aspects of the pilot project in a constructive manner. Overall, it views the proposal favorably, but indicates that there are some specific changes that could improve the program. LAO recommends:

- Altering the proposed dollar-for-dollar county match to reflect each county's share of benefits from additional spending on property tax activities. This would address the likelihood that (under a one-to-one match) counties that receive a greater share of property taxes would have a greater incentive to participate in the program.

- Providing for a guaranteed state grant for three years, without early termination. Under the Administration's proposal, counties that failed to meet the 3/1 benefit/cost threshold would be terminated from the program. While the current proposal could result in greater state revenue, it may also result in failure to gain full knowledge of the characteristics of a successful program and terminate programs that are only more successful over a somewhat longer term.

- Allocating the state grant in proportion to the total property value in that county. Under the Administration's proposal, each county would receive the same amount—thus some counties would receive larger grants, relative to their size—than other counties. This alternative approach is an attempt to control for that potential asymmetry.

- Selecting county participation based on random selection, when possible. This would help ensure that the design of a final program (if any) would be informed by the participation of counties with varying characteristics, rather than having a pilot which might be biased in favor of characteristics that benefit the state.

Staff Comments: The Administration's May Revision proposal addresses many of the concerns initially discussed before this subcommittee, although not all of the issues that were raised. The Administration has made several in the May Revision to the proposed pilot program, including (1) adding business personal property as an eligible use of pilot funds, (2) increasing grant fund flexibility between counties, and (3) allowing pilot funds to be used for IT system updates.

Staff Recommendation: Approve placeholder trailer bill language and direct staff to refinements to the proposal to address outstanding issues.

Vote:

Issue 3 – Pension Obligation Property Tax Increment

Background: There are some cities throughout the state whose voters historically approved a tax for pension obligations for city staff, including 12 cities in Los Angeles County. Some pension levies were approved as early as the 1920s, with some cities amending and increasing their levy through the late 1970s. The amounts of the levies also vary by city and range from 0.05 percent to 0.45 percent. These rates are levied in addition to the 1 percent general property tax rate.

Under redevelopment law, redevelopment agencies created project areas that captured incremental property tax growth within the project areas. For older RDAs, agencies received growth in property tax revenue collected under the 1 percent rate, as well as additional rates levied to fund debt—such as pension obligations. RDAs then could pass on to cities the portion of tax increment that was intended by voters to be used for pension obligations and other debts.

Under RDA dissolution, RDAs no longer pass on pension tax revenues to cities. This is because property tax increment is no longer allocated to RDAs. Instead, county auditor-controllers deposit former RDA property tax increment—including tax increment attributable to pension taxes—into a trust fund. Revenue deposited to the trust fund are first used to pay outstanding RDA obligations. Remaining revenues are then distributed to the other local governments whose jurisdiction overlaps with the former RDA based on each local government's share of the 1 percent property tax. As a result, some pension tax revenues that RDAs previously passed on to cities are now being allocated to other local governments—including schools.

Staff Comment: Statutory clarification is necessary to establish that pension related tax increment tax levies should be allocated to cities to be used for the purpose for which voters approved them. Based on available information, the annual amount of affected pension tax revenue exceeds $40 million statewide. As a portion of this revenue is allocated to schools—offsetting state General Fund costs to meet the Prop 98 minimum guarantee—addressing this issue would increase state General Fund costs by an unknown amount, possibly in the tens of millions of dollars per year.

Staff Recommendation: Information only.

Issue 4 – Nevada County Public Defense

Background: On September 20, 2012, four suspects were arrested and charged in Nevada County with securities fraud, conspiracy, and elder abuse for operating a Ponzi-like scheme that allegedly defrauded dozens of investors of over $2.3 million. The arrests were the result of an investigation conducted by the State Department of Justice's Special Crimes Unit, which coordinates the investigation and prosecution of crimes involving large-scale investment and financial frauds, public corruption cases, and high-tech crimes where the scope and complexity of offenses exceed the investigative and prosecutorial resources of local law enforcement and other state agencies. The Attorney General's Mortgage Fraud strike force is prosecuting the criminal. This criminal case originated in the Attorney General's office, and, until the day charges were filed, the County was unaware of the State's criminal investigation.

The County is very concerned about its ability to provide defense services in this highly-complex financial crimes case. By the Attorney General's own admission, these types of cases exceed the investigative and prosecutorial resources of local law enforcement. This case involves hundreds of thousands of pages of discovery and requires forensic accountants and other costly types of expert witnesses. For example, the copying services to create the record are projected to cost $50,000. The entire budget for Nevada County's annual indigent services is less than $600,000. Yet, this single case is anticipated to exceed that entire annual allocation. Due to its limited resources, the Nevada County Public Defender is not able to provide the public defense, and has contracted with private defense counsel for the two indigent defendants. The presiding judge approves and denies their expenditures, leaving the County at the mercy of the court with respect to trial costs.

The County has conferred with the Attorney General's office regarding the availability of grants or other resources and has been advised that there are no resources available through the Attorney General's office to offset the County's costs. The County has donated office space to the indigent defense counsels, and is utilizing county procurement contracts for needed materials to ensure they can keep costs as low as possible. However, these efforts will not be enough to sustain the County's budget through the trial.

Staff Recommendation: Information only.

CONTROL SECTION 1.50

Issue 1 – Implementation of FI$Cal

Governor's Budget Request: The Governor's May revision includes a request to amend Control Section 1.50 in order to provide a greater level of flexibility to address potential technical corrections, changes, or cleanup that may be necessary due to the implementation of the Financial Information Systems of California (FI$CAL).

Background: Control Section (CS) 1.50 specifies the coding structure to be used for appropriation items. The coding scheme consists of 11 digits. The first four digits are to designate the organization or program and the last four digits represent the fund. The middle three numbers are called the reference numbers. The reference numbers are used for sequencing items when there are two or more appropriations from the same organization and fund. The proposed amendments to CS 1.50 are below:

SEC. 1.50 (a) In accordance with Section 13338 of the Government Code, ~~as added by Chapter 1284 of the Statutes of 1978, and as amended by Chapter 1286 of the Statutes of 1984~~, it is the intent of the Legislature that this act and other financial transactions authorized outside of this act utilize a coding scheme or structure compatible with the Governor's Budget and the records of the Controller, and provide for the appropriation of federal funds received by the state and deposited in the State Treasury.

(b) Essentially, the format and style are as follows:

(1) Appropriation item numbers have a ~~code~~ structure which is common to all the state's fiscal systems. The meaning of this ~~common coded item number~~ structure is as follows:

2720~~—Organization Code (this code~~ Business Unit (known as organization code in current systems, indicates the department or entity) (e.g., 2720 represents the California Highway Patrol)

001—Reference Code (~~first appropriation for a particular fund for support of each department~~ (indicates whether the item is from the Budget Act or some other sources and its character (e.g., state operations)

0044—Fund Code (e.g., 0044 represents the Motor Vehicle Account, State Transportation Fund)

(2) Appropriation items are organized in ~~organization code~~ Business Unit order.

(3) All the appropriation items, reappropriation items, and reversion items, if any, for each department or entity are adjacent to one another.

(4) Federal funds received by the state and deposited in the State Treasury are appropriated in separate items.

(c) The Department of Finance may authorize revisions to the ~~codes~~ appropriation items used in this act ~~in order~~ or other financial transactions to provide compatibility between the codes or structures used in this act and those used in the Governor's Budget and in the records of the Controller.

(d) Notwithstanding any other provision of ~~this act~~ law, the Department of Finance may revise the schedule of any appropriation made in this act where the revision is of a technical nature and is consistent with legislative intent. These revisions may include, but shall not be limited to, the substitution of category for program or program for category limitations, the proper categorization of allocated administration costs and cost recoveries, the distribution of any unallocated amounts within an appropriation and the adjustment of schedules to facilitate departmental accounting operations, including the elimination of categories providing for amounts payable from other items or other appropriations and the distribution of unscheduled amounts to programs or categories. These revisions shall include a certification that the revisions comply with the intent and limitation of expenditures as appropriated by the Legislature.

(e) Notwithstanding any other provision of ~~this act~~ law, when the Department of Finance, pursuant to subdivision (d), approves the schedule or revision of any appropriation relating to the elimination of amounts payable, the language authorizing the transfer shall also be eliminated.

(f) Notwithstanding any other provision of law, and in accordance with legislative intent, the Department of Finance may authorize technical changes or corrections in the Financial Information System for California (FI$Cal) resulting from or related to the conversion or implementation of FI$Cal including, but not limited to, the following:

(1) Corrections to errors inadvertently created during the data conversion process from current systems into FI$Cal.

(2) Corrections or changes related to renumbering of programs and capital outlay projects. FI$Cal requires a different numbering scheme for the programs, elements, components, and tasks and projects. A new set of numbers will be utilized in FI$Cal different from what is

reflected in this and prior budget acts and other authorizing sources. A comprehensive crosswalk will be utilized to facilitate the translation from programs, elements, components, and tasks to programs and subprograms and projects.

(3) Corrections or changes necessary to ensure compatibility among the legacy systems of the State Controller and departments, with that of the FI$Cal system. Multiple coding systems and structures (or chart of accounts) are being utilized during the transition period and until a department is implemented in FI$Cal.

Staff Comment: The proposed substantive changes to Control Section 1.50 are the addition of subsection (f), which addresses the implementation of FI$Cal. The revised CS 1.50 is intended to provide a clear correction to the State Controller's Office and avoid confusion which may delay payments. Staff does not have concerns or issues with this request.

Staff Recommendation: Approve May Revision request to amend Control Section 1.50.

Vote:

CONTROL SECTION 11.00

Issue 1 – Changes to Information Technology Projects

Governor's Budget Request: The Governor's May Revision includes a request to amend Control Section (CS) 11.00 which is utilized to address significant scope and cost changes in information technology projects.

Background: CS 11.00 is the Legislature's means of being informed of statewide software licensing agreements that have not been previously approved by the Legislature, that obligate state funds in the current year or future years, whether or not the obligation will result in a net expenditure or savings. A statewide software licensing agreement is defined as a software license contract that can be used by multiple state agencies. The language, as currently drafted is below:

> SEC. 11.00. (a) A state agency to which state funds are appropriated by one or more statutes, including this act, for an information technology project may not enter into, or agree to, any contract or any contract amendment in the 2013-14 fiscal year that results, in the aggregate, in an increase in the budgeted cost of the project exceeding $500,000, or 10 percent of the budgeted cost of the project, whichever is less, unless the approval of the Director of Finance is first obtained and written notification of that approval is provided by the department to the Chairperson of the Joint Legislative Budget Committee, and the chairpersons of the budget committees of each house of the Legislature, not less than 30 days prior to the effective date of the approval, or not less than whatever shorter period prior to the effective date of the approval the chairperson of the joint committee, or his or her designee, may in each instance determine. Each notification required by this section shall (1) explain the necessity and rationale for the proposed contract or amendment, (2) identify the cost savings, revenue increase, or other fiscal benefit of the proposed contract or amendment, and (3) identify the funding source for the proposed contract or amendment.
>
> (b) Subdivision (a) does not apply to a resulting increase in the budgeted cost of a project that is less than $100,000, or that is funded by an augmentation authorized pursuant to Section 26.00.
>
> (c) The following definitions apply for the purposes of this section:
>
> (1) "Budgeted cost of a project" means the total cost of the project as identified in the most recent feasibility study report, special project report, or equivalent document submitted to the Legislature in connection with its consideration of a bill that appropriated any state funding for that project.
>
> (2) "State agency" means each agency of the state that is subject to Article 2 (commencing with Section 13320) of Chapter 3 of Part 3 of Division 3 of Title 2 of the Government Code, except that this section shall not apply to the University of California, the California State University, the State Compensation Insurance Fund, the community college districts, agencies provided for by Article VI of the California Constitution, or the Legislature."

The Governor's May Revision includes a request to amend CS 11.00 to account for significant changes in scope and cost in state information technology projects. The proposed amendments are as follows:

> *"The Department of Finance shall report to the Joint Legislative Budget Committee when a reportable information technology project's overall costs increase by $5 million or 20 percent, whichever is less. The report shall be submitted within 30 days after the Department of Technology issues an approval letter to the Special Project Report which includes these*

changes. Each report shall include the total change in cost, scope, and schedule; (1) the reason for the change(s); (2) a description of new and/or amended contracts required as a result of the change(s); (3) a list of the risks and issues identified in the last two Independent Verification and Validation and Independent Project Oversight Reports and any risk and issue that has been identified since those reports; and (4) the department's planned mitigation of these risks and issues."

Staff Comment: Staff agrees that changes to CS 11.00 will ensure that the Legislature is properly notified of changes in either scope or cost to an information technology project. However, there are some concerns with increasing the notification threshold to $5 million or twenty percent, whichever is less, versus the current version which set the notification threshold at $500,000 or ten percent. Also, the Legislature may wish to play a larger role than just receiving notifications of changes in scope or cost to Information Technology projects. To address this, staff recommends adopting provisional budget bill language that reduces the reporting threshold and revises the notification process to provide the Legislature with a notification prior to the Department of Finance approval of a budget adjustment.

Staff Recommendation: Adopt provisional budget bill language as follows:

The Department of Finance shall report to the Joint Legislative Budget Committee when a reportable information technology project's overall costs increase by <u>$2 million or 10 percent</u>, whichever is less. <u>The report shall be submitted 30 days prior to Department of Finance approval of a budget adjustment to reflect an approval letter issued by the Department of Technology for the special project report which includes these changes.</u> Each report shall include the total change in cost, scope, and schedule; (1) the reason for the change(s); (2) a description of new and/or amended contracts required as a result of the change(s); (3) a list of the risks and issues identified in the last two Independent Verification and Validation and Independent Project Oversight Reports and any risk and issue that has been identified since those reports; and (4) the department's planned mitigation of these risks and issues."

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