*Senate Budget and Fiscal Review—Holly Mitchell, Chair*

# SUBCOMMITTEE NO. 4 Agenda

**Senator Richard D. Roth, Chair**
**Senator Steven M. Glazer**
**Senator Scott Wilk**

**Thursday, April 19, 2018**
**9:30 a.m. or upon adjournment of session**
**State Capitol - Room 2040**

Consultant: Renita Polk

**PROPOSED FOR VOTE-ONLY**

**Item Department** **Page**

## PROPOSED FOR DISCUSSION AND VOTE



*Pursuant to the Americans with Disabilities Act, individuals who, because of a disability, need special assistance to attend or participate in a Senate Committee hearing, or in connection with other Senate services, may request assistance at the Senate Rules Committee, 1020 N Street, Suite 255 or by calling (916) 651-1505. Requests should be made one week in advance whenever possible.*

# ITEMS PROPOSED FOR VOTE-ONLY

## 0855 GAMBLING CONTROL COMMISSION

### Issue 1: Special Distribution Fund Pro Rata Share Reduction Trailer Bill Language (TBL)

**Budget.** The budget provides TBL that would require the California Gambling Control Commission, upon approval by the Department of Finance, to apply any funds in excess of estimated expenditures, transfers, reasonable reserves, or other adjustments from the Indian Gaming Special Distribution Fund to reduce or eliminate the pro rata share payments required to be made to the fund by limited gaming tribes. Limited gaming tribes are generally defined as compact tribes that operate fewer than a total of 350 gaming devices in any location.

**Background.** The 1988 federal Indian Gaming Regulatory Act (IGRA) authorizes Indian gaming through compacts between the state and federally recognized Indian tribes. Beginning in 1999, the state entered into 61 tribal compacts with provisions requiring tribes to pay into the Indian Gaming Special Distribution Fund (distribution fund). Since then, the state has entered into new compacts and amended others, each requiring varying levels of deposits by the tribes into the distribution fund. State law authorizes the Legislature to appropriate money from the distribution fund to address four needs. Those four needs are:

- Funding of shortfalls in the Indian Gaming Revenue Sharing Trust Fund[1] to ensure that it can distribute $1.1 million annually to each tribe that does not have a compact or that has a compact and operates fewer than 350 gaming devices.
- Funding problem-gambling prevention programs managed by the California Department of Public Health.
- Funding the Indian gaming regulatory functions of the California Gambling Control Commission and the California Department of Justice.
- Funding the support of local governments affected by tribal gaming.

The proposed TBL (on the following page) would use excess moneys in the distribution fund to pay down the pro rata payments of limited gaming tribes. These pro rata payments are based on an equitable formula that considers the number of gaming devices operated by a tribe and the state costs for regulating the activities under the compacts. While the pro rata payments are an equitable way to cover regulatory costs associated with the compacts, these payments could result in a regulatory burden on the smaller limited gaming tribes that may not be able to afford these payments, which could jeopardize the ability of a tribe to become self-sufficient.

**Staff Recommendation.** Approve as requested.

[1] The Indian Gaming Revenue Sharing Trust Fund distributes money to tribes that do not have compacts or those that have compacts and operate fewer than 350 gaming devices.

THE PEOPLE OF THE STATE OF CALIFORNIA DO ENACT AS FOLLOWS:

SECTION 1. Section 12012.96 is added to the Government Code, to read:

12012.96. (a) On or before December 15, 2018, and on or before December 15 of each fiscal year thereafter, the Department of Finance, in consultation with the California Gambling Control Commission, shall determine if total revenues estimated for the Indian Gaming Special Distribution Fund in the current fiscal year are anticipated to exceed estimated expenditures, transfers, reasonable reserves, or other adjustments from the fund for the current fiscal year. As determined by, and within the discretion of, the Department of Finance, if the estimated revenues to the fund, along with any prior year excess revenues, exceed the estimated expenditures, transfers, reasonable reserves, or other adjustments from the funds, the California Gambling Control Commission, upon approval by the Department of Finance, shall apply the amount of funds directed by the Department of Finance to reduce, eliminate, satisfy, or partially satisfy, on a proportionate basis, the pro rata share payments required to be made to the fund by limited gaming tribes, as defined in class III gaming compacts.

(b) This section shall apply to each limited gaming tribe for the period in which the limited gaming tribe has a compact obligation to contribute to the fund, as specified in the limited gaming tribe's compact, regardless of any action taken pursuant to subdivision (a).

## 2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

### Issue 1: Responsible Beverage Service Training Program Act (AB 1221)

**Budget.** The department requests four positions and $578,000 (Alcohol Beverage Control Fund) in 2018-19; four positions and $561,000 in 2019-20; and three positions and $381,000 annually thereafter to implement the provisions of AB 1221 (Gonzalez Fletcher), Chapter 847, Statues of 2017.

**Background.** AB 1221 requires licensees to ensure all alcohol services successfully complete a Responsible Beverage Services (RBS) training course offered or approved by ABC, as demonstrated by passage of an examination. Alcohol servers would be required to take this training every three years. The act also provides ABC the authority to charge fees to recover the costs of the program.

The ABC has been an RBS training provider since 1991. With the support of a grant from the California Office of Traffic Safety (OTS), the ABC developed its Licensee Education on Alcohol and Drugs Program (LEAD) - a free, voluntary prevention and education program for retail licensees, their employees and applicants. The mission of the LEAD program is to provide high quality, effective and educationally sound training on alcohol responsibility and the law to California retail licensees and their employees. Grant funding used to support the LEAD program consisted of federal dollars.

The LEAD program covers a broader scope than is required by AB 1221. Specifically, LEAD covers off-sale and on-sale retailers, while AB 1221 does not address off-sale retailers. The department plans to leverage the existing LEAD curriculum to establish some of the AB 1221 requirements, but the current program must be modified to meet the new standards. For example, AB 1221 requires the RBS training to include the effect of alcohol on the body and society in more depth than the current LEAD program provides. The department must also promulgate regulations to further establish standards for the statewide RBS Training Program which will govern other RBS training providers. Most of the workload driving this request is related to developing and implementing a program that will review and approve applications for entities to either become accreditation agencies or training providers, and to establish processes to provide ongoing oversight of training providers to ensure that an appropriate level of service and quality of training is being delivered through the program.

**Staff Recommendation.** Approve as requested.

## 1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

### Issue 1: Board of Behavioral Sciences – Probation Monitoring

**Budget.** The Board of Behavioral Sciences is requesting one and a half Associate Governmental Program Analyst (AGPA) positions; $175,000 (Behavioral Science Examiners Fund) in 2018-19; and $167,000 in 2019-20 for its probation program.

**Background.** The board is the state regulatory agency responsible for licensing, examination, and enforcement of licensed marriage and family therapists, licensed clinical social workers, licensed educational psychologists, and licensed professional clinical counselors. The board also regulates marriage and family therapist interns, professional clinical counselor interns, and associate clinical social workers. As of June 30, 2017, the board licenses 108,662 mental health professions.

When a licensee fails to uphold their professional or ethical responsibilities, the board must take appropriate measures. The board's enforcement program currently has one full-time AGPA position and a half-time AGPA to perform the probation analyst duties. The number of new probationers the department must oversee has increased 71 percent since 2013-14. A contributing factor to the increasing probation analyst workload is related to the implementation of the Uniform Standards for Substance Abusing Licensees (Uniform Standards), which became effective on October 1, 2015. Previously, the board may have had some discretion in determining probation terms, but the Uniform Standards have removed some of that discretion, leading to an increased workload for the probation program.

The rising number of probationers along with the increasing complexity of tasks to effectively monitor a probationer is creating an overwhelming workload for the existing probation analysts. Analysts receive and review approximately 7,200 results from biological fluid testing. Analysts are also responsible for identifying mental health professionals for probationers that must undergo psychiatric evaluations and initiate actions based on those evaluations.  This proposal is requesting an additional one and a half positions to help address this workload.

**Probation and Disciplinary Action Data**

| | 2013-14 | 2014-15 | 2015-16 | 2016-17 | % change |
|---|---|---|---|---|---|
| Final Disciplinary Orders | 87 | 112 | 107 | 155 | 78% |
| New Probationer | 38 | 40 | 59 | 65 | 71% |
| Petition to end/modify probation | 14 | 18 | 20 | 25 | 79% |
| Psych Eval Ordered | 18 | 20 | 32 | 44 | 144% |
| Biological Test | 25 | 25 | 43 | 42 | 68% |
| Diagnostic Eval | N/A | N/A | 2 | 3 | 50% |
| Subsequent Discipline | 13 | 11 | 13 | 30 | 131% |

**Staff Recommendation.** Approve as requested.

**Issue 2: Contractors State License Board – Dig Safe Act of 2016 (SB 661)**

**Budget.** The Contractors State License Board (CSLB) requests three year limited-term funding of $549,000 (Contractors License Fund) in 2018-19 and $533,000 in 2019-20 and 2020-21 to fund two positions and Attorney General costs to implement mandates associated with Senate Bill 661 (Hill), Chapter 809, Statutes of 2016.

**Background.** SB 661 establishes the California Underground Facilities Safe Excavation Board, within the Office of the State Fire Marshal to investigate alleged violations of specified laws relating to the protection of underground infrastructure and develop standards relevant to safety practices in excavating around subsurface installations. If a violation is found, the board will transmit the investigation results and any recommended penalty to the state or local agency with jurisdiction over the violator (i.e., contractor violations would be enforced by CSLB). Additionally, SB 661 mandates CSLB to promulgate regulations and increases the board's responsibilities.

The requested resources provide CSLB with the necessary staffing to investigate referrals and to take disciplinary action against contractor violations. $199,000 in 2018-19 and $183,000 in 2019-20 and 2020-21 is requested for two positions. CSLB's referral rate to the AG's office is approximately six percent, so it is estimated that around 140 cases will be referred to the AG, resulting in an average of $5,000 per case. $350,000 in 2018-19, 2019-20, and 2020-21 is requested for the Attorney General to support the anticipated increase in referral cases to the AG.

**Staff Comment.** In the event that AG costs are greater than requested or expected, CSLB has indicated that it will submit another proposal in the future for additional resources.

**Staff Recommendation.** Approve as requested.

**Issue 3: Acupuncture Board – Acupuncture Management**

**Budget.** The Acupuncture Board requests $131,000 (Acupuncture Fund) in 2018-19 and $123,000 annually thereafter to fund one Staff Services Manager I position to properly align manager-to-staffing ratios.

**Background.** The board licenses and regulates individuals practicing acupuncture pursuant to the Acupuncture Licensure Act. Currently, the board provides licensure to approximately 16,600 individuals in the state. The board also administers an examination to test ability, competency, and knowledge in the practice of acupuncture; issues licenses to qualified practitioners; and approves and monitors students in tutorial programs.

The board currently has eleven authorized positions consisting of one executive officer, 6.7 Associate Governmental Program Analysts (AGPA), 0.5 Special Investigator, 0.8 Staff Services Analysts, and two Office Technicians. The Executive Officer manages and supervises all authorized staff and 2.5 temporary help staff without any other management-level support. The department's human resources unit recommends one additional Staff Services Manger I position be added to be in compliance with staffing-allocation guidelines. The position requested would manage and supervise 4.5 professional-level staff positions and two office technicians. The position would also provide general management-level support to board activities.

**Staff Recommendation.** Approve as requested.

**Issue 4: Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board**

**Budget.** The Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board request two positions; $264,000 (Speech-Language Pathology and Audiology and Hearing Aid Dispensers Fund) in 2018-19; and $183,000 in 2019-20 to support the positions. The request also includes an additional $65,000 in 2018-19 to transition an adjacent 160 square foot space into sufficient work space for the two additional staff.

**Background.** The board's mission is to protect the public through licensing and regulation of speech-language pathologists, audiologists, and hearing aid dispensers who provide speech and hearing services to California consumers. The board sets entry-level licensing standards, which includes examination requirements that measure the licensees' professional knowledge and clinical abilities that are consistent with the demands of the current delivery systems. To ensure ongoing consumer protection, the board enforces standards of professional conduct by investigating applicant backgrounds, investigating complaints against licensed and unlicensed practitioners, and taking disciplinary action whenever appropriate.

In its 2013 sunset review, the board reported license application processing delays of over eight weeks. Performance expectations were that all applications would be processed within four weeks. In the sunset review hearing, the committees recommended that the board augment its staffing to reduce licensing timeframes. The board did not request additional positions, and instead utilized temporary staff to address the backlogs. However, the delays continued to increase, reaching a peak of 12-14 weeks in 2014-15. In 2015-16, the board requested and received one additional position to address the increased licensing workload. Prior to this augmentation, the board had not received additional positions in over five years. This is despite the fact that the board's licensee population had grown by over 32 percent since 2011-12, and the number of licenses issued had increased by over 58 percent. In its 2017 sunset review, policy committees raised the issue of staffing again, expressing concern that the board's staffing levels were not adequate to handle the workload associated with the licensing population. The board committed to requesting additional positions to address its workload needs and prevent future delays and backlogs in licensing and enforcement. This proposal requests those additional positions.

**Staff Recommendation.** Approve as requested.

**Issue 5: California State Board of Pharmacy – Implementation of AB 401, SB 351, and SB 443**

**Budget.** The California State Board of Pharmacy requests $423,000 (Pharmacy Board Contingent Fund) in 2018-19 and $391,000 (Pharmacy Board Contingent Fund) annually thereafter to fund three positions to implement Assembly Bill 401 (Aguiar-Curry), Chapter 548, Statutes of 2017; Senate Bill 351 (Roth), Chapter 623, Statutes of 2017; and SB 443 (Hernandez), Chapter 647, Statutes of 2017.

**Background.** AB 401 authorizes the board to create two new license types: Remote Dispensing Site Pharmacies (RDSP) and clinics that share a clinic office space. The board is requesting one Associate Governmental Program Analyst (AGPA) position and one Pharmacy Inspector position in 2018-19 and ongoing to implement the provisions of AB 401. The board requires one AGPA position to perform the program implementation changes necessary to integrate the new licensing programs into the board's computer system, develop application and renewal forms as well as education materials. The position will also be responsible for processing applications, issuing licenses, assessing co-location agreements, and maintaining business licenses as required by law. The board also requires one inspector position to perform compliance inspections and investigations.

SB 351 expands the conditions under which the board can issue a hospital pharmacy license as well as creates the authority for the board to issue hospital satellite pharmacy licenses. The board is requesting a one half AGPA position in 2018-19 and ongoing to implement the provisions of SB 351. The position would be responsible for program start up including working with information technology staff to set up the new license types in the board's system, developing policies and procedures, and creating informational materials. The position will also perform review and processing of applications.

SB 443 authorizes the board to create two new license types: Emergency Medical Systems Automated Drug Delivery Systems Automated Drug Delivery Systems and Designated Paramedics. The board is requesting one half AGPA position in 2018-19 and ongoing to implement the provisions of SB 443. As with the implementation of SB 351, the position would be responsible for program start up including working with information technology staff to set up the new license types in the board's system, developing policies and procedures, and creating informational materials. The position will also perform review and processing of applications.

**Staff Recommendation.** Approve as requested.

## Issue 6: California State Board of Pharmacy – Permanent Position Authority

**Budget.** The board is requesting permanent position authority for a total of four positions. The board proposes to redirect $440,000 annually ongoing from its operating expenses and equipment budget to its personal services budget to fund the positions. The positions include:

- One Staff Services Manager (SSM) II position
- One SSM I position
- Two AGPA positions

**Background.** In the past several years the board has experienced increased workload in its operations both through the expansion of new licensing programs as well as increases in enforcement, licensing, and administrative functions. All of the requested positions are currently funded in the temporary help blanket and were intended to address workload in the licensing and complaint units. Originally, all positions were intended to be temporary until permanent resources could be secured.

The SSM II position is responsible for the management of the board's enforcement, criminal conviction, and complaint units. The SSM II indirectly manages 25 staff. The SSM I positions is responsible for promulgation of regulations, as well as management and oversight of six staff, among other duties. One of the AGPA positions is responsible for reviewing licensing applications, and developing and analyzing weekly and monthly licensing statistics. The second AGPA reviews and analyzes notifications for missing or controlled substances, which have increased from about 136 per month in 2013-14 to the current number of 664 per month. Permanent position authority would ensure the continuation of these services.

**Staff Recommendation.** Approve as requested.

**Issue 7: California State Board of Pharmacy – Enforcement Staff Augmentation**

**Budget.** The board requests four positions, a budget augmentation of $685,000 (Pharmacy Board Contingent Fund) in 2018-19, and $653,000 annually thereafter. The four positions are:

- Two Pharmacy Inspector positions
- Two AGPA positions

**Background.** In 2014, the board significantly expanded its regulation and oversight of pharmacies that compound sterile products. At the time of enactment, the board received four inspector positions with the intention of redirecting two inspector positions from existing resources. However, the board underestimated both the number of businesses that would seek licensure as a compounding pharmacy as well as the number of hours each inspection would take. In 2014, the board estimated that it would perform approximately 430 inspections each year. In 2016-17, the board performed 1,063 inspections, 422 of which were completed by inspectors from other areas of operations, and around 100 of those were out of state. Currently, the board is unable to complete all inspections of licensed compounding facilities solely relying on resources and staffing within the sterile compounding inspection team. The board utilizes and redirects inspectors from other inspector teams, which has led to increases in investigation times in those other areas. The board is requesting two additional inspector positions to help address this workload.

Egregious violations of pharmacy law are referred to the Attorney General's (AG) office to pursue administrative discipline, where the board is seeking to remove or restrict a license. The department aims to reduce the average enforcement completion timeline from 36 months to between 12 and 18 months. Since 2014-15, the board has seen an eight percent growth in the number of cases referred to the AG’s office, and a nineteen percent growth in the number of actions against licensees. Currently, the board’s average enforcement completion timeline for formal discipline is about 827 days. One of the requested AGPA positions would work with the AG’s office to address these cases.

The board’s enforcement unit receives about 275 site license application referrals each month. Timely review of referrals is often not possible due to limited staffing. In addition, the board was recently given discretion in issuing temporary permits to site applicants. Because of that, the number of site applications seeking temporary license has increased. In 2013-14, the board received 227 temporary license applications; in 2016-17 that number rose to 966. The remaining requested AGPA positions will help to address this increasing workload.

**Staff Recommendation.** Approve as requested.

## Issue 8: California State Board of Pharmacy – Moving Costs

**Budget.** The board is requesting $1.1 million (Pharmacy Board Contingent Fund) in 2018-19 to move to a larger space.

**Background.** In the past several years the board has experienced increased workload in its operations, resulting in a need for increased positions. The board's current staff total, including temporary help positions is 120.8. This number includes part-time and full-time staff. The board's current office does not have room to accommodate anticipated growth nor is there adequate space for record keeping of its new licensees. The requested augmentation will fund necessary tenant improvements and moving expenses, and purchase office equipment and furniture.

The board is currently negotiating a lease at their preferred new location. The new office space is approximately 21,000 square feet. Tenant improvements would include building offices, a conference room, quiet room and hearing room. The moving expenses would include purchasing new furniture, supplies, and telephones; and installing data. The total cost would be approximately $1.5 million. In 2015-16, the board set aside $350,000 to assist in the funding of their move to a new location. Therefore, the board would need a one-time augmentation of $1.1 million to fund the costs to move to the new location. Depending on the condition of their appropriation in 2017-18, the board may be able to set aside additional funding in 2017-18 through the ARF process. The board will be able to absorb the additional ongoing rent costs within its current appropriation.

**Staff Recommendation.** Approve as requested.

**Issue 9: Veterinary Medical Board – Veterinary Assistant Controlled Substances Program**

**Budget.** The board requests $417,000 (Veterinary Medical Board Contingent Fund) in ongoing funding to support four positions and AG and Office of Administrative Hearing (OAH) costs. The four positions are:

- One Staff Services Analyst position
- Three Program Technician positions

**Background.** SB 1243 (Lieu), Chapter 395, Statutes of 2014, established the Veterinary Assistant Controlled Substances Program (VACSP) permit category. The board's current licensee population is approximately 18,500 licensees. VACSP is anticipated to add more than 10,000 veterinary assistants to the board's registrant totals within a few years. In 2014-15, the board received two-year limited-term funding and position authority for five positions to establish and administer VACSP. By the end of 2015-16 the board had not yet begun accepting and processing VACSP applications, so the board submitted a request for a two-year limited-term extension of funding and position authority in 2016-17. This allowed the board to continue developing VACSP and begin accepting applications on October 1, 2016.

Now that the board has actual participation data it is requesting permanent resources to support the VACSP workload. The board is nearly fully staffed and cannot redirect resources from other areas to support the workload. The board notes that because veterinary assistants are entry-level jobs, the board must conduct more extensive pre-registration investigative work of applicants versus veterinarians and registered veterinary technicians. The board anticipates enforcement-related workload for VACSP registrants will also occur at a greater rate than for veterinarians and registered veterinary technicians for these same reasons.

The board has estimated that approximately 281 complaints will be received per year, based on the projected populations of registrants. Of these, the board anticipates about eight percent will be referred to the AG or OAH, at a cost of $5,000 per case. The board also requests $112,000 to support these enforcement-related costs. Previous requests did not provide support for AG or OAH costs.

**Staff Recommendation.** Approve as requested.

**Issue 10: Bureau of Security and Investigative Services – Licensing Position Funding**

**Budget.** The bureau requests an ongoing augmentation of $89,000 (Private Security Services Fund) for the continued funding of one Staff Services Analyst (SSA) position in the licensing unit.

**Background.** The bureau regulates seven professions that are governed by six chapters in the Business and Professions Code. The bureau licenses, registers and certifies the businesses and their employees related to the six chapters. The bureau's transition to BreEZe resulted in specified cashiering activities to be transferred from the department’s cashiering office to the bureau. As the result, the bureau received a permanent SSA with limited-term funding through June 30, 2018, to assist with these new cashiering duties. The cashiering workload has been higher than expected, and there are other cashiering duties that were not evident to the bureau prior to the transition to BreEZe. In addition to hiring the SSA for which ongoing funding is requested, the bureau redirected a licensing SSA position and hired a temporary SSA position to deal with the increased cashiering workload.

The licensing workload at the bureau is also high, which creates an increased workload in cashiering. The licensing workload is likely due to deficient applications, among other reasons. Approximately 25 percent of employee applications received every month are deficient, and the deficiency rate for initial company applications is over 70 percent. A deficient firearm application required 240 percent more time to process than an accurately completed application. Misapplied payments most commonly occur with firearm permit renewal applications and are the result of the applicant submitting the renewal late, resulting in the BreEZE renewal transaction closing before the cashiering office keys the fee. The cashiering office then has to go in and correct the error, creating more work and increasing the amount of time to process the renewal.

**Staff Recommendation.** Approve as requested.

**Issue 11: Bureau of Security and Investigative Services – SB 559**

**Budget.** The bureau is requesting $43,000 (Private Investigator Fund) in 2018-19, and $35,000 annually thereafter to fund a one-half Program Technician II position.

**Background.** SB 559 (Morrell), Chapter 569, Statutes of 2017, requires a private investigator (PI) licensee organized as a limited liability company (LLC) to report a paid or pending claim against its general liability insurance to the bureau, to be posted on the department's website. 51 of the bureau's 9,000 PI licensees are currently held by a LLC. Since the bureau began issuing PI licenses to LLCs, there has been an increase of ten to twelve new PI LLCs annually. The PI desk is currently staffed with one permanent full-time Program Technician II position, whose duties included processing initial and renewal applications, reassignments, and address changes, among other duties.

The bureau estimates an LLC population of about 66 in 2018-19 and 78 in 2019-20, and three to five pending claims annually per insurance policy. Each time a claim is paid the bureau will need to review all pending claim data submitted and process paid claims. Each year the bureau will also need to carry out overall reconciliation activities of the pending claim data. The bureau estimates a total of 485 to 878 hours to initially process and review a pending and paid claim. The bureau contends that this workload cannot be absorbed with current resources and requests an additional position to address it.

**Staff Recommendation.** Approve as requested.

**Issue 12: Bureau of Security and Investigative Services – Enforcement Position Funding**

**Budget.** The bureau requests an ongoing augmentation of $111,000 (Private Security Services Fund) for the continued funding of one AGPA position.

**Background.** In 2016-17 the bureau received permanent position authority for the AGPA position, but only limited-term funding. The position was authorized to help address enforcement duties as timely and effectively as possible. Funding for the position will expire on June 30, 2018. In 2015, the bureau estimated about 54 private patrol operators (PPOs) would need to be investigated annually with the number decreasing as the compliance rate increased over time. However, the compliance rate has not increased as projected and there are currently 616 PPOs suspended for lack of insurance. In addition, the new requirement to implement a random and targeted inspection program of the over 330 current firearms training facilities has placed further strain on the bureau's resources. Establishing ongoing funding for the AGPA position will help the bureau carry out its enforcement activities adequately.

**Staff Recommendation.** Approve as requested.

**Issue 13: Bureau of Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation – Household Movers Act (SB 19)**

**Budget.** The bureau requests an augmentation of $2.2 million (Household Movers Fund) in 2018-19, $1.9 million in 2019-20, $2.5 million in 2020-21, and $1.5 million annually thereafter to fund eleven positions and other activities mandated by SB 19 (Hill), Chapter 421, Statues of 2017.

**Background.** SB 19 established the Household Movers Fund and transferred the regulatory authority related to household movers from the California Public Utilities Commission (CPUC) to the bureau. The CPUC entered into an interagency agreement with the department for the early hiring of four full-time positions in 2017-18 to begin the transition of the household movers license to the bureau. The agreement will also allow the bureau to hire an Attorney III position, a Staff Services Manager I position, and two Staff Service Analyst positions. On July 1, 2018, the positions will be transferred to the bureau and funded by the Household Movers Fund. This request includes funding for those positions, and another seven positions detailed below.

| Classification(s) | CY Jan 1, 2018 - June 30, 2018 (via IAA) | BY 2018-19 |
|---|---|---|
| Attorney III (LT 2 Years) | 1.0 | 1.0 |
| Staff Services Manager I | 1.0 | 1.0 |
| Staff Services Analyst (Licensing) | 2.0 | 2.0 |
| Staff Services Analyst (Enforcement) | - | 2.0 |
| Associate Governmental Program Analyst | - | 1.0 |
| Special Investigator | - | 4.0 |
| **Total Positions** | **4.0** | **11.0** |

The requested positions will support the transfer and oversight of the new program. The program will manage the administrative and licensing operations for approximately 1,100 licensees and perform approximately 350 in-house and field investigations annually. The bureau will also need to develop and adopt rules, regulations, general orders, and fees imposed on household movers. The rules, regulations, general orders, and fees imposed by the CPUC will remain in effect until a new fee structure can be developed and adopted by the bureau.

The bureau will need to update its licensing verification capabilities and website to accommodate the electronic filing of applications and payments. This update and development will be performed by the department with the help of an IT contractor. Updates and development will not begin until the bureau has completed the regulation process and the hiring of the contractor, which is estimated to take about a year. In the meantime, the bureau will enter into an agreement with the CPUC to use their existing database system until the IT work is completed. The department will need to expend funds on secure remote access to the CPUC system, support services, and system enhancements to facilitate new business processes.

**Staff Recommendation.** Approve as requested.

**Issue 14: Medical Board of California – Licensed Midwifery Program**

**Budget.** The Licensed Midwifery Program, within the Medical Board of California, requests an ongoing augmentation of $107,000 (Licensed Midwifery Fund) for the program to reimburse the board for its services.

**Background.** The program does not have any authorized positions and utilizes board staff to perform its licensing, cashiering, and enforcement responsibilities. In 1993-94 the board did receive position authority for two limited-term positions, but did not seek permanent positions when those expired in 1996. Since 1996 the board has been absorbing the workload within its existing staff resources.

Fees collected for the program are deposited into the Licensed Midwifery Fund. Beginning in 2014-15, an appropriation was established to fund the services the board provides. Since then, the board has only requested payment from the program for investigative services rendered since the appropriation that was established would not support additional billing. In 2016-17 the program's investigations increased, increasing the total number of hours board staff spent on the program's investigations by 61 percent. Consequently, thus the board will begin requesting payment from the program for the staff resources used to provide licensing and enforcement functions.

Currently, the program has a spending authority of $13,000. Based on prior year workload the board has determined that the program requires a budget augmentation of $107,000. The program receives approximately $44,000 in annual revenue from its licensees but has limited expenditures due to its lack of spending authority.

**Staff Comment.** If this proposal is approved there would be a deficiency in the fund to support the program after 2022-23. The board plans to conduct a fee audit in 2019-20, pending the outcome of this budget request. Note that the program has not enacted a fee increase in 25 years.

**Staff Recommendation.** Approve as requested.

**Issue 15: Board of Registered Nursing – Enforcement Staff**

**Budget.** The board is requesting ten permanent positions and an ongoing increase in expenditure authority of $1.25 million (Board of Registered Nursing Fund) to address deficiencies within the board's enforcement division. The ten requested positions are:

- One Staff Services Manager III position
- One Supervising Special Investigator II position
- One Supervising Special Investigator I position
- Two Special Investigator positions
- Four AGPA positions
- One Office Technician position

**Background.** The board is the regulatory agency for the approximately 433,000 Registered Nurses (RNs) throughout California. In 2010-11, as part of the department's consumer protection enforcement initiative, the board received 32 full-time positions and five limited-term positions. In 2014-15, the board requested additional positions to reduce the discipline process from 40 months to 12-18 months, and to address increased workload created by retroactive fingerprinting of licensees who were licensed prior to August 1990. It was believed that the amount of positions requested in 2010-11 and 2013-14 would be adequate; however, the workload has again increased in 2016-17.

In 2015-16, the board underwent an audit of its enforcement program. The board delayed requests for additional enforcement positions until the audit concluded. During that time the board redirected workflows, changed internal procedures and worked to increase efficiencies. However the board has not met its goals and its current level of work output has only been achieved through staff working overtime and on weekends. The board reduced its discipline case processing timeframe from 40 months to 22 months, but has yet to reach its goal of 12-18 months. In the past two years the investigation unit has experienced the highest period of productivity since its inception. Yet, increased staffing is required in order for the board to meet its ultimate goal.

In response to the audit's concerns about the backlog of unassigned cases, the board increased special investigator workloads from 20 to 25 cases; however, at the review of the board's responses to the audit, the state auditor expressed concerns regarding the increased workload of investigators and their ability to complete work within the timeframe goals. The board is requesting an additional two special investigator positions to address this workload. The requested SSM III position would be established as the Chief of Enforcement. As a result of adding these positions, the board is also requesting one Supervising Special Investigator I position and one Supervising Special Investigator II position to oversee all three special investigation units, allowing for geographically oriented investigation units. Additional positions are projected to decrease the investigative timeframe to 180 days.

Probation monitors currently average 135 active probationers. To adequately monitor probationers and ensure timely response to violations and work proactively, the probation monitor caseload should average 75. The volume of probation cases increases each year. From 2012-13 to 2016-17, the number of licensees placed on probation has increased by 100 percent to over 1,550 probationers. The board requests four additional AGPA positions to reduce the number of cases per monitor to a more reasonable level, and one office technician position to provide support for the probation program.

The board anticipates its existing fund condition can support this request as SB 1039 (Hill), Chapter 799, Statutes of 2016, included new minimum and maximum statutory fee levels that allowed an increase in revenue to support the request.

**Staff Recommendation.** Approve as requested.

# PROPOSED FOR VOTE AND DISCUSSION

## 1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)
## 2320 DEPARTMENT OF REAL ESTATE

### Issue 1: Department of Real Estate (SB 173) – January BCP and Spring Finance Letter

**Budget.** The Department of Consumer Affairs (DCA) requests a reduction of 11 positions and $1.25 million (Real Estate Fund) in 2018-19 and ongoing to implement the provisions of SB 173 (Dodd), Chapter 828, Statutes of 2017. Additionally, the DCA requests $1 million in reimbursement authority in 2018-19 for costs associated with providing administrative transitional support for the Department of Real Estate in 2018-19. Provisional language included in the budget allows for up to $2 million in reimbursement authority for this purpose.

SB 173 removes the Bureau of Real Estate (BRE) from the DCA and establishes it as the Department of Real Estate (DRE) under the Business, Consumer Services and Housing Agency. The DRE requests position authority for 18 positions and $1.835 million (Real Estate Fund) in 2018-19 and ongoing for Human Resources, Fiscal/Budget, and Legislative/Publications functions. DRE and DCA are still in discussions to determine the amount of funding that will be needed for transitional support.

The request also includes an appropriation of $240,000 (Real Estate Fund) for the Business, Consumer Services and Housing Agency costs, which were previously provided through an interagency agreement with DCA.

As a supplement to the Governor's January budget proposal, the department requests a total reduction of fifteen positions and $2.3 million, phased in over three years. This proposal would consist of a reduction of $776,000 and five positions in 2018-19; a reduction of $500,000 and three and a half positions in 2019-20; and a reduction of $1 million and six and a half positions in 2020-21.

**Background.** On July 1, 2013, the DRE was eliminated per the Governor's Reorganization Plan No. 2 (GRP2). Prior to the GRP2 the DRE was budgeted for 342 authorized positions. The DRE previously had its own Human Resources, Fiscal and Budget, and Legislative/Publications functions. When the department became a bureau, some of those positions and mandated responsibilities were transferred to DCA. The reorganization resulted in the abolishment of eight positions, and eleven being transferred to DCA to provide centralized administrative functions for the BRE. Throughout its transition from a department to a bureau, the DRE continued to maintain five district offices and two off site examination centers.

| Original DRE Administrative Positions prior to July 1, 2013 | Positions abolished per GRP2 | Positions transferred to DCA per GRP2 | Positions requested in this proposal |
|---|---|---|---|
| 19 | 8 | 11 | 18 |

This request would implement the provisions of SB 173 that would move the BRE from under the DCA and establish it as a department. The reorganization of the BRE as a department will require part of the functions, authority, and resources of the DCA to be transferred to the DRE. As of July 1, 2018, the BRE will be eliminated and the DRE will be created.

A main rationale for SB 173 was concern around the high and quickly growing charges that BRE was being assessed for services provided by DCA, known as pro rata. A committee analysis of the bill cited that BRE's pro rata charge had grown from $1.8 million in 2013-14 to $5.2 million in 2016-17, resulting in pressure on BRE to either raise fees or reduce other services. However, the department notes that the BRE was not fully included in the department's pro rata distribution calculation during the first two years of its transition (2013-14 and 2015-16).

The traditional definition of pro rata is a process that apportions the costs of centralized administrative services to entities that benefit from these services based on position count or expenditures. DCA has traditionally included direct-billed costs and distributed centralized costs based on position count in its pro rata definition. On average, 32 percent of the department's pro rata distribution formula is based on position count, and the remaining 68 percent is based on direct-billed costs. The department states that pro rata calculations are complex and have several compounding variables including annual incremental budget adjustments, employee compensation and retirement, staffing and programmatic changes, and new mandates or implementation of new state systems. The department also notes that any funds budgeted for central use that are not used are returned to boards and bureaus at the end of a given fiscal year.

DCA reports that it allocates the costs of many of its services—such as training, legal, fiscal, human resources, and publications—proportionally among its boards and bureaus based on the number of authorized positions at each entity. However, for other DCA services—such as the use of some investigative services, correspondence, and professional examination development services—DCA allocates costs based on measures of usage by the boards and bureaus. In the past, concerns have been raised through the Legislature's sunset review process that DCA's methods of allocating pro rata might not result in a fair allocation of costs among the boards and bureaus, including that some entities might be paying for services they are not receiving. In response to these concerns, the Legislature passed SB 1243 (Lieu), Chapter 395, Statues of 2014, which required DCA to report annually by July 1 on the pro rata calculation of administrative expenses.

SB 1243 also required DCA to conduct a study of its current system for prorating administrative expenses. In compliance with the bill, DCA contracted with a consulting firm to prepare the required report, which the department submitted to the Legislature in July 2015. The report recommended that the department explore several alternative approaches to calculating pro rata, including activity-based costing, which more directly ties charges to the use of services such as by charging hourly rates. However, the report also noted that moving to a system such as activity-based costing is hampered due to DCA's lack of past client usage and workload data and systems to capture such data.

**Legislative Analyst's Office (LAO).** The LAO's assessment of this proposal gathered that BRE was likely overpaying for DCA services. In 2017-18, BRE is scheduled to pay $5.7 million in pro rata charges for DCA services. Yet, the budget proposal only reflects a $1.25 million reduction in DCA's budget. According to DCA, the $4.4 million difference between what BRE was paying in pro rata and the reduction in the department's budgeted amount will likely be spread across the other boards and bureaus. At the time of the LAO assessment, the Administration had not been able to fully explain the reason for the large difference between the pro rata charges BRE was scheduled to pay and the reduction in the budgeted expenditure authority for DCA with the removal of BRE from the department.

As mentioned previously, many of DCA's expenses are spread across the boards and bureaus based on the number of positions at these entities. To the extent that position counts do not accurately reflect the services provided, it would lead to some cross-subsidization—that is, some boards and bureaus paying for more services than they receive and others paying for fewer services. However, data on actual use of many DCA services is generally not available. Thus, it is difficult to determine the level of cross-subsidization that is occurring across entities within DCA.

The LAO recommends the Legislature require DCA to report at budget hearings on the reasons for the disparity between the pro rata charges paid by BRE and the reduction to DCA's budgeted expenditure authority. This should provide the Legislature with more information on the reason for the difference and help it determine whether $1.3 million is a sufficient reduction to DCA's budget given the reduction in DCA's responsibilities. Accordingly, the LAO recommends that the Legislature withhold action on the Governor's proposal until such information is provided by DCA.

Secondly, the LAO recommends that the Legislature require DCA to begin capturing data on past client usage and workload for its main service segments such as human resources, budget, training, and legislative support. The LAO further recommends supplemental reporting language requiring DCA to begin reporting this data annually starting no later than January 10, 2020.

In regards to the SFL the LAO recommends approving DCA's requested reduction for 2018-19, but requiring DCA to return next year to request any further reductions. DCA indicates that it believes the proposed reductions can be made without affecting the services received by boards and bureaus. However, it is not clear if this will be the case because DCA has not identified the specific positions it will eliminate or how the workload associated with those positions will be absorbed or redistributed. By approving only the first year of the proposed reductions at this time, the Legislature will have an opportunity to evaluate whether further reductions are appropriate as part of the 2019-20 budget process. Specifically, DCA should be able to report on the operational impacts, if any, of the reductions taken in 2018-19, as well as provide more detailed information on any additional positions proposed for elimination and the likely operational impacts of those staffing reductions.

**Staff Comment.** At the time of the LAO analysis the department was not able to fully explain the reason for the large difference between the pro rata charges BRE was scheduled to pay and the reduction in the budgeted expenditure authority for DCA. Since that time the department has provided some justification and submitted a Spring Finance Letter (SFL) partially addressing this difference. The SFL cuts centralized service redistribution to remaining boards and bureaus in half. However, the information provided by the department does not fully explain this difference. The subcommittee may wish to request additional information explaining the difference.

The model DCA currently uses for its pro rata assessment assumes averages. The department notes that this model stabilizes costs, provides a predictable budget, and allows boards and bureaus to use as much of a service as they need without concerns about going over budget. However, staff echoes the concerns of LAO. There is concern in instances where position count does not correlate to services used. As mentioned previously, around 32 percent of DCA central costs are based on authorized position count. Tracking usage data may be beneficial in examining how much entities are being charged and what services entities are receiving. The subcommittee may wish to consider requiring the department to track usage data of the most heavily utilized centralized services.

As a supplement to the proposal in the Governor's budget, the department has requested (in a SFL) reductions in staff positions. It is unclear how this reduction will affect services received by the entities within DCA, especially since the department has not identified which positions will be eliminated. The subcommittee may wish to inquire about what specific positions will be eliminated and how these eliminations will affect services the department provides to its boards and bureaus.

**Staff Recommendation.** Hold open.

## 1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

**Overview.** The department seeks to protect Californians by establishing and enforcing licensing standards for approximately three million professionals across 250 business and professional categories. DCA oversees 38 entities (25 boards, two committees, one commission, nine bureaus, and one certification program). The committees, commission, and boards are semi-autonomous bodies, whose members are appointed by the Governor and the Legislature. In general, the department's boards and bureaus provide exams and licensing, enforcement, complaint resolution, and education for consumers. License fees primarily fund DCA's operations.

**Budget.** The budget includes $634.2 million total expenditures and 3,127.5 positions to support the department, its programs, and its services. The department is supported entirely by fees and other regulatory assessments. Specifically, the budget includes:

| Code | Program | Actual 2016-17* | Estimated 2017-18* | Proposed 2018-19* |
|---|---|---|---|---|
| 1100 | California Board of Accountancy | $14,252 | $13,935 | $14,000 |
| 1105 | California Architects Board | 4,188 | 4,852 | 4,842 |
| 1110 | State Athletic Commission | 1,996 | 1,855 | 1,861 |
| 1115 | Board of Behavioral Sciences | 11,659 | 11,657 | 11,560 |
| 1120 | Board of Chiropractic Examiners | 3,896 | 4,261 | 4,257 |
| 1125 | Board of Barbering and Cosmetology | 21,431 | 22,618 | 21,980 |
| 1130 | Contractors' State License Board | 60,268 | 66,816 | 66,118 |
| 1132 | CURES | 1,071 | 1,612 | 1,612 |
| 1135 | Dental Board of California | 13,269 | 16,766 | 16,687 |
| 1140 | State Dental Hygiene Committee | 1,586 | 2,050 | 2,016 |
| 1145 | State Board of Guide Dogs for the Blind | 145 | 89 | - |
| 1150 | Medical Board of California | 62,575 | 63,112 | 63,837 |
| 1155 | Acupuncture Board | 3,239 | 3,360 | 3,354 |
| 1160 | Physical Therapy Board of California | 4,930 | 5,082 | 4,674 |
| 1165 | Physician Assistant Board | 1,720 | 1,724 | 1,795 |
| 1170 | California Board of Podiatric Medicine | 987 | 1,203 | 1,497 |
| 1175 | Board of Psychology | 4,773 | 5,158 | 5,206 |
| 1180 | Respiratory Care Board of California | 3,218 | 3,101 | 3,766 |
| 1185 | Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board | 1,901 | 2,038 | 2,294 |
| 1190 | California Board of Occupational Therapy | 1,839 | 2,321 | 2,292 |

| | | | | |
|---|---|---|---|---|
| 1196 | State Board of Optometry | 1,799 | 2,674 | 2,428 |
| 1200 | Osteopathic Medical Board of California | 2,225 | 2,406 | 2,560 |
| 1205 | Naturopathic Medicine Committee | 313 | 422 | 414 |
| 1210 | California State Board of Pharmacy | 22,076 | 23,370 | 25,531 |
| 1215 | Board for Professional Engineers and Land Surveyors and Geologists | 9,990 | 12,095 | 11,860 |
| 1220 | Board of Registered Nursing | 43,217 | 41,874 | 45,307 |
| 1225 | Court Reporters Board of California | 1,193 | 1,187 | 1,177 |
| 1230 | Structural Pest Control Board | 4,659 | 5,415 | 5,382 |
| 1235 | Veterinary Medical Board | 5,120 | 4,742 | 4,913 |
| 1236 | Veterinary Medical Board Pet Lover's License Plate Program | 50 | 150 | - |
| 1240 | Board of Vocational Nursing and Psychiatric Technicians of the State of California | 12,617 | 16,332 | 16,305 |
| 1400 | Arbitration Certification Program | 1,176 | 1,271 | 1,282 |
| 1405 | Bureau of Security and Investigative Services | 14,403 | 16,530 | 16,885 |
| 1410 | Bureau for Private Postsecondary Education | 14,000 | 19,378 | 17,761 |
| 1415 | Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation | 6,459 | 7,703 | 10,059 |
| 1420 | Bureau of Automotive Repair | 172,369 | 191,620 | 193,001 |
| 1425 | Consumer Affairs Administration | 111,638 | 128,441 | 132,984 |
| 1426 | Distributed Consumer Affairs Administration | - 117,971 | - 138,822 | - 130,302 |
| 1430 | Telephone Medical Advice Services Bureau | 89 | - | - |
| 1435 | Cemetery and Funeral Bureau | 3,333 | 4,618 | 4,620 |
| 1441 | California Bureau of Real Estate Appraisers | 5,149 | 5,911 | 6,180 |
| 1446 | California Bureau of Real Estate | 50,319 | 54,520 | - |
| 1450 | Professional Fiduciaries Bureau | 480 | 539 | 545 |
| 1455 | Bureau of Cannabis Control | 8,930 | 31,400 | 33,131 |
| **Total Expenditures (All Programs)** | | **$599,106** | **$677,947** | **$634,159** |

*Dollars in thousands

**Issue 1: Consumer Affairs Administration – BreEZe System Maintenance**

**Budget.** The department requests appropriation authority of $16.8 million in 2018-19 and $13 million in 2019-20 for the support of BreEZe maintenance and operations. The request also includes $3.3 million in funding for 2018-19 and 2019-20 to fund credit card processing fees.

**Background.** BreEZe is an integrated enterprise-wide licensing and enforcement system implemented to replace the aging legacy licensing and enforcement systems - Applicant Tracking System (ATS) and Consumer Affairs System (CAS) - and many work-around systems for 18 of the department's boards and bureaus. The department's Office of Information Services (OIS) is responsible for maintaining and updating the primary licensing and enforcement information systems of the department: ATS, CAS, and now BreEZe.

BreEZe maintenance and operations involves the ongoing licensing of the Versa: Regulation product suite, a commercially available integrated enforcement case management and licensing solution that can be configured for the department's needs. The department is continuing its efforts to fully transition routine system support responsibilities to the state. Because BreEZe is a commercial-off-the-shelf system, there will always be a limited amount of custom system enhancements for which the state will be reliant on an outside vendor. The custom system enhancements also involve a higher level of development and testing effort, but they make up a smaller proportion of the overall volume of system change requests. The department also anticipates outside vendor involvement will be required for software upgrades. Detailed information on the transition to state staff resources is detailed in the table below.

| | 2015-16* | 2016-17 |
|---|---|---|
| State Staff Implemented System Changes | 371 | 887 |
| Vendor Staff Implemented System Changes | 459 | 542 |
| Total | 830 | 1,429 |
| Percent State Staff Implemented | 45% | 62% |

*Resources in 2015-16 were still engaged in Project (i.e. non-M&O) activities for Release 2 Boards and Bureaus. 2016-17 was the first full fiscal year of support for all 18 Boards and Bureaus using the BreEZe system.

This proposal also requests continued funding for credit card processing fees. BreEZe interfaces with a third-party payment processor which will provide the department with the ability to accept electronic payments, while meeting compliance with Payment Card Industry Security Standards, via the third-party payment processor.

**Staff Recommendation.** Approve as requested.

## 2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

**Overview.** The Department of Alcoholic Beverage Control (ABC) licenses and regulates approximately 90,000 licenses engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in California. The department's mission is to administer the provisions of the Alcoholic Beverage Control Act in a manner that fosters and protects the health, safety, welfare, and economic well-being of the people of California.

**Budget.** The Governor's budget proposes 430.8 positions and $75 million for support of ABC in 2018-19. The department is supported mostly by the Alcoholic Beverage Control Fund, which is funded almost entirely by licensing fees.

### Issue 1: Information Technology Staff Augmentation

**Budget.** The department requests two positions; $854,000 (Alcohol Beverage Control Fund) in 2018-19; $340,000 in 2019-20; and $265,000 annually thereafter to modernize the department's services. The requested positions are:

- One Senior Information Systems Analyst (Project Manager) position
- One Senior Programmer Analyst (Webmaster) position

**Background.** The department plans to modernize its internal and external services to better serve its stakeholders and fulfill its public safety mission. The following projects would be supported with the funds requested in this proposal:

- Online services for payment, application renewal, and application origination options (approximately $150,000)
- A redesign of ABC's websites utilizing up-to-date software technologies, enhancing security, leveraging open data platforms, and modernizing with the current state website templates (approximately $250,000)
- Creating a system to allow beer distributors to electronically submit data and making that data available online to comply with price posting regulations (approximately $250,000)

The department's IT branch is composed of 15 positions, supporting approximately 450 employees. The branch is smaller than other IT branches of other departments of a similar size. The department is also experiencing a significant backlog of work orders associated with its Alcoholic Beverage Information System (ABIS) that was launched in 2010. The application was heavily modified to meet the department's requirements, and upon launch, the department found that more work than originally anticipated was needed. As a result, non-core functionality, such as providing the option of electronic payments, was removed from the project scope. Since its launch most of the IT branch's resources have been dedicated to the system, allowing less time to focus on other issues or projects.

To successfully complete the major projects identified above, the IT branch will need to fill in gaps on missing skillsets and address resource capacity. The requested Senior Information Systems Analyst position will establish a project management function within the IT branch to allow ABC to take on these new projects and responsibly manage project risks. Hiring dedicated staff to perform website development and maintenance will also allow the department to address its neglected websites. Due to the backlog of work orders for ABIS, lack of website development experience, and no dedicated website support position the IT branch is not able to keep up with the needed modernization tasks for the websites.

**Staff Recommendation.** Approve as requested.

**Issue 2: Physical and Information Security Policy Operation**

**Budget.** The department requests $533,000 (Alcohol Beverage Control Fund) in 2018-19 and $146,000 annually thereafter to address physical and information security issues. A further breakdown of the costs associated with this proposal is shown in the table below.

| Item | 2018-19 | 2019-20 |
|---|---|---|
| Physical Security Improvement | $335,000 | $10,000 |
| Network Access Control System | $42,000 | $16,000 |
| Vulnerability Scanning System | $11,000 | $11,000 |
| Information System Monitoring System | $58,000 | $54,000 |
| Database Encryption | $20,000* | $20,000 |
| Enterprise Mobility Management | $30,000 | $27,000 |
| Data Classification System | $37,000 | $8,000 |
| **Total** | **$533,000** | **$146,000** |

* Given this solution provides significant mitigation to the risk of a high cost notification process should a breach occur, it was implemented in 2017-18. This request is only for the ongoing cost of the encryption software.

**Background.** The Department of Alcoholic Beverage Control (ABC) Information Security office (ISO) has the responsibility of establishing an information security program that includes, planning, oversight, and coordination of activities to effectively manage risk; provide for the protection of information assets; and prevent illegal activity, fraud, waste, and abuse in the use of information assets. Audits of ABC in both 2015 and 2016 found deficiencies within the information security program. To address the deficiencies, temporary resources were obtained in 2016 to initiate the information security programs by writing policy and developing budget requests to staff an ISO. The 2017-18 budget included resources that provided ABC with a Data Processing Manager III position and a Staff Information Systems Analyst position to staff the ISO. The new staff conducted an organizational risk assessment and identified a need for the resources requested in this proposal.

ABC collects and stores various types of personally identifiable information in the course of its operations. A breach that compromises that information could be costly to the state and result in a loss of public trust. This proposal improves ABC's protection against such events by addressing the physical security of district offices; adding detection and monitoring tools to proactively scan for vulnerabilities and detect intrusions or unusual behavior on the network; expanding the encryption of key data; and properly mitigating the risks related to mobile devices. These measures will strengthen the various layers of ABC's information security defenses, are necessary to address audit findings, and bring ABC into compliance with Chapter 5300 of the State Administrative Manual (SAM) and Criminal Justice Information System (CJIS) policy requirements.

**Staff Recommendation.** Approve as requested.

## Issue 3: Santa Ana State Building Move

**Budget.** The department requests $207,000 in 2018-19 and incremental adjustments of four percent annually thereafter for increased rent costs for the Santa Ana district office.

**Background.** ABC moved into the Santa Ana building located at 605 W. Santa Ana Boulevard, Santa Ana, CA in 1976. Forty years later, the layout and condition of the building no longer meets ABC program needs. Renovations or remodels are cost-prohibitive and time consuming due to the presence of hazardous materials. Often even minor projects, such as carpet replacement, are unable to be completed. Based on an independent study commissioned by the Department of General Services (DGS), this building is ranked among the worst buildings in the DGS portfolio. The building's aging infrastructure contributes to an inefficient functionality and design, poor energy efficiency, and security issues. DGS identified over $16 million in required repairs. DGS has pursued a long-term lease where the current tenants of the Santa Ana state building will consolidate functions.

ABC currently has an annual rent cost of $129,000 for its Santa Ana District Office. Based on reasonable assumptions regarding the market rate for the future location of office space, the ABC will be spending approximately $351,000 in 2018-19 and $365,000 in 2019-20. The ABC is asking for additional funding in the amount of $207,000 in 2018-19, and incremental increases over the next four years' to address the assumed annual increases of four percent in rent costs for the ABC and avoid the need to redirect funds from the licensing and enforcement programs this facility supports in Orange County.

**Staff Recommendation.** Approve as requested.