

SUBCOMMITTEE NO. 4

Agenda

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



Thursday, May 17, 2018
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Part B

Consultants: Joe Stephenshaw

Items Proposed for Vote Only

Item	Department	
	Control Section 12.00 (State Appropriations Limit)	
Issue 1	2018-19 State Appropriations Limit	3
	Control Section 35.5	
	9658 Budget Stabilization Account	
Issue 1	Budget Stabilization Account Adjustment	3
	0860 Board of Equalization	
Issue 1	Board Member Staffing	4
	0110/0120 State Legislature	
Issue 1	Constitutional Adjustment (May Revision)	4
	0509 Governor's Office of Economic and Business Development	
Issue 1	CA Competes Tax Credit Program	5
	9210 Local Government Financing	
Issue 1	Property Tax Backfill	5
	7600 Department of Tax and Fee Administration	
Issue 1	Proposition 56 Adjustment	6
Issue 2	Reporting Requirement – Trailer Bill Language	6
Issue 3	Central Revenue Opportunity System Project	7
	7730 Franchise Tax Board	
Issue 1	Repeal Date for Tax Data Exchange – Trailer Bill Language	7
Issue 2	Earned Income Tax Credit	8
	0840 State Controller's Office	
Issue 1	Legislative Accounting Workload	9
Issue 2	FI\$Cal	9

	0984 Secure Choice Retirement Savings Investment Board	
Issue 1	Trailer Bill Language	10
	0981 California ABLE Act Board	
Issue 1	CA ABLE Contract Funding	10
	0870 Office of Tax Appeals	
Issue 1	Administrative, Staff Attorney, and Support Positions	11
	0950 State Treasurer's Office	
Issue 1	Infrastructure Support and Sustainability	11
	0989 CA Educational Facilities Authority	
Issue 1	College Access Tax Credit	11
	Legislative Proposals	
Issue 1	Previously Heard Legislative Proposals	12

Items Proposed for Discussion

Item	Department	
	Legislative Proposals for Discussion	
Issue 1	Special Olympics	13
	0840 State Controller's Office	
Issue 1	CA State Payroll System Project	14
Issue 2	CalATERS System	15
	8885 Commission on State Mandates	
Issue 1	Repeal Mandate Payment	17

Public Comment

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ISSUES PROPOSED FOR VOTE ONLY

CONTROL SECTION 12.00 (STATE APPROPRIATIONS LIMIT)

Issue 1: 2018-19 State Appropriations Limit

Governor’s Proposal. The May Revision proposes that Control Section 12.00 be amended to revise the State Appropriations Limit (SAL). Pursuant to Article XIII B of the California Constitution, the fiscal year 2018-19 SAL is estimated to be \$107.8 billion at May Revision. The revised limit is the result of applying the growth factor of 4.03 percent. The revised 2018-19 limit is \$964 million below the Governor’s budget estimate.

Staff Recommendation. Approve as budgeted.

CONTROL SECTION 35.5 9658 BUDGET STABILIZATION ACCOUNT

Issue 1: Budget Stabilization Account Adjustment

Governor’s Proposal. The May Revision proposes that Control Section 35.50 be amended as follows to reflect updated calculations, as follows:

- Update General Fund revenues pursuant to this section from \$140.2 billion to \$146.3 billion.
- Update the sum of 1.5 percent of General Fund revenues for the 2018–19 to reflect \$2.1 billion (an increase of \$45 million from the Governor’s budget).
- Update the sum of capital gain revenues that exceed 8 percent of General Fund proceeds of taxes for the 2018–19 fiscal year to reflect \$3.1 billion (an increase of \$603 million from the Governor’s budget).
- Update the amount of transfer to the Budget Stabilization Account (BSA) in the 2018–19 fiscal year to reflect \$1.7 billion (an increase of \$211 million from the Governor’s budget).
- Makes true-up adjustments to the 2016-17 and 2017-18 fiscal years.

In addition, the May Revision proposes to amend item 9658-011-0001 to reflect the above adjustments, reduce the supplemental transfer to the BSA from \$3.5 billion to \$2.6 billion, and make other conforming adjustments.

Staff Recommendation. Approve maximum deposit into the BSA.

0860 BOARD OF EQUALIZATION**Issue 1: Board Member Staffing**

Background. The 2017 budget act required the DOF to evaluate the ongoing personal staffing needs of BOE's Board Members, and to report any recommended changes to the Legislature by April 1, 2018. DOF's report, dated March 28, 2018, provides recommendations on staffing of the four Board Members who represent equalization districts (the State Controller is not assigned staff for BOE duties).

Since 2006-07, Board Members each have had 12 total staff (six exempt and six civil service positions). While the classifications of the six civil service positions has varied, the six exempt staff are: 1) Deputy to the Board Member, 2) CEA Level A (two positions), 3) Tax Consultant Expert II, 4) Assistant to the Board Member, and 5) Administrative Assistant to Board Member.

DOF recommends that each Board Member retain six civil service staff, in addition to two exempt staff authorized by the State Constitution, to address the workload need that they identified.

The Subcommittee heard this item on April 12.

Staff Recommendation. 1) Adopt budget bill language to allow Board Members to retain their current staffing level until the end of the current term in December of 2018, and 2) As of January, 2019, allow Board Members to retain two exempt and four civil service positions and move the two positions that are reduced from each Board Member office to the BOE Headquarters.

0110/0120 STATE LEGISLATURE**Issue 1: Constitutional Adjustment (May Revision)**

Governor's Proposal. The Legislature's budget for 2018-19 was proposed in January to be \$134.2 million for the Senate and \$176.8 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 4.03 percent in the Governor's May Revision. Applying this to the legislative budget would result in funding of \$139.6 million for the Senate and \$184 million for the Assembly.

Staff Comment. The Senate's budget was held constant from 2008-09 to 2009-10, reduced by a negative SAL of -1.77 percent in 2010-11, received no increase in the subsequent two years (2011-12 and 2012-13), then received increases of 5.8 percent in 2013-14, 0.48 percent in 2014-15, 4.55 in 2015-16, 5.96 in 2016-17 and 4.22 in 2017-18. Senate increases were forgone because of the state's budget constraints during the previous recession. The combined spending by the Senate and the Assembly is still well below the SAL. Funds from the Senate and

Assembly appropriations are also used to fund the Legislative Analyst's Office in the amount of \$9.5 million.

Staff Recommendation. Staff recommends that the Legislature's (Senate and Assembly) budget be adjusted as provided in the State Constitution, resulting in a total increase for the Legislature of \$12.5 million, and that the Legislative Analyst's Office receive its SAL-adjusted share of \$9.5 million from the Senate and the Assembly.

0509 GOVERNOR'S OFFICE OF ECONOMIC AND BUSINESS DEVELOPMENT

Issue 1: CA Competes Tax Credit Program

Governor's Proposal. The Governor's budget proposes a five-year extension of the California Competes Tax Credit program, tax credit allocation authority of \$180 million per year through the 2022-23 fiscal year, and \$1.4 million General Fund per year through the 2022-23 fiscal year to maintain the 10 positions currently associated with administering the program. The proposal also requests to remove provisions of law that reserve a portion of the credit allocation for businesses with gross receipts of less than \$2 million (small businesses).

The requested tax credit allocation authority of \$180 million per fiscal year reflects a redirection of \$20 million (from the historical \$200 million annual allocation level) to provide funding for direct technical assistance to small businesses.

The subcommittee heard this proposal on April 26.

Staff Recommendation. Approve Governor's request with the following additions (1) Require GO-BIZ to consider the extent to which the credit influences job creation that wouldn't otherwise occur, and (2) require GO-BIZ to provide information to a member of the committee or their representative that requests it, so long as the info isn't confidential.

9210 LOCAL GOVERNMENT FINANCING

Issue 1: Property Tax Backfill

Governor's Proposal. The Governor's budget included \$23.7 million General Fund to backfill the property tax revenue losses that cities, counties, and special districts will incur in 2017-18 and 2018-19 due to the October 2017 wildfires in Northern California.

The May Revision proposes \$9.2 million to provide additional reimbursement for counties, cities, and special districts for property tax losses resulting from the 2017 wildfires and mudslides in Southern California. This request also includes provisional language to authorize the additional payment of property tax losses resulting from the 2017 wildfires and mudslides, if the amount appropriated in this item is insufficient to backfill the actual losses. The provisional

language will also require the return by local agencies of any remittances that are eventually determined to exceed actual losses.

The subcommittee heard the Governor's budget portion of this request on April 26.

Staff Recommendation. Approve as budgeted.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 1: Proposition 56 Adjustment

Governor's Proposal. The May Revision proposes to eliminate Items 7600-001-3304 and 7600-001-3319. Consistent with Proposition 56, and Revenue and Taxation Code section 30130.53 (c), expenditures previously budgeted in these items will be transferred to continuously appropriated items.

Background. Proposition 56 (November 2016), increased the excise tax rate on cigarettes and tobacco products, effective April 1, 2017. The excise tax increased by \$2, bringing the total to \$2.87 per pack of 20 cigarettes on distributors selling cigarettes in California. Monies from the collection of the tax are deposited in the California Healthcare, Research and Prevention Tobacco Act of 2016 Fund.

Legislative Analyst's Office (LAO). The LAO noted that the May Revision included multiple requests that budget items for most of the Proposition 56 tobacco revenue allocations be removed from the Budget Act and transferred to continuous appropriations. They did not make such a request for the largest piece of Proposition 56, which goes to Medi-Cal.

The LAO recommends rejecting all of these requests. They point out that some of the allocations involve choices that are fundamentally incompatible with continuous appropriations.

Staff Comment. The inclusion of this proposal in the May Revision does not allow for enough time to ensure that the proposed approach is appropriate.

Staff Recommendation. Reject this proposal.

Issue 2: Reporting Requirement – Trailer Bill Language

Governor's Proposal. The May Revision proposes to eliminate an unnecessary component of the reporting requirement for the California Department of Tax and Fee Administration (CDTFA) related to the sales and use tax exemption for manufacturing equipment and clarifies that the estimate of revenue loss is from the Department of Finance (DOF).

Background. In 2013, legislation associated with the elimination of enterprise zones and the creation of new tax incentives required the Board of Equalization (BOE) to report annually on the usage of the sales and use tax exemption for manufacturing equipment, compare to original estimates made by the DOF, and put forth options for expansion if actual usage was below estimate. The purpose of this comparison was to allow interested parties to understand how much of the exemption was being used relative to the amount originally estimated. The BOE, and subsequently the CDTFA, released four annual reports in 2015, 2016, 2017, and 2018.

AB 398 (Eduardo Garcia) Chapter 135, Statutes of 2017, expanded the sales and use tax exemption for manufacturing equipment beginning in 2018 and the cost of expansion was backfilled by the Greenhouse Gas Reduction Fund. When drafted, references in the section containing the reporting requirement to the “Department” were defined to mean the CDTFA, and therefore the revenue estimate for comparison was inadvertently changed from the DOF’s original estimate to the CDTFA’s most recent estimate. This inadvertent change rendered the comparison useless for the purpose for which it was intended.

This trailer bill language fixes the inadvertent change that resulted in the CDTFA preparing a current estimate for comparison purposes and clarifies that the original DOF estimate should be used. Also, this language eliminates the requirement for the CDTFA to report on options for expansion, as the reporting of those options has become redundant with information contained in prior year reports.

Staff Recommendation. Approve as budgeted.

Issue 3: Centralized Revenue Opportunity System Project

Governor’s Proposal. The Governor’s budget proposes \$70.1 million (\$39.8 million General Fund), the redirection of two permanent positions, and 6.15 temporary position in 2018-19 to ensure that the Centralized Revenue Opportunity System (CROS) Project has the resources required to continue the implementation phase. This request includes the continuation of funding authorized in 2017-18 and the reclassification of select, prior approved permanent positions.

The subcommittee heard this proposal on April 12.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD

Issue 1: Repeal Date for Tax Data Exchange – Trailer Bill Language

Governor’s Proposal. The May Revision proposes to Remove the repeal date for the tax data exchange agreement between the Franchise Tax Board (FTB) and local governments.

Background. The FTB compiles information from a variety of sources including employers, financial institutions, and other governmental entities for purposes of ensuring compliance with the state's income tax laws. Since 2002, the FTB has had authority to enter into reciprocal data sharing agreements with local governments. The data sharing assists the FTB in ensuring income tax compliance, and assists local governments in ensuring compliance with city business tax requirements. The FTB currently has entered into data sharing agreements with 74 California cities. For the 2016-17 fiscal year, the FTB collected over \$10 million from personal income and corporation tax taxpayers identified using the data from these cities. Additionally, the participating cities have obtained significant benefits. Although complete data is not available from all the participating cities, a sampling of a few that participated shows local revenue gains of almost \$20 million.

Under current law, FTB's authority to enter into data sharing agreements ends at the end of 2018. Thus, without a statutory change, this method of identifying noncompliance and generating state and local revenue will be lost, increasing the tax burden on compliant taxpayers, as well as requiring the state to devote resources to develop alternative methods of identifying and collecting from this population of noncompliant taxpayers.

Staff Recommendation. Approve as budgeted.

Issue 2: Earned Income Tax Credit

Governor's Proposal. The May Revision proposes to expand the Earned Income Tax Credit (EITC) to working individuals who are aged 18 to 24 or over age 65. In addition, the qualifying income range for the credit is proposed to be expanded so that employees working up to fulltime at the 2019 minimum wage of \$12 per hour would qualify for the credit. This expansion of the credit is expected to cost about \$60 million in 2018-19 and to benefit over 700,000 households.

Background. The 2015 budget enacted the state's first-ever EITC to help the poorest working families in California. The 2017 budget expanded the credit to include the self-employed and increased the income range so more individuals working up to full-time at the newly increased minimum wage will still qualify. For the 2017 tax year, EITC credits allowed are on a pace to hit \$350 million in EITC credits to around 1.5 million households.

Staff Comment. The subcommittee heard this issue on April 12 and the Governor's May Revision proposal addresses some of the EITC expansions that advocates were suggesting. While the Governor's proposal is commendable, there is still one key group, low-income working immigrant families, that is not able to claim the EITC. In addition, outreach and free tax preparation services are important tools to ensure the success of the EITC in CA.

Staff Recommendation. Approve the Governor's request. In addition, approve \$85 million to provide 1) \$65 million to expand the EITC to cover low-income working immigrant families with federally assigned Individual Taxpayer Identification Numbers or Social Security Numbers and 2) \$20 million for additional outreach and free tax preparation services.

0840 STATE CONTROLLER'S OFFICE**Issue 1: Legislative Accounting Workload**

Governor's Proposal. The May Revision proposes \$115,000 General Fund in fiscal year 2018-19 (\$113,000 in 2019-20 and ongoing) and \$230,000 from the Road Maintenance and Rehabilitation Account in 2018-19 (\$226,000 in 2019-20, \$113,000 in 2020-21 and ongoing) for additional positions to address new and increased accounting workload associated with the Road Maintenance and Rehabilitation Program (SB 1), the 2017-18 Supplemental Pension Payment (SB 84), the California Healthcare, Research and Prevention Tobacco Tax Act (Proposition 56), and the Control, Regulate and Tax Adult Use of Marijuana Act (Proposition 64).

Staff Recommendation. Approve as budgeted.

Issue 2: FI\$Cal

Governor's Proposal. The Governor's budget proposes funding for the transitioning of the State's accounting Book of Record (BOR) from the SCO Legacy system to the FI\$Cal system and provide support to the FI\$Cal departments. Specifically, the following resources are requested:

- 2018-19: 30.0 positions and \$5.4 million (\$3.1 million GF and \$2.3 million CSGRF).
- 2019-20: 49.0 positions and \$7.5 million (\$4.3 million GF and \$3.2 million CSGRF).
- 2020-21: 49.0 positions and \$7.5 million (\$4.3 million GF and \$3.2 million CSGRF).
- 2021-22: 47.0 positions and \$7.2 million (\$4.1 million GF and \$3.1 million CSGRF).

Resources requested for 2022-23 and beyond will require DOF approval in subsequent years.

A spring Finance Letter proposes to amend provisional language contained in the Governor's budget to provide clarification on milestones to be completed and the participants involved in the verification process regarding satisfactory progress or completion of predetermined FI\$Cal milestones.

Lastly, the May Revision proposes to amend Control Section 1.50 to provide updates and clarifications to ensure technical compatibility of coding and structure among all financial systems (legacy and Financial Information System for California (FI\$Cal)) and the budget publications. Until all departments and Controller's control functions are fully implemented in FI\$Cal, there is a need to provide flexibility and speedy authorization to make changes in technical coding, structure, and other chart of account values in all affected systems to ensure data is consistent and departments can proceed in posting financial transactions using FI\$Cal expeditiously.

The Subcommittee heard this item on May 3.

Staff Recommendation. Approve the Governor’s proposals with the addition of budget bill language that requires the Department of Finance to report on 1) costs associated with fully transitioning the SCO’s legacy systems onto FI\$Cal. Specifically, a listing of budget proposals that include resources for the Department of FI\$Cal, SCO, or any other department to develop and administer the Integrated Solution and then maintain and retire the legacy systems, and 2) costs associated with onboarding state departments onto FI\$Cal by providing a listing of all of the budget proposals that include resources for a department to transition onto FI\$Cal or modify the FI\$Cal system to accommodate the particular needs of a department.

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS BOARD

Issue 1: Trailer Bill Language

Proposal. The subcommittee has received a request to adopt trailer bill language to change the name of the California Secure Choice Retirement Savings Program (Secure Choice) to the CalSavers Program consistent with the name change mad by the Board.

Background. Pursuant to SB 1234 (De Leon), Chapter, Statute of 2016, the Board is in the midst of developing and implementing the CalSavers Retirement Savings Program. The Board anticipates that the program will open with a pilot in late-2018 and stat-wide in 2019. Once implemented, the CalSavers Program will provide all Californians access to a workplace retirement savings plan.

During the implementation process, the Board changed the name to the CalSavers Retirement Savings Program. As such, statute that initialized the program and the budget bill reference the California Secure Choice Retirement Savings Program.

Staff Recommendation. Approved statute and budget bill changes to reflect the current name of the program (CalSavers Retirement Savings Program) as adopted by the board.

0981 CALIFORNIA ABLE ACT BOARD

Issue 1: California ABLE Contract Funding

Governor’s Proposal. The May Revision proposes by \$1.1 million (\$850,000 as a General Fund loan) for costs associated with hiring a program manager to assist with the launch of the Achieving a Better Life Experience Program. It is also requested that provisional language be added to allow expenditures in excess of the Budget Act appropriation, not to exceed the fund balance, not sooner than thirty days after notification to the Joint Legislative Budget Committee.

This request will supplement a fall Budget Change Proposal for \$900,000 to support administrative costs for the Board, including funding for staff, funding for operating costs, and funding for marketing and outreach activities.

Background. Chapter 796, Statutes of 2015 (SB 324, Pavley), established the Achieving a Better Life Experience Act Board and the California ABLE Program Trust for the purpose of creating a statewide program known as the Qualified ABLE Program. Under the Qualified ABLE Program, a person may make contributions for a taxable year, for the benefit of an individual who is an eligible individual for that taxable year, to an ABLE account that is established for the purpose of meeting the qualified disability expenses of the designated beneficiary of the account.

Staff Recommendations. Approve as budgeted.

0870 OFFICE OF TAX APPEALS

Issue 1: Administrative, Staff Attorney, and Support Positions

Governor's Proposal. The May Revision proposes nine positions to provide the Office of Tax Appeals with sufficient legal and administrative staff to fulfill its mission. Seven of the requested positions will assist with business tax appeal workload and two positions will perform administrative duties. All of the positions will be funded within current budget authority.

Staff Recommendations. Approve as budgeted.

0950 STATE TREASURER'S OFFICE

Issue 1: Infrastructure Support and Sustainability

Governor's Proposal. The 2017-18 budget includes a request from the STO of \$450,000 in General Fund in 2018-19 and \$400,000 annually thereafter to fund costs associated with providing IT support to STO and the various boards, commissions, and authorities (BCAs).

The Subcommittee heard this proposal on March 15.

Staff Recommendation. Approve request on a one-time basis.

0989 CALIFORNIA EDUCATIONAL FACILITIES AUTHORITY

Issue 1: College Access Tax Credit

Governor's Proposal. The May Revision proposes \$66,000 to support the continued administration of the College Access Tax Credit Program (CATC) pursuant to AB 490 (Quirk-Silva), Chapter 527, Statutes of 2017. SB 798 (De Leon), Chapter 367, Statutes of 2014 created the CATC to encourage taxpayers to make charitable donations to the state's Cal Grant program

which provides financial aid to low-income California students pursuing higher education. AB 490 extended the sunset date for the credit by five years, until 2023.

Staff Recommendations. Approve as budgeted.

LEGISLATIVE PROPOSALS

Issue 1: Previously Heard Legislative Proposals

The following Legislative proposals were previously heard by the subcommittee:

Renters' Credit. The subcommittee has received a proposal to increase the tax credit for taxpayers who rent their principal residence. The last increase in the renters' tax credit was 1979. Since then, rents in California have increased exponentially, but the renter's tax credit has never been increased. This proposal will restructure the renter's tax credit by aligning higher credit amounts to filers who have one or more dependents as well as implement an index that would keep the credit aligned with inflation. This proposal is estimated to result in revenue loss of \$44 million in 2018-19, growing in the out-years.

Teacher Tax Deduction – Professional Development Expenses. The subcommittee has received a proposal to allow teachers to claim an above the line deduction, up to \$2,500, for fees incurred or paid to complete an induction program. Over time, local education agencies have allocated less funding to support induction programs, leaving teachers to pay out of pocket for induction program costs. This proposal is estimated to result in revenue loss of \$100,000 2018-19, doubling in out-years.

Payment in Lieu of Taxes. The subcommittee has received a proposal requesting to undo an action included in the 2015 budget act to make Payment in Lieu of Taxes (PILT) optional instead of mandatory. PILT offsets loss of county property tax revenue when the state acquires private property for state controlled wildlife management areas. The cost of this proposal is estimated at \$644,000 annually.

Tribal Taxes. The subcommittee has received a proposal requesting to exempt the earned income derived from tribal land of an individual who is a member of a federally recognized tribe, who resides within any tribal land in California. Members must currently reside on their tribe's land to be exempt from state income tax on income they receive from that specific Native American tribe. However, they are not exempt from state income tax on income they earn within any other tribal lands in California. The Governor vetoed SB 289 (McGuire) last year noting that it should be considered during budget deliberations. Costs are estimated at \$1.1 million annually.

Staff Recommendations. Approve all previously heard Legislative proposals as listed in this item.

ITEMS PROPOSED FOR DISCUSSION**LEGISLATIVE PROPOSALS FOR DISCUSSION****Issue 1: Special Olympics**

Proposal. The subcommittee has received a proposal to provide \$2 million for the Special Olympics Northern and Southern California to support three programs: 1) Unified Champion Schools Program, 2) Healthy Athletes Program, and 3) Community Sports Program.

The Special Olympics Unified Champion Schools Program promotes a socially inclusive school climate where acceptance, respect, and human dignity for all students is the goal. The Healthy Athletes Program provides medical, vision, and dental screenings at many of its competitions and a Healthy Fairs throughout the year. Also, Special Olympics California coaches receive training on how to best meet the health and fitness needs of athletes. Lastly, the Special Olympics California will continue to improve the sports training and competition opportunities it offers year round to more than 40,000 registered athletes on community-based teams throughout the state.

Staff Recommendation: Approve as requested.

ITEMS PROPOSED FOR DISCUSSION

0840 STATE CONTROLLER'S OFFICE

Issue 1: California State Payroll System Project

Governor's Proposal. The May Revision proposes \$4.6 million General Fund in fiscal year 2018-19 (\$3.4 million in 2019-20, \$2.6 million in 2020-21, and \$1.9 million in 2020-21 and ongoing) to fund positions to complete the Project Approval Life Cycle (PAL) process, including selection and implementation of the selected payroll solution. This effort also includes development of additional features/functionality and statewide implementation of the Employee Self-Service portal web application.

Background. Beginning in 2016, the State Controller's Office (SCO) began to assess current information technology and the latest industry standards, and initiated the re-engineering of a new Human Resource Management and Payroll System. This new initiative is named the California State Payroll System Project (CSPS). A 2016-17 approved May Revision Budget Change Proposal (BCP) funded eight positions and \$2.4 million in 2016-17 and \$2.8 million in 2017-18 to support positions in performing business process documentation of human resource management and payroll processing practices to refine the scope of the future project, and to complete the California Department of Technology (CDT) PAL Stage 1 Business Analysis (S1BA).

In May 2017, SCC submitted the PAL S1BA to CDT for approval. The S1BA documents the governance plan, leadership participation, stakeholders, resources, organizational change management, data management, strategic goals, program background, and the problems and opportunities for the project. The information provided in the S1BA will be detailed and refined through each stage of the PAL process. CDT approved the S1BA on October 18, 2017.

An approved Fall 2017-18 BCP provided an additional \$2.97 million to support 11 limited-term positions to continue performing business process documentation of human resource management and payroll processing practices, and begin the CDT PAL Stage 2 Alternatives Analysis (S2AA), which includes a current-state assessment of SCO's as-is business processes. The 11 staff have and will continue to provide subject matter expertise (SME) on the existing Legacy HR, Payroll, and Leave Accounting systems, and direct input into PAL documentation.

The Fall 2017-18 BCP also authorized funding to contract with a procurement support vendor to create new, or refine existing, mid-level solution requirements, assist with the performance of a market survey, conduct the final alternative analysis, prepare financial analysis worksheets, and aid in the development of a procurement strategy. In February 2018, SCO conducted solicitations for a procurement support vendor and expects to award a contract this month.

SCO is requesting permanent and limited-term resources to support both the development of PAL deliverables/documentation and the development and implementation of a statewide ESS portal web application, as follows:

- **CSPS PAL Development.** SCO requests funding to support 19 continuing positions to continue work on the project activities that will drive the review of business process and payroll policy reengineering, assessing options, and designing a new statewide payroll approach. As part of this request, SCO is requesting that 11 of the existing limited-term positions be continued permanently with eight of the remaining positions being requested as one-year limited-term and one being requested as one-year limited-term in 2019-20. The 11 positions support the core project staff and administrative support and the need for these positions will continue for the duration of the project. In addition to these positions, SCO will retain the services of retired annuitant staff with decades of experience and extensive knowledge in all personnel and payroll disciplines in 2019-20. These staff will provide critical support to the documentation process. The continued presence of these staff serve as a mitigation against the institutional knowledge lost due to the ongoing retirement of other long-term key staff.
- **Statewide ESS Portal.** SCO is requesting resources for five positions for 2018-19 and 2019-20 to complete the development and implementation of a statewide ESS web portal. While the CSPPS project is pursuing a long-term alternative solution to the payroll system, many years will lapse before a new system is implemented. In the interim, SCC is developing an ESS web portal application designed to interface with the legacy mainframe system that provides employees access to read specific payroll data such as leave balances, W-2s, employment history, and paystubs.

Legislative Analyst's Office (LAO). The LAO recommends the Legislature approve the planning resources on a two-year basis and reject the ongoing proposal. SCO proposes ongoing resources so that it can finish Stage 2 of its plans and move onto Stage 3. In Stage 2, SCO will analyze various alternatives for the project and Stage 3 involves moving onto procurement planning based on the alternative selected in Stage 2. The LAO notes that, if approved, this funding prevents the Legislature from using the budget process to weigh in on its preferred alternative for the project.

Staff Recommendation. Approve the LAO's recommendation of providing the requested resources on a two-year basis.

Issue 2: CalATERS System

Governor's Proposal. The May Revision proposes \$1.6 million in fiscal year 2018-19 (\$704,000 in 2019-20 through 2021-22) to support: 1) additional positions to work with the current vendor on making necessary minor modifications to the legacy CalATERS system to enhance data interface with FI\$Cal and help reduce manual accounting workload on departments using FI\$Cal, 2) purchase of the CalATERS code from IBM, 3) hiring/developing staff or outsourcing expertise for the maintenance of the CalATERS system until a replacement system is implemented, and 4) complete a Proof of Concept process that will identify complexities, technical feasibilities, and the level of customization associated with implementing a new

system. This request includes Budget Bill language authorizing augmentation or reversion, as necessary, for costs associated with these efforts.

Background. The SCO, Personnel and Payroll Services Division (PPSD), operates and maintains CalATERS as a mandated service to state department accounting offices and employees. In 2000, SCO developed CalATERS to process claims more rapidly and accurately. Designed and built under a contract with International Business Machines Inc. (IBM), CalATERS allows employees to submit claims electronically, and for those claims to follow an automatic review, approval, and payment process. Departments are currently required to use CalATERS, with limited exceptions.

To support the system statewide, SCO's CalATERS Unit includes 8.5 permanent positions within PPSD and partner divisions. CalATERS is responsible for two types of reimbursements: travel expense reimbursement claims paid to employees, and travel advance reimbursement claims paid to reimburse departmental Office Revolving Funds (ORF). The data captured in CalATERS is beneficial to other state entities such as the California Department of Human Resources (CalHR) and Department of General Services (DGS), during bargaining and contract negotiations, and in some cases allows the state to negotiate better lodging or travel rates based on this data. Currently, 109 departments, with 118,863 users, use CalATERS with an additional five agencies having requested to begin using CalATERS in 2018-19.

In May 2014, IBM announced they would discontinue support for the CalATERS system effective March 31, 2016. However, SCO has been able to contract with IBM for continued support and maintenance of the current system and has a current agreement in place through June 2020.

In December 2014, SCO released a Request for Information (RFI) to survey the Information Technology (IT) vendor community for potential solutions to replace the current system and received responses to provide the needed functionality to replace CalATERS. The replacement of the system qualifies as an IT project, requiring SCO to work through the California Department of Technology's (CDT) PAL process. In July 2015, SCO began working through the PAL process with 3.0 one-year limited-term positions [1.0 in PPSD's CalATERS Unit and 2.0 in the Information Systems Division (ISD)] approved in a 2015-16 Budget Change Proposal (BCP). Through subsequent BCPs, limited-term funding was provided to support 3.0 positions in 2016-17 and 2017-18 to continue working through the PAL process.

The current SCO-PPSD CalATERS team is dedicated to day-to-day existing system operations and maintenance, as well as customer service and administrative tasks. As presently staffed, CalATERS does not have the capacity to take on the added workload required to complete the remaining stages of the PAL process, conduct the procurement, select a vendor, and assist the vendor through the design and build of a replacement system.

Legislative Analyst's Office (LAO). The LAO recommends the Legislature modify the budget bill language to limit the potential cost increase using this mechanism to \$200,000. If costs incurred are larger than this, they suggest utilization of the 9840 process.

Staff Recommendation. Approve as budgeted.

8885 COMMISSION ON STATE MANDATES**Issue 1: Repealed Mandate Payment**

Governor's Proposal. The May Revision proposes \$312.2 million to pay down a long-standing state liability associated with 14 expired or repealed state mandates, including interest owed. Of the amount, \$280.5 million is owed as a result of mandates associated with mental health services and local agencies are strongly encouraged to use new funds towards these services.

This request also includes provisional language to authorize the Department of finance, after providing 30 days' notice to the Joint Legislative Budget Committee, to order the State Controller to augment the amount appropriated in this item if the initial appropriation is insufficient to pay the principal and interest on the identified mandates claims.

Staff Recommendations. Approve as budgeted.