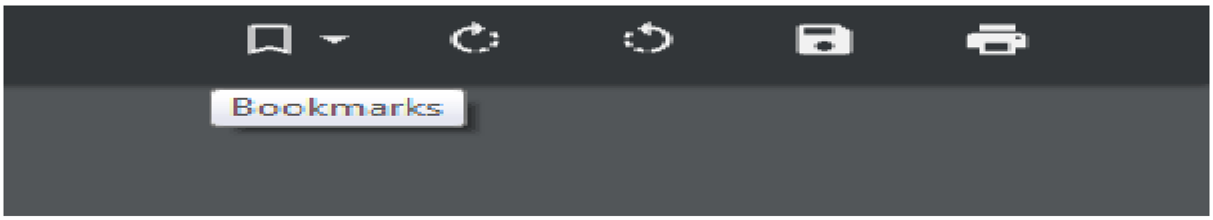
Senate Budget and Fiscal Review

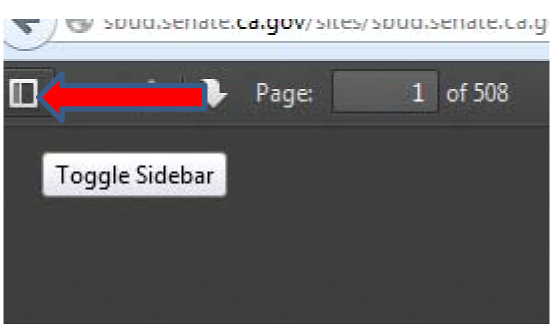
The 2015 Agendas for Subcommittee No. 4 on State Administration and General Government are archived below. To access an agenda or outcomes by a specific date, please refer to "Bookmarks" icon on the screen. Depending on your web browser the bookmarks menu will look different. Below are instructions to help you find the "Bookmarks" icon in Internet Explorer 11, Mozilla Firefox, or Chrome.

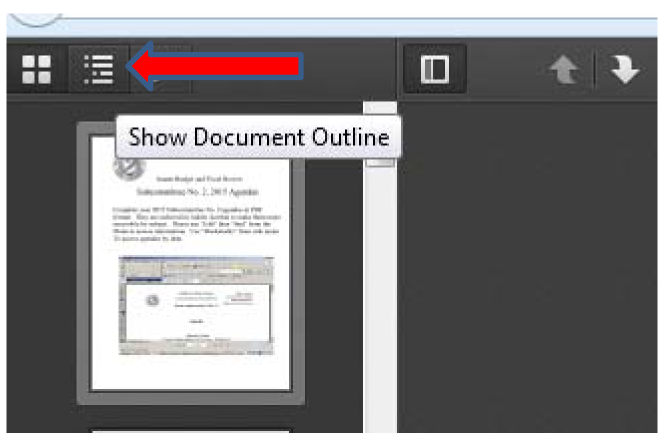
Chrome has access to Acrobat bookmark located in the upper right hand corner



Internet Explorer 11 selects Acrobat from box

Mozilla Firefox on upper left, click toggle sidebar, and then document outline.





Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

on State Administration and General Government

Senator Richard D. Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, March 5, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

Item	Department
8955	California Department of Veterans Affairs

AGENDA – DISCUSSION / VOTE ITEMS

8955 DEPARTMENT OF VETERANS AFFAIRS

Department Overview: The state performs three primary functions to support the needs of California's approximately 1.85 million veterans and their families: guidance and representation through the disability and benefits claims process; direct loans for farms and homes; and long-term residential and medical care at California veterans homes. The California Department of Veterans Affairs (CDVA) is designed to support the efforts of the United States Department of Veterans Affairs (USDVA) in providing healthcare and a wide array of other benefits to eligible veterans, including educational benefits, disability compensation, pensions, and guarantees on home loans for eligible veterans. The state and local governments have long played an integral role in assisting the state's veterans access to benefits provided by the USDVA and, in some cases, provide additional benefits to returning service members. Recognizing that the state can provide an important service to veterans, the state has set aside funds to support the efforts of the USDVA and provide additional benefits, such as long-term residential care and the farm and home loan program.

California remains home to the largest population of veterans in the country. A September 2014 study conducted by the USDVA found that:

- 1,851,470 veterans are living in California.
- Approximately $4.5 billion in compensation and pension is distributed to California's veterans annually.

The Governor's budget proposes total spending of $426.7 million ($357.1 million General Fund) for the CDVA. This proposal reflects a $32.2 million dollar increase over expenditures for 2014-15.

California Department of Veterans Affairs
Summary of Expenditures

Program	2014-15	2015-16
Farm and Home Loans to Veterans	$62,302	$64,000
Veterans Claims and Rights	18,173	15,274
Care of Sick and Disabled Veterans	313,887	347,172
Total **(Dollars in Thousands)**	**$394,362**	**$426,446**

Veterans Homes of California. Over 80 percent of the Governor's proposed budget is dedicated to providing the state's eligible residents with rehabilitative, residential, medical, and support services in a home-like environment. Currently, CDVA maintains campuses in Barstow, Chula Vista, Lancaster, Ventura, West Los Angeles, Yountville, Redding and Fresno. The Redding and Fresno veterans' homes were completed in the spring of 2012. The 2014-15 budget includes an augmentation of $8.19 million and 132.2 personnel years to complete staffing ramp-up and admission of residents at the state veterans homes in Redding and Fresno.

Each campus is capable of providing varying levels of care, in accordance with USDVA standards, ranging from domiciliary care to skilled nursing. Overall, there are approximately 2,200 licensed beds, and CDVA maintains a physical capacity of almost 3,000 beds. However, projected census totals show that there will be slightly less than 2,000 residents within the CDVA veterans homes. The table below provides a breakdown of the capacity and care level of each campus.

For fiscal year 2015-16 the overall impact to the General Fund will be $186.3 million. Operations of the veterans homes are supported by the general fund, but there are a number of revenue sources that offset the net General Fund impact. CDVA receives a federal per diem for aid and attendance from U.S. Department of Veterans Affairs at a rate of $704 per month per veteran, collects member fees, receives reimbursement from both Medi-Cal and Medicare, and receives a small amount of revenue for hospice care, guest meals, rent from employees who live on the grounds, and member services. The table below summarizes revenues for fiscal year 2015-16.

Veterans Homes of California Revenue Estimates

	FY 2014-15	FY 2015-16
Federal Per Diem	$47,131	$59,193
Member Fees	$21,390	$25,348
Aid & Attendance	$2,147	$2,477
Medicare	$6,216	$6,801
Medi-Cal	$5,934	$7,150
Other	$440	$463
GF Expenditure minus Revenues	$196,759	$217,808

*dollars in thousands

Veterans Homes of California
Census and Level of Care Summary

Campus	Physical Capacity	Licensed Beds	Projected 2015-16 Census	Skilled Care	Intermed. Care	Residential Care	Domiciliary Care
Yountville	1,184	1,187	994	x	x	x	x
Barstow	400	344	212	x	x	x	x
Chula Vista	400	400	290	x		x	x
West LA	396	240	271	x		x	
Ventura	60	60	60			x	
Lancaster	60	60	60			x	
Redding	150	153	124	x		x	
Fresno	300	306	32	x		x	
TOTAL	**2,950**	**2,747**	**2,144**	**943**	**324**	**634**	**1,049**

In addition to the services highlighted above, the CDVA has been working to provide adult day-health care services in the future at some of the facilities within the CDVA veterans' homes network. While CDVA currently does not offer community-based adult services (CBAS), the Lancaster and Ventura veterans' homes are equipped to provide CBAS.

With the addition of two new veterans' homes in Redding and Fresno, the CDVA is projected to have a physical capacity of nearly 3,000 beds. However, the number of eligible veterans in California continues to decline. This mirrors a trend at the national level. Barring any future conflicts that would require large scale troop commitments, estimates conducted by the U.S. Department of Veterans Affairs have shown that by the year 2035, California will be home to slightly over 1 million veterans. This would represent a significant drop in the overall population of veterans living in California.

Issues Proposed for Discussion / Vote

Issue 1 – Chilled Water Distribution System Renovation

Governor's Budget Proposal: The Governor's budget includes a request for the re-appropriation of $3.5 million ($1.7 million lease revenue bonds and $1.8 million federal trust fund), to renovate the chilled water distribution system located at Veterans Home California – Yountville (VHC- Yountville).

Background: The intent of the chilled water distribution system renovation is to address a number of system deficiencies, and to ensure that the Yountville home has the capacity to maintain a temperature within the Department of Public Health Service's standards. The Budget Act of 2011 provided CDVA with expenditure authority to address chilled water distribution system deficiencies at the VHC-Yountville facility. The total estimated project cost is $6.398 million and will be funded by the: 1) Veterans' Home Bond $497,000; 2) lease revenue bonds $2.23 million; and, 3) Federal Trust Fund $3.66 million.

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

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Steam Distribution System Renovation

Governor's Budget Request: The Governor's budget includes a request for the re-appropriation of $3.38 million (Lease Revenue Bonds) for the preliminary plans, working drawings, and the construction phase of the Veterans Home of California – Yountville (VHC-Yountville) steam distribution system renovation.

Background: The steam distribution system provides hot water to all 120 buildings located within the VHC-Yountville premise. It has been determined that the current steam lines have deteriorated beyond repair. Additionally, the steam lines are insulated with asbestos, which creates an unsafe working condition when repairs are needed on the current steam lines. Total project costs are anticipated to require $7.5 million, and will use a combination of both lease-revenue bonds and federal funds.

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

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Igo Cemetery Water System Upgrade

Governor's Budget Request: The Governor's budget includes a request for $525,000 (General Fund) to construct a water pressure system at the Veterans Memorial Building – Igo, which is managed by the California Department of Veterans Affairs (CDVA).

Background: In 2010, CDVA entered into an agreement with the California Veterans Assistance Group for the purpose of building a veterans memorial building on the grounds of the Northern California Veterans Cemetery in Igo, which is located in Shasta County. According to terms in the lease agreement, a 2,200 square foot, faith-neutral veterans memorial building is to be donated to CDVA, upon completion. Construction of the memorial building was complete in 2011. Shortly thereafter, CDVA was notified by the Shasta County Fire Marshall that water system upgrades would be required in order to comply with state and local safety standards. CDVA has proposed to install underground piping that will connect to the city's water district and expand the capacity of the fire sprinklers to meet the minimum required coverage of 1,500 square feet.

Staff Comment: Staff does not have any concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – Central Coast Veterans Cemetery Operations

Governor's Budget Request: The Governor's budget includes a request for $254,000 ($217,000 California Central Coast State Veterans' Cemetery at Fort Ord Operations Fund [Operations Fund], $37,000 Federal Trust Fund) and 2.6 positions for fiscal year 2015-16, and $452,000 ($17,000 Operations Fund, $435,000 Federal Trust Fund) and five positions ongoing to operate the California Central Coast Veterans Cemetery.

Background: AB 3035 (Laird), Chapter 291, Statutes of 2006, authorized the construction of a cemetery to be located at the former site of Fort Ord. The Central Coast Cemetery is designed to support the burial needs of approximately 177,000 veterans living within six surrounding counties; Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. Additionally, the Central Coast Cemetery includes 5,000 columbaria sites; an administration building with public information and restrooms; a maintenance yard and building; a committal shelter; and, a memorial area.

Staff Comment: Construction of the Central Coast Cemetery began in January 2015 and is scheduled for completion in July 2016. The requested funds support partial operation costs, which include an administrator, one office technician, and three additional support staff. The Central Coast Cemetery is expected to be fully operational by fiscal year 2016-17.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – Residential Care and Clinical Training

Governor's Budget Request: The Governor's budget includes a request for $3.599 million (General Fund) and 45 permanent positions to further support the care of veterans residing in the veterans homes operated by the California Department of Veterans Affairs (CDVA). Additionally, the Governor's budget includes a one-time request for $796,000 (General Fund) in order to train clinical staff. The total amount of support requested for fiscal year 2015-16 is $4.395 million.

Background: The California Department of Veterans Affairs (CDVA) has requested an additional 45 residential care unit leaders (RCULs) in order to comply with U.S. Department of Veterans Affairs care standards, which mandates that care be provided 24 hours a day, seven days a week. CDVA assessed a number of factors at each campus; including capacity of the facility, distance between buildings, and number of residents per building. From this, CDVA was able to determine that a total of 61 RCUL's were required. CDVA currently has sixteen RCUL's on staff, and would require an additional 45 to become compliant. The additional staff will be placed at Yountville (30), Barstow (9), and Chula Vista (6) homes within the CDVA veterans homes network. The requested staff are intended to ensure that 24 hour care can be provided to residents in the domiciliary care and the residential care units. The RCULs are responsible for assisting residents with daily living skills and ensuring that residents are provided with a clean and safe living environment. Many of the tasks performed by the RCULs were previously performed by member helpers, who were also residents that were tasked with additional duties.

In addition to the $4.599 million requested to provide additional staff to residents of the CDVA network of veterans homes, CDVA has requested that an additional $796,000 (General Fund) be provided to train clinical staff in accordance with updated standards per the International Classification of Disease (ICD-10). The training will be provided in a just-in-time fashion, beginning on July 1, 2015, and is intended to ensure that electronic health records and business processes are ready to go on October 1, 2015. The training will vary from free basic overview courses to more in-depth specialized long-term training, which can cost up to $2,000 per individual. CDVA has requested enough funding to cover an average of $500 dollars per individual.

Staff Comment: Staff has no issue with the requested resources related to the RCUL's. However, the subcommittee may want to determine what other state entities are seeking resources to train for compliance with ICD-10 during fiscal year 2015-16. If additional state entities are seeking resources to train staff, it may be worth considering if there are opportunities to partner with other state entities to coordinate staff-related training efforts.

Staff Recommendation:

Vote:

Issue 6 – West Los Angeles Food Service

Governor's Budget Request: The Governor's budget includes a request to augment the California Department of Veterans Affairs (CDVA) budget by $1.608 million (General Fund) and 65.5 positions in fiscal year 2015-16, and $3.165 million (General Fund) and 106 positions, ongoing, in order to convert contracted food service operations at the Veterans Home – West Los Angeles (VHC- WLA) to civil service.

Background: The VHC-WLA campus was designed and constructed without a fully functioning kitchen. During the design phase of the VHC-WLA, an agreement between the U.S. Department of Veterans Affairs and CDVA was reached that would allow for the U.S Department of Veterans Affairs facility to provide food services to the residents of the VHC-WLA campus. The close proximity to the U.S. Department of Veterans Affairs facility made the arrangement economical for the operation of the VHC-WLA campus. In 2011, the U.S. Department of Veterans Affairs chose not to continue with the agreement and CDVA had to contract with a private food vendor in order to accommodate the residents of the facility. In accordance with Government Code §19130, the CDVA is now required to convert the personal service contracts to civil service positions.

Staff Comment: CDVA began the process of converting 5,000 square feet of storage space to a full-service kitchen in March 2013. The Budget Act of 2014 appropriated $770,000 (Lease Revenue Bond) in order to expedite the construction of the kitchen at the VHC-WLA facility. The kitchen is expected to be fully operational in the fall of 2015.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 7 – California Veteran Home Loan Program

Background: Since 1921, CDVA has administered the California Veteran Farm and Home Purchase Program, often referred to as the Home Loan Program (Program). The program is designed to provide loans to veterans for the purchase of single-family residences, farms, units in cooperative developments and mobile homes. It estimated that approximately 430,000 veterans have benefited from loans provided by the program.

CDVA finances new and existing single-family homes, farms, condominiums and mobile homes, on land owned by the veteran or in rental parks, by acquiring property selected by the veteran and reselling the property to the veteran under a land sale contract (Contract of Purchase). Under a contract of purchase, the veteran holds an equitable interest, and CDVA holds legal title to the property. The program also provides home improvement loans, construction loans and rehabilitation loans. There are no purchase price restrictions on the properties which can be purchased with CDVA bond funds, nor are there any income limitations on the veteran borrower.

The program itself is financed by General Obligation (GO) bonds. However, the GO bonds operate somewhat like revenue bonds; the bonds are repaid by CDVA loan holders through the payment of principal and interest on their loans. Like all GO bonds, they are backed by the full faith and credit of the State of California and are required to be authorized by a statewide election.

Eligibility for a CDVA loan requires that the veteran received a discharge of either honorable or under honorable conditions, and has served a minimum of 90 days active duty. Historically, the program has provided traditional, single-family residential structures. Due to the recent economic downturn, and the increasing urbanization of the state, several modifications have been made by the Legislature; the Legislature enacted AB 2087 (Torres), Chapter 542, Statutes of 2010, which expands the definition of home under provisions of the Home Loan Program to include residences with two to four units. Additional modifications to the program were made after the passage of AB 1084 (Davis), Chapter 377, Statutes of 2011, which expanded the definition of loan eligible cooperative housing corporation to include a shared equity cooperative.

CDVA Home Loan Program Summary

	Number of Loans Outstanding	Value of Outstanding Loans	Average Loan Amount
2014-15	241	$66,266,625	$269,617
2013-14	284	$71,523,612	$251,843
2012-13	69	$8,700,543	$126,094
2011-12	87	$11,239,222	$130,220
2010-11	176	$21,588,775	$122,663
2009-10	236	$35,305,526	$149,599
2008-09	801	$192,774,862	$240,667

Staff Comment: CDVA's home loan program continues to suffer from declining usage. In 2004, the program issued 1,942 new loans; in 2014 the program had issued a total of 284. In fact, the program's entire portfolio has declined: over the same time period, the program's portfolio decreased from a total of $407,724,000 in 2004 to $71,641,000 in 2014. The decline of the CDVA home loan program can be attributed to a number of different factors.

Other financing methods may be more competitive. CDVA interest rates are based on the most recent bond offering, compared to U.S. Department of Veterans Affairs home loans, which are more aligned with the mortgage loan market. Historically, CDVA has been capable of offering loans that are competitive with conventional loan mechanisms.

Title held by CDVA. In addition to interest rates not remaining as competitive as what may be available on the open market, CDVA loans may not be as competitive due to the title ownership. Under the current CDVA loan process, CDVA holds the title to the property until the lien is paid in full.

Staff Recommendation: Informational item only, no action necessary.

Vote:

Issue 8 – Veterans Claims and Rights

Background: The Veteran Services Division provides service and assistance to California's veterans, dependents, and survivors. Programs administered consist of: Veterans Dependents Educational Assistance Program, County Veterans Service Office Program, Veterans Outreach Program, Medi-Cal Cost Avoidance Program, Veterans Claims and Appeals Representation, State Veteran Cemeteries, United States Department of Veterans Affairs Joint Claims Initiative, California State Approving Agency for Veterans Education, Disabled Veteran Business Enterprise Program, Veterans Mental Health Program, Homeless Veterans Outreach Program, and the Veterans License Plate Program.

Veterans currently living in California were provided with disability compensation and/or pension benefits totaling $4.5 billion dollars in 2013. As noted earlier, one of CDVA's primary missions is to assist eligible veterans, and their dependents, in obtaining federal and state benefits by assisting the veteran with a specific claim. CDVA maintains 92.4 positions to assist the state's veterans with benefit representation. However, much of the claims representation process is managed by county veterans' service officers (CVSO). Historically, the Governor's budget has provided $2.6 million in General Fund to support the efforts of the CVSOs (there are currently CVSOs in 54 of California's 58 counties.) Beginning in fiscal year 2013-14, the Legislature has included a $3.0 million appropriation to the CDVA in order to augment the CVSO's budget, increasing the state's General Fund contribution to CVSO's to $5.6 million.

The cost of maintaining a CVSO is primarily a county general fund expense; however, the state general fund has contributed an increased amount to support CVSO operations in recent years. The Budget Act of 2013 (Committee on the Budget), Chapter 20, Statutes of 2013, appropriated $3 million in General Fund, in addition to the $2.6 annual appropriation, to support the joint claims initiative, which is a partnership between the state and the U.S. Department of Veterans Affairs to reduce the backlog of pending disability compensation claims. According to CDVA, the additional funding has allowed for the review of over 47,000 claims at the three U.S. Department of Veterans Affairs district offices.

From September 2013 to February 19, 2015:

Total Claims Reviewed	47,288
Total Lump Sum (One-time/Retro) Awards	$49,671,900
Total Monthly Awards	$6,405,585
Total Monthly Awards Annualized (amount veterans will receive annually for the rest of their lives)	$76,867,020

Staff Comment: In addition to the appropriation included in the 2013 budget act, the Legislature included a one-time $3.0 million General Fund appropriation as part of the Budget Act of 2014 (Committee on Budget and Fiscal Review), Chapter 25, Statutes of 2014. The U.S. Department of Veterans Affairs annual benefits report for fiscal year 2014-15 will not be available to determine what impact the additional funding had on the state's overall compensation and pension benefits level for the state's veterans, but according to CDVA, 79 percent (39 of 53) of the CVSO's have hired additional staff to support the state's veterans through the claims process.

Staff Recommendation: Informational item, no action necessary.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, March 12, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

Item Number and Title

1110/1111	Department of Consumer Affairs Boards and Bureaus
1701	Department of Business Oversight
2100	Department of Alcohol and Beverage Control

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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.

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

1110/1111 - Department of Consumer Affairs

Issue 1 – Board of Behavioral Sciences

Governor's Budget Request: The Governor's budget includes a request to augment the Board of Behavioral Sciences (board) budget by $148,000 (Behavioral Science Examiners Fund) in fiscal year 2015-16 and $132,000 (Behavioral Science Examiners Fund) in fiscal year 2016-17 for 2.0 full time positions. Additionally, the board is requesting an increase in time base for two half-time positions in order to address the backlog within the licensing unit.

Background: The board is responsible for the regulation of four different types of mental health professionals, including Licensed Marriage and Family Therapists (LMFTs), Licensed Clinical Social Workers (LCSWs), Licensed Educational Psychologists (LEPs), and Licensed Professional Clinical Counselors (LPCCs). Currently, the board has oversight over 90,000 licensees within the state. The board continues to see an increase in the number of registrants seeking licensure in the mental health field. This aligns with statistics provided by the Bureau of Labor Statistics, which found that the mental health profession field is expected to grow by 29 percent over the next decade.

The requested positions will support the examination unit (2.0 positions) and two part-time positions to support the licensing unit's efforts to address increased workload. The two part-time positions will be funded through an internal redirection of resources.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 2 – Dental Hygiene Committee

Governor's Budget Request: The Governor's budget includes a request for 1.0 position and $86,000 (State Dental Hygiene Fund) in fiscal year 2015-16, and $78,000 (State Dental Hygiene Fund) ongoing for the Dental Hygiene Committee (committee). The requested position will support the implementation of AB 1174 (Bocanegra), Chapter 682, Statutes of 2014, which authorizes the Committee to approve courses in specific functions for dental hygienists and collect fees for the review and approval of the courses for those functions.

Background: The committee, which was created during fiscal year 2009-10, was established to set forth its own set of mandates, regulations, and procedures specific to the dental hygiene profession. Currently, the committee is responsible for the licensure of over 30,000 dental hygiene professionals. The passage of AB 1174 authorizes the committee to approve courses in specific functions for dental hygienists and collect fees for the review and approval of the courses for those functions.

LAO Comment: The LAO has noted that course providers would likely seek approval for courses related to new activities within the first couple of years after the passage of AB 1174 is implemented. Therefore, the LAO believes the positions temporary in order to align with the declining workload that will occur within a couple of years.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 3 – Court Reporters Board

Governor's Budget Request: The Governor's budget includes a request to provide the Court Reporters Board (Board) with an additional $82,000 (Court Reporters Fund) in 2015-16, and ongoing to support the development of workshops in association with the board's English and Professional Practice license examinations.

Background: The board is responsible for the licensure of shorthand reporters. In addition to administering the competency test, the board is also responsible for the regulation of curriculum provided by court reporting schools and programs, and engaging in enforcement-related activities when necessary. Currently, there are approximately 7,300 licensed shorthand reporters within the state. The board intends on entering into an interagency agreement with the Department of Consumer Affair's (DCA's) Office of Professional Examination Services (OPES) to update exam content.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 4 – Dental Board of California

Governor's Budget Request: The Governor's budget includes a request to provide the Dental Board of California (board) with an additional 2.0 permanent full-time positions and to increase expenditure authority of the board by an additional $180,000 in fiscal year 2015-16 and $164,000 ongoing.

Background: The board, which operates under the umbrella of the Department of Consumer Affairs (DCA), is charged with regulating the practice of dentistry and dental assisting. This includes licensing, regulatory functions, and disciplinary functions. AB 1174 (Bocanegra), Chapter 682, Statutes of 2014 expands the duties of registered dental assistants (RDAs) and registered dental assistants in extended functions (RDAEF) and also requires that additional educational requirements be met during the training curriculum. The modifications made in AB 1174 would require that new regulations be adopted by the board and also establish course provider application requirements. The 2.0 requested permanent positions will be utilized to verify that applicants are in compliance with the provisions of AB 1174 and also ensure that course providers are approved in compliance with the provisions of AB 1174.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 5 – Bureau of Real Estate Appraisers

Governor's Budget Request: The Governor's budget includes a request to establish one permanent position at the Bureau of Real Estate Appraisers (BREA) which will be funded by an internal redirection and a budget reduction of $66,000 (Real Estate Appraisers Regulation Fund) in fiscal year 2015-16, and ongoing, to reflect the savings achieved from an information technology (IT) consultant contract.

Background: The Office of Real Estate Appraisers, which as part of the Governor's Reorganization Plan #2 was realigned as the Bureau of Real Estate Appraisers (BREA), is charged with developing and implementing a real estate appraiser licensing program that complies with federal mandates.

Since 2010, BREA has contracted with an IT consultant for the replacement and modernization of an enterprise system that manages the licensing and regulatory activities that are core components of BREA's daily activities. The updates to the automated regulatory and licensing system were complete in January 2013, and the updates have significantly reduced the licensing turn-around time for renewals. Upon completion of the project implementation, BREA hired a limited-term programmer to provide support and maintenance as needed, however, the limited-term programmer position is set to expire on October 30, 2015.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 6 – Bureau of Security and Investigative Services

Governor's Budget Request: The Governor's budget includes a request to provide the Bureau of Security and Investigative Services with $140,000 in fiscal year 2015-16 (Private Security Services Fund), $235,000 in fiscal year 2016-17 (Private Security Services Fund), and $132,000 in fiscal year 2017-18 (Private Security Services Fund), and ongoing, to support the positions required to implement AB 2220 (Daly), Chapter 423, Statutes of 2014.

Background: The Bureau of Security and Investigative Services (Bureau) is responsible for the regulatory oversight of six professions; Locksmiths, Repossessors, Private Investigators, Proprietary Security Services, Private Security Services, and Alarm Companies. The Bureau licenses, registers, and certifies businesses and their employees that are associated with the six professions, as defined by statute in Business and Professions Code.

Among other things, AB 2220 imposes new licensure requirements on private patrol operators (PPO), and exempts duly appointed peace officers who are employed by a PPO, from firearms requalification requirements and from having to pass a specified written examination in order to renew a firearms qualification card.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 7 – Veterinary Medical Board

Governor's Budget Request: The Governor's budget includes a request to provide the Veterinary Medical Board (board) with an ongoing appropriation of $150,000 (Veterinary Medical Board Pet Lover's License Plate Program) in the specialized license plate fund within the Department of Motor Vehicles (DMV) for the purpose of funding grants to providers of no-cost or low-cost animal sterilization services.

Background: Existing law establishes a specialized license plate program administered by the DMV. DMV currently administers 12 specialized license plate programs, including the Pet Lover's specialized license plate program. AB 610 (Solorio), Chapter 9, Statutes of 2012, provided the board an additional 12-month period to meet the 7,500 application threshold as required by existing law. The board obtained the necessary applications over the additional 12 months and began issuing Pet Lover's specialized license plates in September of 2013. As of September 9, 2014, DMV has issued 14,106 Pet Lover's specialized license plates and generated approximately $145,000.

SB 1323 (Lieu), Chapter 375, Statutes of 2014, requires that any revenue in the Specialized License Plate Fund generated from a specialized license plate issued under the Pet Lover's License Plate Program be appropriated to the Veterinary Medical Board.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted, adopt proposed budget bill language.

Issues Proposed for Discussion / Vote

1110/1111 CALIFORNIA DEPARTMENT OF CONSUMER AFFAIRS

Department Overview: The Department of Consumer Affair's (DCA) boards and bureaus provide exams and licensing, enforcement, complaint mediation, education for consumers, and information on privacy concerns. DCA boards and bureaus establish minimal competency standards for more than 250 professions involving 3.0 million professionals. DCA consists of 36 regulatory boards, bureaus, committees, commissions, and programs, all of which regulate more than 100 businesses and 200 industries and professions, including doctors, contractors, private security companies, and beauty salons.

The boards and commissions are semi-autonomous regulatory bodies with the authority to set their own priorities and policies. Members of the boards and commission are appointed by the Governor and the Legislature.

Budget Overview: The department's boards are budgeted under organizational code 1110, and the total proposed budget for the boards is $307.28 million (non-General Fund) and 1,537.3 Personnel Years for Fiscal Year 2015-16.

The bureaus are budgeted under organizational code 1111, and the total proposed budget is $286.4 million (non-General Fund) and 1,901.4 Personnel Years for Fiscal Year 2015-16.

DCA Boards and Bureaus

(dollars in thousands)

		Positions		Expenditures	
		2014-15	2015-16	2014-15	2015-16
1	Board of Accountancy	84.8	80.8	$ 14,071	$ 14,161
2	Architects Board	30.4	30.4	$ 5,190	$ 4,588
3	Athletic Commission	13.7	9.1	$ 1,666	$ 1,615
4	Board of Behavioral Science	42.6	43.4	$ 9,332	$ 9,039
5	Chiropractic Examiners	--	19.4	$ 3,882	$ 3,847
6	Barbering and Cosmetology	96.2	92.2	$ 21,406	$ 19,227
7	Contractors State Licensing	401.6	401.6	$ 63,528	$ 63,221
8	Dental Board	74.5	74.1	$ 15,036	$ 14,642
9	Dental Hygiene Committee	7.2	8.2	$ 1,621	$ 1,638
10	Guide Dogs for the Blind	1.5	1.5	$ 208	$ 203
11	Medical Board	282.3	282.3	$ 61,094	$ 59,209
12	Acupuncture Board	8.0	8.0	$ 3,336	$ 3,444
13	Physical Therapy Board	14.3	16.4	$ 3,999	$ 3,902
14	Physician Assistant Board	4.6	4.5	$ 1,554	$ 1,455
15	Podiatric Medicine	5.2	5.2	$ 1,261	$ 1,423
16	Psychology	17.5	17.3	$ 4,708	$ 4,611
17	Respiratory Care Board	16.4	16.4	$ 3,558	$ 3,522
18	Speech-Language Hearing Aid	8.6	8.6	$ 2,017	$ 2,045
19	Occupational Therapy	8.3	7.7	$ 1,348	$ 1,259
20	Board of Optometry	10.5	10.4	$ 1,891	$ 1,661
21	Osteopathic Medical Board	8.5	8.4	$ 1,937	$ 1,883
22	Naturopathic Medicine Committee	1.0	1.0	$ 318	$ 362
22	Board of Pharmacy	80.2	81.1	$ 20,131	$ 19,573
23	Engineers and Land Surveyors	63.7	64.7	$ 11,293	$ 11,034
24	Registered Nursing	132.0	130.8	$ 38,644	$ 37,285
25	Court Reporters Board	4.5	5.0	$ 1,324	$ 1,373
26	Structural Pest Control Board	--	29.9	$ 4,924	$ 5,363
27	Veterinary Medical Board	12.8	12.8	$ 4,602	$ 4,387
28	Vocational Nursing	68.7	67.9	$ 11,372	$ 11,159
29	Arbitration Certification Program	8.0	8.0	$ 1,238	$ 1,180
30	Security and Investigative	49.9	51.4	$ 13,884	$ 12,214
31	Private Postsecondary Education	60.0	76.0	$ 13,440	$ 15,140
32	Electronic and Appliance Repair, Home Furnishings, and Thermal Insulation	43.4	44.2	$ 8,049	$ 7,579
33	Automotive Repair	590.4	590.4	$ 196,548	$ 187,559
34	Telephone Medical Advice Services Bureau	1.0	1.0	$ 182	$ 174
35	Cemetery and Funeral	21.5	21.5	$ 4,550	$ 4,345
36	Real Estate Appraisers	33.8	33.8	$ 5,760	$ 5,731
37	Department of Real Estate	329.7	329.7	$ 50,264	$ 51,707
38	Professional Fiduciaries	2.7	3.0	$ 610	$ 622

Issue 1 – Bureau of Private Postsecondary Education

Governor's Budget Request: The Governor's budget includes a request to augment the Bureau of Private Postsecondary (bureau) budget by $1.915 million (Private Postsecondary Education and Administration Fund) in FY 2015-16, $1.718 million (Private Postsecondary Education and Administration Fund) in FY 2016-17, and $1.077 million (Private Postsecondary Education and Administration Fund) ongoing to support the addition of ten permanent positions and five two-year limited-term positions.

Background: The bureau is responsible for the oversight of California's private postsecondary educational institutions. Currently, there are approximately 1,500 institutions regulated by the bureau. Many of the institutions governed by the bureau are vocational institutions offering skills training for entry-level positions in a variety of industries and trades.

The requested resources are in response to SB 1247 (Lieu), Chapter 840, Statutes of 2014, which amended the bureau's existing mandates and added additional regulatory guidelines. SB 1247 was a sunset review bill. During the sunset review process, the Legislature determined that California's public institutions have reduced enrollments due to major budget cuts, and private postsecondary education institutions for some are in a position to play a role in providing access and education that may otherwise be inaccessible. Increasing enrollment at private postsecondary institutions has brought forth a greater level of scrutiny from both the federal and state regulatory entities.

The majority of the new workload created as part of SB 1247 will be split between two new functions. The bureau will now be required to process applications for previously exempt for-profit institutions that participate in Title 38 (veterans) funding; beginning in fiscal year 2015-16. Additionally, the bureau will be required to approve degree-granting institutions according to new standards that will require a review of approximately 150 institutions that have already been approved by the bureau, but will need to be reviewed to ensure compliance with new accreditation standards.

LAO Comment: The LAO notes that much of the workload associated with processing applications form institutions that are newly subject to the bureau oversight because they participate in the veteran's financial aid programs would likely be temporary in nature. The LAO notes that the requested positions required to review the new workload is reasonable, but the approval related workload associated with these positions should decline significantly in a short period of time. The LAO recommends modifying the proposal to make two of the three requested positions proposed for processing applications limited-term.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Issue 2 – BreEZe

Background: As noted earlier, DCA is comprised of 37 regulatory boards, bureaus, committees, commissions, and programs, all of which regulate more than 100 businesses and 200 industries and professions. While these entities are responsible for the day-to-day regulatory activities related to their specific professions and do have some autonomy, DCA is responsible for establishing general administrative policies and provides administrative support, when needed. In order to conduct many of the day-to-day regulatory functions, each board, commission or bureau has utilized a computer system that met the needs of their regulatory functions. The DCA regulatory entities use of multiple computer systems has created a large network of legacy computer systems, under the DCA umbrella, that weren't compatible with one another, and lacked some basic case management functionality that could assist staff with licensing and enforcement efforts.

Historically, the regulatory entities housed under DCA have utilized either one, or both, of the Applicant Tracking System (ATS) and Consumer Affairs System (CAS) to perform many of the day-to-day duties that they are required to perform. The ATS was created to track and monitor cashiering-related activities and accept license applications. The ATS was originally developed in the early 1990's, and has not been upgraded for over a decade. The CAS was designed to track license-related activities, such as complaints, investigations, and enforcement. According to the November 2009 Feasibility Study Report (FSR) the legacy computer systems have led to excessive turnaround times for licensing and enforcement-related activities, which is one of the primary objectives of the regulatory entities housed within DCA.

Increased interest in enforcement accelerated need for BreEZe. Efforts to modernize the licensing and enforcement process had been attempted on a number of occasions prior to the BreEZe project; most recently with iLicensing, which was abandoned in 2009. DCA's interest in revisiting the concept of automating its licensing process can be attributed to the Consumer Protection Enforcement Initiative (CPEI), which DCA noted would enhance the enforcement capacity of the DCA's healing arts boards. In 2008 a series of investigations conducted by the Los Angeles Times found that the Board of Registered Nursing had been allowing nurses to continue to practice even though there were pending enforcement related activities, and that the enforcement backlog had grown to over three years. DCA responded by proposing the CPEI, which would overhaul the enforcement process. This new enforcement initiative was largely dependent on the implementation of BreEZe into the healing arts boards, and DCA has noted that the targeted turnaround time for enforcement related activities would be reduced from over three years, as noted by the investigation, to eighteen months.

The November 2009 Feasibility Study Report (FSR) proposed not just to transition the healing arts boards, but all 37 boards and bureaus, to the BreEZe platform. According to the FSR, the 37 boards and bureaus were scheduled for implementation over five phases, which would be complete by fiscal year 2014-15. The FSR noted that DCA chose a modifiable commercial off-the-shelf (COTS) system that was to provide DCA organizations with applicant tracking, monitoring, licensing, enforcement, renewal, cashiering, and data management capabilities. DCA envisioned the BreEZe system to be web-enabled, which would allow the public to file complaints and review licensee information through the internet. The 2009 FSR projected that the BreEZe project would cost approximately $27.5 million. The procurement model proposed in the FSR would have included a two-stage procurement process that would have awarded up to $250,000 to multiple bid winners so the bid winners could better understand the business requirements of the entities housed within DCA. The second stage would have involved the submission of final proposals that might more accurately reflect the business needs of DCA's boards and bureaus, followed by selection of a single vendor to complete the implementation of BreEZe.

After consulting with the Technology Agency and the Department of General Services (DGS), DCA chose a slightly different procurement approach than what was proposed in the FSR. The modified approach eliminated the first stage of the bid process, and instead relied on “working sessions” for the vendor to better understand business requirements of the DCA entities. Through this process, DCA selected Accenture as the vendor for BreEZe implementation, and submit a Special Project Report (SPR) that reflected the costs associated with the selected bid. According to SPR 1, which was submitted June 22, 2011, costs for the BreEZe project had grown to $45.8 million, an $18 million increase. Additionally, according to SPR 1, DCA chose to accept the vendor’s proposed timeline, which reduced the schedule to three releases, rather than the five that had been a part of the November 2009 FSR.

Testing required longer time frame than originally forecasted. In July 2013, DCA submitted SPR 2, which increased the overall project cost to $77.9 million. The need for an amended project report was due to the system testing taking much longer than originally anticipated. According to SPR 1, system testing was anticipated to take approximately 30 business days, rather than the 138 business days that it actually took. SPR 2 realigned the schedule to allow for a greater level of testing, which in turn increased the project’s timeline by approximately two years, and increased cost by $50.4 million from the November 2009 FSR.

DCA was required to further adjust the cost and scope of the BreEZe project, first proposing SPR 3, which increased the cost to $118 million, and further revised the approach under SPR 3.1, which increased the project cost to $96.1 million. According to SPR 3.1, the project was not moving in the timeframe that had been originally forecast, nor was it achieving the results that had been originally assumed. In SPR 3.1 project staff proposed re-scoping the project due to significant cost increases and staffing needs. The revised SPR proposed release two, which consists of eight boards and bureaus, for March 2016. Nineteen regulatory entities would be a part of release three, which CalTech and DCA had negotiated with Accenture to exclude from the current design contract. DCA has noted that after implementation of release two boards and bureaus, it will reassess how best to approach the remaining nineteen entities that are not part of the BreEZe system at this time.

Department of Consumer Affairs' BreEZE SPR 3.1 Release Schedule

Implemented		**Partially Implemented**		**No Implementation Plan**	
Phase 1 – Release Date: October 2013	**Number of Licensees**	**Phase 2 – Release Date: March 2016 (tentative)**	**Number of Licensees**	**Phase 3 – Release Date: Unknown**	**Number of Licensees**
Board of Barbering and Cosmetology	484,420	Board of Optometry	26,500	Acupuncture Board	15,490
Board of Behavioral Sciences	90,600	Board of Vocational Nursing and Psychiatric Technicians	141,800	Board of Accountancy	134,670
Board of Psychology	2,650	Bureau of Security and Investigative Services	1,290,960	Board of Chiropractic Examiners	46,430
Board of Registered Nursing	514,640	California Board of Occupational Therapy	17,680	Board of Guide Dogs for the Blind	110
Medical Board of California	153,820	Dental Board of California	178,420	Board of Pharmacy	257,810
Naturopathic Medicine Committee	540	Dental Hygiene Committee of California	28,970	Board for Professional Engineers	236,050
Osteopathic Committee	7,890	Physical Therapy Board of California	46,200	Bureau of Automotive Repair	149,530
Physician Assistant Board	9,900	Veterinary Medical Board	33,800	Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation	137,710
Respiratory Care Board	20,340			Bureau for Private Postsecondary Education	2,150
				California Architects Board	47,540
				California Athletic Commission	2,780
				Cemetery and Funeral Bureau	35,330
				Contractors State Licensure Board	286,620
				Court Reporters Board	13,030
				Landscape Architects Technical Committee	5,270
				Professional Fiduciaries Bureau	800
				Speech-Language Pathology and Audiololgy and Hearing Aid Dispensers Board	32,720
				Structural Pest Control Board	118,240
				Telephone Medical Advice Services Bureau	60
Totals	**1,305,840**	**Totals**	**1,764,330**	**Totals**	**1,522,340**

State Auditor raises concerns. The Joint Legislative Audit Committee (JLAC) directed the California State Auditor (state auditor) to conduct an audit of DCA's planning, development, and implementation of its online system for licensing and enforcement – BreEZe – in order to determine if the chosen solution was justified and whether the solution is meeting the needs of DCA's regulatory entities. The review by the state auditor led to a number of findings including the following:

- When developing the requirements for the BreEZe project DCA relied on dated information that was a part of since abandoned iLicensing project.
- When negotiating with the vendor, Accenture, DCA and DGS did not adequately protect the state's interests.
- Concerns raised by the Independent Project Oversight (IPO) and Independent Validation and Verification (IV&V) were not properly addressed by both CalTech and DCA.

Control Section 11.00 notification sent to Joint Legislative Budget Committee. Due to the timing of the contract agreement, DCA was required to submit a notification to the Department of Finance (DOF) who submits a notification that they intend on approving the request to the Joint Legislative Budget Committee (JLBC) that DCA had entered into a contract that had either increased by $5 million or twenty percent, whichever is less. SPR 3.1 had increased project costs from the previously approved SPR 2 by $17.5 million, which clearly exceeded the notification threshold. Furthermore, the scope of the project reduced significantly; according to SPR 3.1, nineteen boards and bureaus originally planned to be a part of the BreEZe project are excluded from the implementation plan. In reviewing the request, the JLBC chose not to concur with the request for additional resources until further legislative review in a more transparent setting could occur. This hearing provides such a review as well as the upcoming joint hearing of the Senate and Assembly Business and Professions Committees.

The JLBC letter duly noted that there might be some project delays due to not concurring with the request. Specifically, the running cost of the vendor ($1.3 million) and the costs associated with state staff that support the project ($400,000). In discussions with DCA, they stated that every effort would be made to reduce the cost to the greatest extent possible, but in the interest of ensuring that the Legislature is able to address its concerns with the long-term plan for the project it would be most prudent to review the merits of the project in a more transparent environment.

Staff Comment: Staff recognizes that efforts have been made to reduce the state's financial exposure that was originally agreed to in the 2011 contract. However, as noted by the JLBC response letter, the respective fiscal and policy committees should also have an opportunity to review what alternatives were considered, and may be available, to move this project forward; how this project revision will impact the boards and bureaus under the DCA, and seek assurances that departments can achieve its goal of an integrated system that will meet the needs of all its boards and bureaus. Additionally, stakeholders and the broader public should be afforded the opportunity to provide their input.

Questions for the DCA BreEZe project staff:

1. Can you please describe some of the events that led to the need for SPR 3.1?

2. The most recent SPR does not include any plan for implementation of BreEZe into the boards and bureaus that are part of Release 3, can you please elaborate on the long-term plan to incorporate the nineteen boards and bureaus that are not part of the current plan?

3. Could you please describe how project costs are currently allocated to the boards and bureaus? Will the increase in project costs impact any of the licensing fees for the boards and bureaus?

4. Can you elaborate on how the state's financial interests are better protected under the new contract agreement?

Questions for the LAO:

1. Could you please describe how IT-related project costs are allocated to state entities in other agencies?

2. Is there a more transparent method of allocating project costs for this project that could be utilized?

1701 DEPARTMENT OF BUSINESS OVERSIGHT

Department Overview: The Department of Business Oversight (department) regulates state-licensed financial institutions, products and professionals to provide accessibility to a fair and secure financial services marketplace. The department serves California by enforcing the state's financial services laws and providing resources to Californians to make informed financial decisions.

Effective July 1, 2013, the Department of Corporations (DOC) and the Department of Financial Institutions (DFI) merged to form the Department of Business Oversight reporting to a newly formed Business, Consumer Services and Housing Agency. This change was part of the Governor's Reorganization Plan No. 2 to increase the efficiency and cost-effectiveness of state government.

Department of Business Oversight Budget Overview

Funding	2013-14	2014-15	2015-16
State Corporations Fund	$41,151	$49,499	$52,199
Local Agency Deposit Security Fund	$412	$433	$441
Financial Institutions Fund	$26,283	$27,332	$27,789
Credit Union Fund	$7,580	$7,914	$8,060
Reimbursements	$604	$1,100	$1,100
Total Expenditures	$76,030	$86,278	$89,589
Personnel Years	**562.3**	**601.0**	**618.0**

Issue 1 – Consumer Services Office

Governor's Budget Request: The Governor's budget includes a request for $401,000 ($281,000 Financial Institutions Fund and $120,000 Credit Union Fund) in order to convert three limited-term positions to permanent within the Department of Business Oversight's Consumer Services Office (CSO).

Background: The CSO receives complaints ranging from simple – overdraft fees, interest calculations, and car loans – to more complicated issues dealing with mortgage loans and modifications, missing funds, stocks, foreclosures, fraud, theft, and regulatory non-compliance. According to the DBO, the CSO has experienced a 97.4 percent increase in the number of consumer complaints submitted since 2010. The limited-term positions were approved as part of the 2012 budget act, and set to expire on June 30, 2015. The DBO anticipates a continued growth in the number of complaints to increase annually by 15 percent through 2017.

Workload for the CSO's has increased significantly. Post-merger analysis conducted by the DBO shows that the average processing time for complaints has increased significantly, as well. From the period between July 2013 and November 2013; the average processing time for complaints was 11.44 days; from December 2013 to April 2014, the average processing time for a complaint had increased to 40.44 days, an increase of over 28 days.

Staff Comment: The requested funding reflects a workload analysis conducted by DBO that determined the proper funding split between the banks (Financial Institutions Fund) and credit unions (Credit Union Fund).

Staff Recommendation: Approve as Budgeted.

Vote:

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL

Department Overview: The Department of Alcoholic Beverage Control is vested with the exclusive power to license and regulate persons and businesses engaged in the manufacture, importation, distribution and sale of alcoholic beverages in the State of 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.

The Governor's budget proposes total spending of $60.6 million (Special Fund) for the Department of Alcoholic Beverage Control in 2015-16. Proposed staffing totals 448.9 personnel for the budget year, which is an increase of ten personnel over the current year.

Issue 1 – Personnel Year Adjustment

Governor's Budget Request: The Governor's budget includes a request transfer nine positions within the Department of Alcohol and Beverage Control's (Department) blanket authority to permanent positions. This request is a technical adjustment that will not require an appropriation.

Background: During the recent economic downturn, the department was required to eliminate a significant number of positions as part of a statewide salary savings effort. The department chose to eliminate a total of 18.8 non-sworn peace officer positions that provide administrative and licensing support to the department. However, the department identified a total of nine administrative and licensing positions that were critical to the day-to-day operations of the department, and chose to use administrative flexibility to fill the positions through the temporary help blanket. The department is currently funding the nine positions through existing budget authority, and has requested that the positions established on a permanent basis.

Staff Comment: The Department of Alcohol and Beverage Control is a FI$Cal Wave 1 department, which means that they will be transitioning to the state's new financial management platform during 2015. Aligning positional authority will provide the department with the opportunity to prepare a more accurate reflection of expenditures and budgetary authority to the FI$Cal transition team.

Staff Recommendation: Approve as budgeted.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, March 19, 2015
9:30 AM or Upon Adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room 2040
Consultant: Brady Van Engelen

Item Number and Title

0690	Office of Emergency Services
2240	Department of Housing and Community Development
7760	Department of General Services
7870	Victims Compensation and Government Claims Board
8940	California Military Department

(See Table of Contents on page 1 for a More Specific Listing of Issues)

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.

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

0690 OFFICE OF EMERGENCY SERVICES

Issue 1 – American Red Cross, California Chapters Fund

Governor's Budget Request: The Governor's budget includes a request to provide the Office of Emergency Services (OES) with $400,000 in local assistance authority in fiscal year 2015-16, to pass through the American Red Cross, California Chapters Fund, for collections made pursuant to AB 511 (Pan) Chapter 451, Statutes of 2013.

Background: AB 511 created the "American Red Cross, California Chapters Fund" and added it to the state personal income tax return as a voluntary contribution fund. OES is charged with distributing the funds to the American Red Cross, California Chapters for disaster relief in California. AB 511 also created a requirement that a plan for the use of contributions be provided to OES within 60 days of allocation.

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

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Child Victims of Human Trafficking Fund

Governor's Budget Request: The Governor's budget includes a request to provide the Office of Emergency Services (OES) with $451,000 in local assistance authority in fiscal year 2015-16, and $251,000 in fiscal year 2016-17, to pass through the Child Victims of Human Trafficking Fund, for collections made pursuant to AB 764 (Swanson) Chapter 465, Statutes of 2011.

Background: AB 764 authorizes taxpayers to designate on their tax returns that a specified amount, in excess of their tax liability be transferred to the Child Victims of Human Trafficking Fund established in the State Treasury. All money contributed to the fund pursuant to provisions of AB 764 after the Franchise Tax Board's and State Controller's Office's costs, and upon appropriation by the Legislature, will be allocated to OES. OES administers the funds, which are granted to community-based organizations serving minor victims of human trafficking.

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

Staff Recommendation: Approve as budgeted.

Issue 3 – Internet Crimes Against Children

Governor's Budget Request: The Governor's budget includes a request for a $500,000 (restitution fund) ongoing augmentation to the Office of Emergency Services (OES) local assistance authority for the Internet Crimes Against Children (ICAC) grant program.

Background: The intent of the ICAC grant program is to provide local authorities with financial resources to investigate computer/technology crimes against children by offenders using Internet, on-line communication systems and other technologies. Additionally, the resources are made available to provide educational programs aimed at law enforcement officers, teachers, parents, and children. Currently, the state provides $500,000 (restitution fund) in resources to the ICAC grant program, which supports five federally recognized ICAC task forces in the state; San Diego Police Department, Los Angeles Police Department, San Jose Police Department, Sacramento Sheriff's Office, and the Fresno County Sheriff. The grant process is non-competitive, and each task force currently receives $100,000. This request would double the grant allocation to each task force; each task force would receive $200,000.

Staff Comment: According to OES, the five current task force members have reported the following performance statistics for fiscal year 2013-14:

- 6,890 proactive/reactive investigations conducted to computer/technology crimes perpetrated against children and youth.
- 4,931 computer forensic examinations were completed.
- 487 community/outreach law enforcement presentations were conducted.
- 25 nationally-coordinated investigations were conducted in which a task force participated.

Staff Recommendation: Approve as budgeted

Vote:

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1 – Enterprise Zone Program Elimination and Reduction

Governor's Budget Request: The Governor's budget requests the reduction of six positions and $987,000 from the Enterprise Zone (EZ) Fund for 2015-16, and a reduction of seven positions and $1.2 million for 2016-17 through 2019-20, to phase out the EZ Program eliminated by AB 93 (Committee on Budget), Chapter 69, Statutes of 2013. As a result, two positions would remain at HCD in the budget year ($387,000) and one position ($193,000) through 2019-20.

Background: AB 93 eliminated the EZ Program. A new economic development program, the New Employment Credit (NEC), has been initiated which depends directly on the geographic location of applicants in order to qualify for the credit. These areas are known as designated geographic boundaries (DGAs). The Franchise Tax Board is the administrator of the program and lacks the expertise to determine the geographic boundaries. The DGAs are comprised of:

- Designated census tracts that have the highest unemployment and highest poverty in the State.
- Former Enterprise Zones (in existence on December 31, 2011, designated in 2012) and any revision to an EZ prior to June 30, 2013, except census tracts within those EZs with lowest unemployment and lowest poverty levels.
- Former Local Agency Military Base Recovery Areas (in existence on July 11, 2013.)

According to HCD, the staff being requested through 2020 would provide FTB audit support and geographic boundary expertise.

Staff Comment: These positions would provide expert verification for DGA boundaries and street ranges for the NEC and also verify eligibility for the FTB in its audits of businesses claiming the hiring tax credit.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Completion of Proposition 1C Local Assistance

Governor's Budget Request: The Governor's budget requests an extension of the liquidation period for new Infill Infrastructure Grant (IIG) awards until June 30, 2020, and new Transit Oriented Development (TOD) Program awards until June 30, 2019, to provide sufficient time for completion of projects. Budget bill language is proposed to allow for these extensions.

Background: In 2006, California voters approved Proposition 1C. In addition to providing continuously budgeted and appropriated funds for various programs, the bond provided funds for the following two competitive programs:

- ***IIG program.*** Uses competitive grants to fund infrastructure improvements to facilitate new housing development in residential or mixed-use infill projects and infill areas. Proposition 1C authorized $850 million for the IIG program.

- ***TOD program.*** Uses competitive loans for development and construction of housing development projects or competitive grants for infrastructure necessary for the development of higher density housing in close proximity to transit stations. Proposition 1C authorized $300 million for the TOD program.

These two programs fund projects such as the creation, development, or rehabilitation of parks or open space, facilities that support pedestrian or bicycle transit, and the development of owned and rental housing near rail stations. For both of these programs, in 2012, unused funds were re-appropriated along with any disencumbrances, with June 30, 2018 as the liquidation date.

Staff Comment: The extension of the liquidation period for TOD round 3 and IIG rounds 3 and 4 is requested to facilitate the securing of private construction financing by developers. Awards for both of these programs were made in 2014-15 (about $41 million for the IIG program and $16 million for TOD). There is a concern that if the liquidation deadline is not extended, private lenders may be more hesitant to close on construction loans with developers. The provisional budget bill language will help to ensure developers can obtain needed financing and complete the construction process.

Staff Recommendation: Adopt provisional budget bill language to extend the liquidation period for IIG and TOD programs.

Vote:

7760 DEPARTMENT OF GENERAL SERVICES

Issue 1 – Statewide Travel Program

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS) with $273,000 (Service Revolving Fund) and 2.0 permanent positions to support the statewide travel program's implementation of a managed lodging program.

Background: On February 6, 2014, the Governor issued Management Memorandum (MM) 14-03, which requires state agencies to make all travel arrangements through the statewide travel program. The proposal would allow the state to capture hotel spend data and potentially allow the state to leverage buying power to a greater extent. According to DGS, the state has the potential to realize over $2 million dollars in savings, on an annual basis, within five years of implementation.

Staff Comment: The requirement to move all hotel bookings to the statewide travel program will increase DGS' workload. DGS anticipates an additional 245,000 transactions over the next 12-48 months.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Statewide Disability Access and Education Program

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS) Division of the State Architect, with a three-year extension of one limited-term position and $132,000 (Disability Access and Education Revolving Fund) to meet workload requirements associated with SB 1186 (Steinberg), Chapter 383, Statutes of 2012.

Background: SB 1186 made several changes to the state's accessibility laws, including several related to the certified access specialist program (CASp). Recognizing that this measure would require additional workload of CASps, SB 1186 also addressed the need for additional CASps. SB 1186 imposed a $1 charge on all business licenses issued or renewed in the state from 2013 to 2018. Local governments will retain 70 percent of collections and the remainder goes to the Disability Access and Education Revolving Fund, to address the additional workload requirements.

Staff Comment: DGS was provided five positions and $532,000 as part of the Budget Act of 2013, in order to address workload associated with this measure. Two of the limited-term positions that were provided as part of that budget package are set to expire on June 30, 2015. DGS has identified a need for one limited-term position to address workload requirements mandated as part of SB 1186.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Office of Administrative Hearings

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS), Office of Administrative Hearings (OAH) with an augmentation of $2.246 million (Service Revolving Fund) and 13.0 positions to address workload created by AB 215 (Buchanan), Chapter 55, Statutes of 2014.

Background: The OAH is responsible for conducting hearings and mediations regarding disputes for many different government agencies. Within OAH, the Special Education Division is responsible for providing adjucitaory and mediation services to school districts and parents. The OAH utilizes administrative law judges (ALJ) to serve as a neutral judicial officer at settlement, conferences, mediations, and hearings.

AB 215 modified the dismissal procedures for certificated employees who have attained permanent status and establishes a separate set of dismissal processes for employees charged only with egregious misconduct. Specifically, AB 215 focuses on cases in which a school district intends to dismiss a teacher who has permanent status (tenure). In certain circumstances, the school district can immediately suspend the teacher, without pay, while the dismissal proceeding is pending. The OAH estimates that pre-hearing related workload for ALJ's will increase by approximately four times current workload.

Staff Comment: AB 215 took effect on January 1, 2015, requiring DGS to request for additional current year funding, in addition to the requested resources that will support local school districts.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – California Building and Standards Commission

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS), California Building Standards Commission (commission), with a one-time augmentation of $305,000 (Building Standards Administration Revolving Fund) for fiscal year 2015-16, to carry out provisions associated with the passage of AB 2282 (Gatto), Chapter 606, Statutes of 2014

Additionally, the Governor's budget includes a request to provide the commission an augmentation of $206,000 (Building Standards Administration Revolving Fund) and one two-year limited-term position beginning in fiscal year 2016-17, to address workload associated with the passage of AB 2282.

Background: Since the early 1980's, all building standards either adopted or proposed by state agencies are to be reviewed and approved by the commission before they are to go into effect. Additionally, all building standards were consolidated into a single code of regulations, Title 24, more commonly referred to as the California Building Standards Code. According to statute, the commission is required to update the California Building Standards Code in its entirety every three years; supplements are published on an annual basis. AB 2282 requires that the commission develop, and propose for adoption, mandatory building standards for recycled water systems during the 2016 intervening code adoption cycle for inclusion in the 2016 California Building Standards Code.

Staff Comment: This item will be discussed as part of the Department of Housing and Community Development's (HCD) budget proposals. It is likely that the CEQA study can be combined or coordinated with another CEQA study for which HCD is requesting funding, to ensure that efforts are not duplicated and costs are kept to a minimum. Staff has directed HCD, CBSC, and DGS to discuss which entity would be the most appropriate to be the lead agency for a CEQA study and come back at the time of May Revise hearings with a request for funding for only one of the entities to conduct a CEQA study.

Staff Recommendation: Hold this item open.

Vote:

7870 VICTIMS COMPENSATION AND GOVERNMENT CLAIMS BOARD

Issue 1 – Missing Children's Reward Program

Governor's Budget Request: The Governor's budget includes a request for trailer bill language to shift funding responsibility for the Missing Children's Reward Program, which is managed by the Victims Compensation and Government Claims Board (board) from the Missing Children Reward Fund (MCR) to the Restitution Fund.

Background: The MCR fund, which was established in 1986, with a one-time transfer of $24,000 from the Victim Witness Assistance Fund. The MCR fund was created to incentivize witnesses to come forward with pertinent information related to the whereabouts of missing children. Rewards, which are capped at $500.00, are made upon recommendation of the Department of Justice. To date, there have not been any funds dispensed from this account, and due to administrative fees associated with managing the fund, it is likely to be depleted in fiscal year 2015-16. If a valid claim or reward were to be submitted for approval, the fund would not have the capacity to pay the reward. The requested trailer bill would shift funding responsibility to the Restitution Fund, which has the capacity to pay a reward or claim, if one is to be made.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve placeholder trailer bill language.

Vote:

8940 CALIFORNIA MILITARY DEPARTMENT

Issue 1 – Advance Plans and Studies

Governor's Budget Request: The Governor's budget includes a request to provide the California Military Department (CMD) with $260,000 ($130,000 General Fund and $130,000 Federal Fund) to conduct studies and develop more in-depth capital outlay planning documents.

Background: The requested funds will support CMD's efforts to better estimate future funding required for projects. The CMD will utilize a collaborative process, often referred to as a charrette, which develops an extensive user input that requires multiple days to complete. The current process is reliant on forms and not as dependent on seeking face-to-face user input, and can be completed in much less time.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Air National Guard Security Positions

Governor's Budget Request: The Governor's budget includes a request to provide the California Military Department (CMD) with an increase of $1.29 million Federal Trust Fund authority to provide fifteen state active duty security positions.

Background: The requested funds will address security vulnerabilities that have been identified by the California Air National Guard (ANG). Their assessment suggested adding security personnel to three squadrons located in California: 1) The 163rd Security Forces Squadron, located at March Air Reserve Base, is tasked with providing electronic surveillance and physical security at the California Logistics Airport. The mission, established in 2013, was created without additional resources being provided to the 163rd Security Forces Squadron. 2) The 129 Security Forces Squadron, located at Moffett Federal Airfield, shares an open campus with the National Aeronautics and Space Agency (NASA). NASA recently signed an agreement with Google, and there will be an increased presence of civilian personnel and increased commercial traffic, which will require additional security resources. 3) The 146th Security Forces Squadron, located at Channel Islands ANG station, has lacked sufficient staffing to conduct around-the-clock security activities. The 146th Security Forces Squadron has had to ask for deviations in established security regulations; the requested positions will allow the squadron to conduct security-related activities in accordance with established regulations.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – STARBASE

Governor's Budget Request: The Governor's budget includes a request to provide the California Military Department (CMD) a permanent $400,000 (Federal Trust Fund) augmentation to support the staffing requirements associated with the STARBASE program.

Background: The STARBASE program is managed by the Assistant Secretary of Defense, Reserve Affairs, and is operated by the military services, including the CMD. The program was originally created in 1989 as a science and mathematics education improvement program and operates at active duty, Guard and Reserve facilities throughout the United States. Since 1993, the STARBASE program has been operational at Okinawa Armory, Sacramento, providing educational programs to fifth-grade students in Northern California. In 2012, the CMD added a program site at Joint Forces Training Base, Los Alamitos, to provide educational programs to fifth-grade students in Southern California.

The STARBASE program in Sacramento currently has authority for three staff members and serves over 2,400 students. The Los Alamitos STARBASE program currently has seven staff members and provides educational programs to over 3,600 students. The requested funds would provide the Sacramento STARBASE program with two additional teachers and one office manager, and would provide STARBASE Los Alamitos with one additional teacher.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.
Vote:

Issue 4 – Military Family Relief Fund Transfer

Governor's Budget Request: The Governor's budget includes a request to provide the California Military Department (CMD) with a $250,000 increase in expenditure authority from the Military Support Fund to provide cash grants from the California National Guard Military Family Relief Fund in accordance with AB 2664 (Quirk-Silva) Chapter 653, Statutes of 2014.

Background: AB 2664 requires that on January 1, 2015, any and all monies remaining in the California Military Family Relief Fund shall be transferred to, and become part of, the California Military Department Support Fund. AB 2664 requires that the remaining monies continue to be dispersed in accordance with the original intent of the contributions made by taxpayers to the California Military Family Relief Fund, which was created to provide financial aid grants to members of the California National Guard who are California residents and have been called to active duty.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – Program Consolidation

Governor's Budget Request: The Governor's budget includes a request to consolidate existing programs into two programs within the California Military Department (CMD).

Background: This proposal will consolidate multiple programs under CMD jurisdiction into two programs. The proposal would create program 6911 National Guard and program 6912 Youth and Community Programs; and would create subprograms for the Air National Guard, Army National Guard, Retirement, State Military Reserve, and the Adjutant General, Cadet Corps, and Youth Programs.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issues Proposed for Discussion / Vote

0690 - OFFICE OF EMERGENCY SERVICES

Department Overview: The principal objective of the Office of Emergency Services (OES) is to reduce vulnerability to hazards and crimes through emergency management, homeland security, and criminal justice. OES coordinates emergency activities to save lives and reduce property loss during disasters, and to expedite recovery from the effects of disasters. On a day-to-day basis, the OES provides leadership, assistance, and support to state and local agencies in planning and preparing for the most effective use of federal, state, local, and private sector resources in emergencies. This emergency planning is based upon a system of mutual aid whereby a jurisdiction relies first on its own resources, and then requests assistance from its neighbors. The OES's plans and programs are coordinated with those of the federal government, other states, and state and local agencies within California.

During an emergency, the OES functions as the Governor's immediate staff to coordinate the state's responsibilities under the Emergency Services Act and applicable federal statutes. It also acts as the conduit for federal assistance through natural disaster grants and federal agency support. Additionally, the OES is responsible for the development and coordination of a comprehensive state strategy related to all hazards that includes prevention, preparedness, and response and recovery.

Budget Overview: The January Governor's budget provides OES with 950.4 positions and $1.44 billion ($108.4 million General Fund).

Issue 1 – Relocation of Red Mountain Communications Site

Governor's Budget Request: The Governor's budget includes a request for $1.26 million (General Fund) to fund the working drawings phase of the Red Mountain Communications relocation project, which is owned and operated by the Office of Emergency Services (OES).

Background: The Red Mountain Communications Site towers support twelve public safety agencies within Humboldt and Del Norte counties. The United States Forest Service's Six Rivers National Forest Plan requires that all communications facilities currently operating on Red Mountain be removed and the land cleared by December 31, 2022. The proposed project will establish three new facilities that will enhance radio coverage currently provided at the Red Mountain facility. The project will establish three new communications facilities at Rattlesnake Mountain, Alder Camp and Rodgers Peak.

Staff Comment: The requested funds will support the working drawings phase of this project. Project costs are currently estimated to total $19.982 million. The next phase, which will include construction, is expected to cost approximately $16.03 million, and will be requested in FY 2016-17. Additional costs, associated with maintenance, leasing, and power to the respective agencies will total $25,000 annually.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Public Safety Communications Network Operations Center

Governor's Budget Request: The Governor's budget includes a request for $1.53 million (General Fund) to fund the preliminary plans phase of the Public Safety Communications Network Center.

Background: The California Public Safety Microwave Network (CAPSNET) has been in service for over 50 years, and has become a communications asset to the state's public safety first responders. The Office of Emergency Services' (OES) Public Safety Communication Division is responsible for the state's microwave network through the Network Operations Center, which is located in Sacramento. OES has been working to modernize the state's radio network from analog to digital, which will allow OES to operate the NOC under a more decentralized model, and will also allow the network to become less susceptible to a natural or man-made disaster.

Currently, inspecting or repairing a microwave hub requires on-site work from a technician. Under the proposed plan, a technician would be capable of remotely accessing the hub. The remote access will allow for testing and diagnosis to be performed at remote sites during inclement weather.

OES intends on relocating the NOC to the same facility as their state operations facility, located in Rancho Cordova. Additionally, OES will need to construct a 120-foot communications tower. The projected overall cost of this project is $4.3 million.

Staff Comment: According to OES, when the project is complete, the existing NOC will continue to act as a radio vault, much like others within the public safety microwave network, and will also serve as a secondary NOC.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Drought Response Activities

Governor's Budget Request: The Governor's budget includes a request for $4.4 million (General Fund) to support OES efforts to provide local agencies with technical assistance and drought response and recovery related activities.

Background: In January 2014 OES activated its state and regional operations centers to assist local government agencies with local assistance centers. The state and regional operations offices facilitate assistance to local jurisdictions and local assistance centers that provide local communities with technical guidance and disaster recovery support. For example, in East Porterville, a community severely affected by the drought, OES helped coordinate the delivery of potable water for drinking and sanitation purposes.

OES has projected that the coordination efforts will require twenty-five staff working full-time to support OES drought response related activities. Many of the employees that work at OES are supported by federal funds, but the drought has not been declared a federal disaster. Therefore, the state is required to fund workload associated with drought response and recovery related activities at OES. In fiscal year 2013-14 the state provided OES with $1.8 million (General Fund) and the provided OES with $4.4 million (General Fund) in fiscal year 2014-15.

LAO Comment: The LAO has noted the level of funding needed to respond to the drought will depend on future hydrologic conditions. Water conditions for 2015 are currently unknown since the state typically receives nearly all of its precipitation between December and April each year. Thus, the level of resources required by OES is uncertain at this time. While OES may still have some work to do to help communities recover even if hydrological conditions improve, the amount of workload necessary will likely be clearer by the May Revision when more information on water conditions will be available.

During the first half of 2014-15, OES spent an average of $225,000 each month on drought-related activities. If this average spending rate continued for the remainder of the current year, OES would not fully utilize the $4.4 million that was provided in the 2014-15 budget for such activities. While it is possible for OES to spend at a higher rate this spring on drought-related activities, monthly expenditures would have to more than double (and substantially exceed any month for which we have expenditure data) in order for all of the funding to used. Thus, it is likely that all of the funding in the current year may not be fully needed.

Staff Comment: As noted by LAO, OES is not projected to utilize the full $4.4 million appropriated as part of the 2014 budget act. Current drought-related expenditures total $1.7 million, and OES would need to spend approximately $550,000 per month throughout the remainder of the budget year in order to utilize all funding provided. The subcommittee may wish to wait until a clearer picture of the state's hydrologic conditions are available prior to approving this item.

Staff Questions:

1. *What was the amount spent on drought-related activities for the most recent month available?*

2. *How much of the $4.4 million appropriation provided as part of the 2014 Budget Act is currently available?*

Staff Recommendation: Hold open.

Vote:

Issue 4 – Railroad Accident Prevention and Immediate Deployment Force (RAPID)

Governor's Budget Request: The Governor's budget includes a request via trailer bill to create the Regional Railroad Accident and Preparedness and Immediate Response Force in the Office of Emergency Services (OES).

Background: Oil production from the Bakken region of North Dakota, Montana, and Alberta, Canada has increased significantly in recent years. The remote nature of the region means that energy companies have become more reliant on moving the oil by rail to refineries throughout the country. The production of two types of hazardous materials, crude oil and ethanol, has seen rapid growth in the past few years. This increasing production has required a flexible mode of transport to match output, and has begun to increasingly rely on rail transport. In fact, railroads account for about 70 percent of all ethanol transport, according to the Association of American Railroads, and crude oil by rail is growing quickly, as pipelines become saturated and do not connect new oil boom regions (such as the Bakken in North Dakota and the Tar Sands in Canada) to major refining locations (such as California).

In 2011, California had the third highest amount of imported rail tons of ethanol in the country, with more than 45,000 carloads arriving in state. The same year, about 9,000 tank cars of crude oil were imported into California by rail, and this number is projected to increase to over 200,000 cars by rail by 2016, according to the CEC.

As a result of this increase in transport, there have been several fatal and devastating rail accidents involving large crude oil spills resulting in large fires and explosions in both the United States and Canada. One of the most serious of these recent accidents was the Lac-Mégantic derailment that occurred in the town of Lac-Mégantic in Canada on July 6, 2013. In this accident, a 74-car freight train carrying crude oil from the Bakken region derailed in the downtown area, killing 47 people and destroying more than 30 buildings when multiple tank cars exploded and burned. In addition, the Chaudière River was contaminated by 26,000 gallons of crude oil.

On November 25, 2014 a derailment occurred in the Feather River Canyon, and, according to the Director of OES, "the state dodged a bullet" due to the fact that the train was carrying corn rather than oil. However, according to OES, there is approximately one million gallons of oil from the Bakken region that travels down that canyon on a weekly basis.

According to the California Public Utilities Commission (CPUC) the traverse down the Feather River Canyon is not the only area in the state that there is an increased risk of derailment. The CPUC has noted that two perecnt of the state's track, which has been identified as local safety hazard sites, were responsible for 18 percent of derailments. The list of local safety hazard sites is below:

Local Safety Hazards as identified by the CPUC September 1997

1) Site No. 1 - SP Coast Line, Milepost 235.0 to 249.0 (Now UPRR Coast Subdivision)
2) Site No. 3 – SP Yuma Line, Milepost 535.0 to 545.0 (Now UPRR Yuma Subdivision)
3) Site No. 4 – SP Yuma Line, Milepost 586.0 to 592.0 (Now UPRR Yuma Subdivision)
4) Site No. 6 - SP Yuma Line, Milepost 542.6 to 589.0
5) Site No. 7 – SP Siskiyou Line, Milepost 393.1 to 403.2 (Now Central Oregon and Pacific Railroad Siskiyou Subdivision)
6) Site No. 9 – Shasta Line (Black Butte District), Milepost 322.1 to 332.6 (Now UPRR Black Butte Subdivision)
7) Site No. 10 – SP Shasta Line, Milepost 322.1 to 338.5 (Incorporated into Site No. 9 – see above)

8) Site No. 12 – SP Roseville District, Milepost 150.0 to 160.0 (Now UPRR Roseville Subdivision)
9) Site No 16 – SP Bakersfield Line, Milepost 335.0 to 359.9 (Now UPRR Mojave Subdivision)
10) Site No. 19 – SP Bakersfield Line, Milepost 463.0 to 486
11) Site No. 22 – UP Feather River Division, Milepost 234.0 to 240.0 (Now UPRR Canyon Subdivision)
12) Site No. 23 – UP Feather River Division, Milepost 253.0 to 282.0 (Now UPRR Canyon Subdivision)
13) Site No. 25 - UP Feather River Division, Milepost 232.1 to 319.2
14) Site No. 26 – UP Bieber Line, Milepost 15.0 to 25.0 (Now BNSF Gateway Subdivision)
15) Site No. 27 – UP L.A. Subdivision Cima Grade, Milepost 236.5 to 254.6
16) Site No. 28 – ATSF Cajon, Milepost 53.0 to 68.0 (Now BNSF Cajon Subdivision)
17) Site No. 29 – ATSF Cajon, Milepost 81.0 to 81.5 (Now BNSF Cajon Subdivision)
18) Site No. 30 – ATSF Cajon, 55.9 to 81.5
19) Site No. 31 – ATSF San Diego, Milepost 249.0 to 253.0 (Now BNSF San Diego Subdivision)

Proposed Trailer Bill - To address the increased risk of hazardous materials transport, and enhance the response capacity of OES and local agency response teams in the event of a rail accident that includes the transport of hazardous materials, the Governor's budget includes a proposal that would:

- Create the Regional Railroad Accident Preparedness and Immediate Response Force within the Office of Emergency Services, and designate this force as being responsible for providing regional and onsite response capabilities in the event of a hazardous spill that involves its transport by rail.

- Amend the state's emergency response plan to include a state regional railroad accident preparedness and immediate response plan.

- The proposed language would require that the Director of OES establish a schedule of fees that are fair, and, in accordance with the federal Hazardous Materials Transportation Act, that would clearly determine the amount that is to be paid by an entity transporting materials by rail in California.

- The proposed language also includes the establishment of the Railroad Accident Preparedness and Immediate Response Fund, which is where collected fees would be appropriated.

- The proposed language also specifically limits the amount available for appropriation from the fund at $10 million dollars during any calendar year.

- Additionally, it requires that funds available in the Railroad Accident Preparedness and Immediate Response Fund reimburse the California High-Cost Fund-B Administrative Committee Fund, which was a requirement of AB 1476.

Staff Comment: To address the increasing concern related to the risk of an accident caused by the derailment of train carrying hazardous materials, the Legislature included funding as part of AB 1476 (Committee on Budget), Chapter 663, Statutes of 2014, which provided OES with a loan from the High-Cost Fund-B Administrative Committee Fund. The loan, which is required to be repaid no later than July 1, 2017, is intended support the implementation of OES' railroad tank car hazardous materials emergency preparedness.

Staff Questions:

1. *OES recently prepared a gap-fit analysis for rail in California, could OES staff share the concerns that were raised in that analysis?*

2. *The LAO has noted that the funds available for this program would be restricted to rail safety, as opposed to all forms of transport – could OES staff address this concern?*

Staff Recommendation:

Vote:

Issue 5 – Homeless Youth and Exploitation Program

Background: The Homeless Youth and Exploitation Program (program), pursuant to the 1986 Welfare and Institutions Code §13703 and California Penal Code §13837, was designed to help homeless youth exit street life. A youth is considered homeless if; he/she is under the age of 24 and does not have a permanent residence, this includes: a youth who has run away from home, has been pushed out of his/her home by parents or guardians, has aged out of the foster care system and is now homeless, is living in shelters or other temporary housing arrangements, or is living on the streets.

Services provided under this program include: access to food; shelter; counseling; outreach services; referrals to other agencies; screening for basic health needs; and long-term stabilization planning. Projects are currently dealing with an increase in the number of youths seeking shelter space, affordable housing, dating violence, and human trafficking of youths. They are also trying to educate the public on the issues and dangers homeless youths in California and the nation face each day.

The Governor's budget includes $1.07 million ($721,000 State Victim Witness Assistance Fund and $356,000 General Fund) for fiscal year 2015-16. This funding supports four organizations throughout the state that provide services to homeless youth. The organizations are located in Los Angeles, San Diego, San Francisco and Santa Clara.

Staff Comment: Currently, there are a wide variety of programs that provide services to the approximately 200,000 youth that experience homelessness each year. One of the primary objectives identified by the state to reduce, or end, youth homelessness was to provide at-risk youth with shelter, with the intent of identifying housing as soon as possible. Programs to support the state's effort to reduce homelessness among youth are dispersed throughout a number of state agencies, and providing a continuum of care, which stretches from emergency shelter to employment, can be difficult to navigate.

Staff Questions:

1. *Could the LAO highlight some of the programs that provide support to the homeless youth population? Does the current process seem to maximize the state's resources to reduce or end youth homelessness?*

Staff Recommendation: Informational item, no action necessary.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Budget Overview: The Governor's budget proposes expenditures of $306.6 million for the Department of Housing and Community Development (HCD) and 529 positions. This is a decrease of roughly $269.7 million from 2014-15, primarily due to the reductions of Proposition 46 and 1C awards and a one-time augmentation of $100 million for the Multifamily General and Supportive Housing Program. With the exception of $30 million for the Housing Related Parks Program, all funds from Propositions 46 and 1C will have been awarded by the end of 2014-15. In addition, there is an overall reduction of nine positions at HCD from the current year.

Issue 1 – Funding for Housing Element Reviews

Governor's Budget Request: The Governor's budget includes a request for $871,000 General Fund for seven existing positions at HCD currently funded from Proposition 1C bond funds. The positions perform a variety of tasks including conducting housing element reviews and enforcement activities, as well as the implementation of AB 32 (Nunez/Pavley), Chapter 488, Statutes of 2006 and SB 375 (Steinberg), Chapter 728, Statutes of 2008, and the development of Sustainable Housing Outcomes.

Background: State law requires each city and county to adopt a general plan containing at least seven mandatory elements, including housing, which is the only component subject to detailed statutory requirements and a mandatory review by HCD. SB 375 amended the law so that local government housing elements were no longer updated over a staggered five-year schedule. Instead, the planning period for most local governments increased to eight years and the due date is 18 months from the date the Metropolitan Planning Organization updates and adopts its Regional Transportation Plan. This resulted in peaks and valleys in HCD's workload.

The department currently has 12 positions (of 21 total positions in the Housing Planning Division) that review local governments housing elements. At the end of the fiscal-year when five limited-term positions expire, seven positions that conduct housing element reviews will remain. These seven positions are currently funded from Proposition 1C bond funds (five positions from the Regional Planning, Housing, and Infill Incentive Account and two positions from the Housing Urban-Suburban-and-Rural Parks Account). The Governor's proposal would fund these seven positions with General Funds in 2015-16. The five positions that will expire currently receive funding from the Air Pollution Control Fund.

According to HCD, housing element workload has a statewide application and benefits, and as a result, has historically been funded by the General Fund. In 2011-12, all General Fund for housing element review workload was cut and the Legislature approved the use of Proposition 1C bond funds to temporarily fund this workload. The nexus for the use of bond funds to pay for these positions goes away when there are no more (or minimal) elements to review that would be tied to funding rounds of these programs.

Staff Comment: Until 2011-12, HCD's housing element review work was funded primarily by the General Fund. However, in 2011-12 all of the General Funds were eliminated.

Staff Questions:

1. *What funding sources other than the General Fund were considered for these positions?*

Staff Recommendation: Hold open.

Vote:

Issue 2 – Recycled Water Systems for Residential Structures

Governor's Budget Request: The Governor's budget requests funding from the Building Standards Administration Special Revolving Fund for one two-year limited term district representative II ($95,000) and $275,000 for a contract for a California Environmental Quality Act (CEQA) study to implement AB 2282 (Gatto), Chapter 606, Statutes of 2014.

Background: The state is committed to a 20 percent reduction in per capita water use by 2020 as required by SB X7-7 (Steinberg), Chapter 4, Statutes of 2009. AB 2282 provides for the development and adoption of mandatory building standards during the 2016 code adoption cycle for the installation of recycled water systems for newly constructed residential, commercial, and public buildings. As part of this law, HCD is required to conduct research, in consultation with the State Water Resource Control Board, the Department of Public Health, and other parties to develop and propose building standards for recycled water systems for adoption by the California Building Standards Commission (CBSC) in 2016. The State Housing Law Program prepares the adoption of National Model Codes with California-specific amendments on a triennial basis, as well as mid-cycle, and emergency code packages.

This proposal requests one staff person and funding for HCD to contract for a CEQA study. The development and installation of infrastructure for use of recycled water may include the use of new materials and water transportation methods that may pose environmental concerns and need to be evaluated through the CEQA process. Through the Department of General Services (DGS) the CBSC is also requesting funds for a CEQA study.

Staff Comment: The request for one position at HCD (and another at CBSC) to implement AB 2282 is consistent with what was anticipated in the legislation. In addition, there are adequate funds in the Building Standards Administration Special Revolving Fund to support this request. The combined cost of the CEA study between the funds requested at DGS and HCD is $580,000 which is over twice what was anticipated in the fiscal analysis of AB 2282. It is likely that the CEQA study can be combined or coordinated with the CEQA study for which DGS is requesting funding, to ensure that efforts are not duplicated and costs are kept to a minimum. According to the request, HCD and CBSC/DGS anticipate reaching a decision on how to coordinate CEQA efforts by mid-October 2015, which may require an adjustment to one or both proposals.

Staff Questions:

1) *Why is the Administration requesting funding for both HCD ($275,000) and the California Building Standards Commission ($305,000) to conduct a CEQA study? Wouldn't one study make the most sense? Which entity is likely to be designated the lead CEQA agency?*

2) *What is HCD doing to coordinate the CEQA process with DGS and CBSC?*

Staff Recommendation: Hold open and direct CBSC, HCD, and DGS, if necessary, to discuss which entity would be the most appropriate to be the lead agency for a CEQA study and come back at the time of May Revise hearings with a request for funding for only one of the entities to conduct a CEQA study. Also, approve funding for the limited-term position at HCD to work on implementing AB 2282.

Vote:

7760 DEPARTMENT OF GENERAL SERVICES

Department Overview: The Department of General Services (DGS) is responsible for the management, review control and support of state agencies, as assigned by the Governor and specified by statute. The department's functions include: acquisition, development, leasing, disposal and management of state properties; architectural approval of local schools and other state buildings; printing services provided by the second largest government printing plant in the U.S; procurement of supplies needed by other state agencies; and maintenance of the vast fleet of state vehicles.

Budget Overview: The Governor's 2015-16 budget proposes $1.05 billion dollars ($17.15 million General Fund) and 3,596.6 personnel years.

Issue 1 – Mercury Cleaners Site Remediation

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS) with a one-time $9.3 million (General Fund) augmentation to continue remediation efforts associated with the Mercury Cleaners building site, a state-owned property located at 1419 16th St., Sacramento.

Background: The Mercury Cleaners site, which is located in downtown Sacramento, has been used by a dry cleaning business since the 1940's. A preliminary environmental site assessment conducted by the state has determined that various containments, including dry cleaning solvents, were found in the soil. DGS was provided with $3.7 million (General Fund) as part of the 2014 budget act, to conduct further evaluations of the site, and through the investigation DGS has determined that a significant amount of clean-up will be required. This budget proposal would provide DGS with funding to conduct a number of activities including: 1) $7.2 million for the purchase of surrounding structures, abatement and demolition of surrounding structures, and relocation costs for tenants in nearby buildings; 2) approximately $1 million for water treatment; 3) $600,000 for administrative and oversight fees; and 4) $415,000 for continued monitoring. According to DGS there will likely be a request for additional resources in fiscal year 2016-17, to address additional remediation. Remediation efforts may take several years to complete.

LAO Comment: According to LAO, there is substantial uncertainty regarding the extent to which contamination has spread from the Mercury Cleaners site to adjacent properties. The department reports that it will take between one and two years before it will have completed sufficient investigation work to know the extent to which it will need to proceed with the purchase and demolition of other structures and relocation of tenants. Therefore, the DGS is unsure whether all of the resources requested for this purpose will be needed in the budget year. However, DGS indicates that it is requesting this funding in 2015-16 because it would want to be able to begin these activities in 2015-16 if the investigations are completed in that timeframe and the investigations find that contamination has spread. The department indicates that it does not want to wait to complete these activities should health and human safety risks be identified that require immediate attention. These funds would be deposited into the Architectural Revolving Fund (ARF). Once placed in the ARF, the funding would be available to DGS for expenditure for up to three years.

LAO notes that the proposed remediation activities are reasonable. However, it is unclear at this time how much of the proposed funding for the purchase of other structures, relocation of tenants, and demolition and abatement will be needed in 2015-16. Therefore, LAO has recommended budget bill language that specifies that \$7.6 million—\$7.3 million for purchase and demolition of structures and relocation of tenants, as well as \$327,000 for the share of administrative fees associated with these activities—only be used for these purposes, and any of this amount unspent in 2015-16 be reverted to the General Fund. This language would allow DGS to complete work in the budget year but require it to return with a revised budget request for any additional work as part of next year's budget process. At that time, DGS should be able to provide the Legislature with additional information regarding the scope and costs of additional remediation work necessary at these sites.

> **Proposed budget bill language: "***Of the amount appropriated in this item, \$7.6 million shall only be available for (1) the purchase of other structures near the Mercury Cleaners site, (2) demolition and abatement of these structures, (3) relocation of tenants, and (4) administrative costs associated with these activities. Any unspent funds at the end of the 2015-16 fiscal year shall revert to the General Fund."*

Staff Comment: Staff concurs with LAO; at this time it is unclear how much of the requested funding will be needed during fiscal year 2015-16. The suggested budget bill language provides a general framework that would allow DGS to continue site remediation related activities without creating an additional burden on the state's General Fund. As noted by DGS, there will be additional workload associated with site remediation, and requests for additional funding will be necessary in the near future. Providing resources as necessary would be the more fiscally prudent approach to what could be a costly endeavor.

Staff Recommendation: Direct the DOF, DGS, and LAO to coordinate in order further refine budget bill language proposed by LAO.

Vote:

Issue 2 – Dharma Realm Ukiah – Hazardous Materials Investigation

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS) with a one-time $1.115 million (General Fund) augmentation to investigate and characterize the Dharma Realm site, which was previously owned by the state.

Background: From 1893 to 1972 the State of California owned and operated the Mendocino State Hospital in Ukiah. The state hospital property was sold in 1974 to a private real-estate firm who in turn, sold 273 acres of the site to the Sino-American Buddhist Association in 1976. A settlement was reached between the state and the Sino-American Buddhist Association, now known as the Dharma Realm Buddhist Association (DRBA), in 1993. Under the agreement, the investigation, characterization, and remediation are to meet the requirements of the North Coast Regional Water Quality Control Board, State Integrated Waste Management Board, and Mendocino County Department of Public Health.

There has been limited development-related activity on the site since the settlement was reached. Now that resources are more readily available, and DRBA has expressed an interest in developing the site, DGS will need to meet the expectations that were established in the settlement, which include an investigation and characterization of the site. Non-compliance with the settlement could possibly trigger a violation of the Porter-Cologne Water Quality Control Act and the state could potentially be fined $15,000 daily for non-compliance.

Staff Comment: Staff does not have any issues with this request. The requested resources will fulfill the state's obligations per the settlement reached in 1993.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Real Estate Services Division – High-Speed Rail Project

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS), Real Estate Services Division, with 5.0 permanent positions and $841,000 (Service Revolving Fund) to address workload associated with the High Speed Rail Authority (HSRA).

Background: On July 6, 2012, the Legislature approved construction financing for the initial stage of the California High Speed Rail project. The Real Estate Services Division within the DGS has been tasked with assisting the California High Speed Rail Authority with the transaction review, appraisal review, setting of just compensation, property acquisition review, relocation assistance plan review, state-owned leasing services, staff support for the State Public Works Board approval process, escrow closing process, resolution of title process, transfers of jurisdiction, easement, acquisition and granting, facilitating utility relocations, project consultation/coordination, Statewide Property Inventory reporting, disposition of excess property and legal consultation support from the DGS Office of Legal Services. Previously, the Legislature approved a $684,000 augmentation from the service revolving fund and 5.0 two-year limited-term positions for support of the HSRA's workload associated with property acquisition.

Staff Comment: Staff continues to view this workload as temporary and would recommend the requested positions be provided as two-year limited-term.

Staff Recommendation: Approve requested positions as two-year limited-term, and approve augmentation necessary to support the requested positions.

Vote:

Issue 4 – State Property Inventory

Governor's Budget Request: The Governor's budget includes proposed trailer bill to require agricultural district associations to report their real property information to the Department of General Services.

Background: Within DGS, the Real Estate Services Division is responsible for managing statewide real estate functions for the state. The Real Estate Services Division is comprised of five branches: Asset Management, Business Operations, Policy and Planning, Building and Property Management, Professional Services, and Project Management. The Asset Management branch often serves as the first point of contact for agencies or departments seeking new services. One of the primary functions of the Asset Management branch is to assess proposed projects and determine whether or not they are consistent with regional facility plans. Additionally, the branch is responsible for making tenant/property improvements to underutilized state-owned properties.

In accordance with statute, state agencies, departments, boards and commissions, are required to submit their property holdings to DGS on an annual basis. The Surplus Property Inventory (SPI) serves as the state's main record keeping system for tracking statewide surplus assets. The SPI contains information related to the state's real property assets, including land, structures, improvements and leased space, as well as state-owned leased space to other tenants.

Staff Comment: AB 2490 (Eggman), Chapter 342, Statutes of 2014, realigned certain responsibilities associated with district agricultural associations. Including the requirement that district agricultural associations annually report property holdings to DGS, which DGS contends was an oversight, and should not have been removed from statute. The requested language would reinsert the requirement that agricultural associations report their land holdings to DGS.

There is merit to ensuring the state has a clear picture of what the state's property assets are at any given time. However, there are some larger questions that may be worth discussing during consideration of this proposal. For example, during the 1990's, the Office of Planning and Research (OPR) was charged with proactively managing the state's assets. That task has now been removed from OPR's responsibility, and since then, the state has lacked a centralized asset approach. Additionally, DGS could further align their efforts with private sector best practices by coordinating with the Department of Technology's Geospatial Information Systems (GIS) mapping capacity. GIS is a computer system designed to capture, store, and manipulate spatial or geographical data.

Staff Questions:

1. *Can DGS describe how they have worked to provide a centralized asset management plan for the state? If so, are there measurable outcomes that the Legislature could review?*

Staff Recommendation: Hold this item open.

Vote:

7870 – VICTIMS COMPENSATION AND GOVERNMENT CLAIMS BOARD

Department Overview: The Victim Compensation and Government Claims Board (VCGCB) was first established in 1911 known as the Board of Control. It was responsible for supervising the business affairs of all state departments, hospitals, prisons, reformatories, boards, commissions, bureaus, and the Department of Public Accounting. In 1927, its oversight role ended. Thereafter, its duties included the adoptions of rules and regulations governing the presentation and audit of contract or tort claims. Its duties were expanded in 1963, with the enactment of the Torts Claims Act, which the VCGCB administers on behalf of the State.

In 1965, California created the nation's first Victim Compensation Program. Responsibility for this program was transferred to the VCGCB in 1967, and has since become its largest program. The VCGCB's responsibilities have increased over the years and in 2001, its name was changed to more accurately reflect its roles and responsibilities. Today the VCGCB administers the State's Government Claims Program, Victim Compensation Program and Revenue Recovery Program. Its responsibilities extend to a number of other matters including the handling of bid protests, handling claims of erroneously convicted felons, administering the California State Employees Charitable Campaign, setting rates for travel expenses for elected state officials and the judiciary, establishing per diem rates for members of the Legislature, and administering both the Good Samaritan Act and the Missing Children Reward Program.

Budget Overview: The Governor's budget provides VCGCB with 267.0 positions and $121.70 ($95.56 million restitution fund, $24.81 million federal funds, and $1.33 million reimbursements).

Issue 1 – Government Claims Program

Governor's Budget Request: The Governor's budget includes a request to begin the process of transitioning the Government Claims Program (GCP) from the Victims Compensation and Government Claims Board (VCGCB) to the Department of General Services (DGS). The Governor's budget includes a request to reduce reimbursement authority of the VCGCB by $168,000 and 3.0 positions for fiscal year 2015-16 to begin the transition of the GCP to DGS.

Background: The Tort Claims Act of 1963 established the manner in which claims against the state are handled and what role the GCP plays administratively. In accordance with Government Code, those that wish to file a lawsuit against the state, or its employees, must first pursue an administrative remedy through the GCP. The GCP process provides the state an opportunity to investigate and possibly settle claims without incurring litigation expenses.

GCP processes two types of claims: (1) tort claims, which the state's liability is established in law, and (2) equity claims for which the claimants have no legal remedy, but principles of equity dictate that the state should provide compensation. Prior to fiscal year 2004-05, the GCP was supported by the General Fund, and was classified as a central service, which allowed for statewide prorate from various special funds to offset General Fund costs. The Budget Act of 2004 made changes to the funding model, authorizing the collection of a $25 claim filing fee and a surcharge of up to fifteen percent on approved claims. The funding model was adopted to reduce General Fund expenditures in the midst of a challenging fiscal environment and to require that the departments that most frequently used the GCP process shoulder the bulk of the costs.

The number of claims received by GCP has reduced significantly, and the current funding model no longer supports the total costs associated with the administration of the GCP. In fact, revenues have declined so significantly that the VCGCB had a deficiency that required General Fund support during fiscal year 2013-14 through a supplemental appropriations bill.

Staff Comment: Under this proposal, the GCP transition to DGS is a multi-year process. Included in this proposal is a budget request to increase DGS service revolving fund authority by $638,000 for fiscal year 2015-16. The GCP will transition to DGS, applicable statutory changes, including eliminating existing fees and surcharge collections by the program will be a component of the proposal for fiscal year 2016-17.

Staff Recommendation: Hold this item open.

Issue 2 – Wrongful Convictions

Background: Pursuant to Penal Code Section §4900, an exonoree may present a claim against the state to the California Victim Compensation and Government Claims Board (board) for the pecuniary injury sustained by him or her through erroneous conviction and imprisonment. The current statute is being interpreted to only allow for "pecuniary" damages, and a claim was denied recently of an indigent individual on these grounds.

Staff Comment: The damages of a wrongful conviction are unique and not limited simply to lost earnings during incarceration. It's a one-of-a-kind harm, and there currently is no precedent to an interpretation based on only lost earnings. Additional clarity may be required to ensure that a claimant can seek recompense for harm suffered for a wrongful conviction, rather than the current interpretation, which may only take lost earnings during incarceration into consideration.

Per statute, the type of evidence required by the claimant to be presented to the board includes that a claimant was gainfully employed at the time of the wrongful conviction, and that a certain amount of income had been lost due to the wrongful conviction. However, current statute does not take into account certain circumstances that may impact a claimants request for pecuniary damages. For example, an individual that is seventeen at the time of conviction, and not gainfully employed, could be limited in their ability to show that pecuniary injury. Making it difficult, if not impossible, to prove that due to a wrongful conviction. The Legislature appropriates funds on an annual basis to claimants against the state, including wrongful convictions. Since 2002, ten claims have been paid, averaging approximately $350,000 per claim. Clarifying the parameters for the board to recommend an appropriation by the Legislature could benefit the board and the claimant.

Staff Recommendation: Adopt placeholder trailer bill clarifying that a claimant can seek recompense for harm suffered for a wrongful conviction, rather than the current interpretation which may only take lost earnings during incarceration into consideration.

Vote:

8940 CALIFORNIA MILITARY DEPARTMENT

Department Overview: The California Military Department is responsible for the command, leadership, and management of the California Army and Air National Guard and five other related programs. The purpose of the California National Guard is to provide military service supporting the state and the nation. The three missions of the California National Guard are to provide: 1) mission ready forces to the federal government, as directed by the President; 2) emergency public safety to civilian authorities, as directed by the Governor; and, 3) support to the community, as approved by a proper authority. The California Military Department is organized in accordance with federal departments of the Army and the Air Force staffing procedures.

Budget Overview: The Governor's budget proposes $159.97 million ($48.14 million General Fund) and 886.7 personnel years. This reflects a decrease of $3.02 million and an increase of 51 positions, as compared to the 2014-15 budget.

California Military Department Resources and Expenditures

Fund Source	2013-14	2014-15	2015-16 (proposed)
General Fund	$44,547	$47,341	$48,147
Federal Trust Fund	$92,406	$102,547	$105,805
Reimbursements	$9,884	$4,847	$4,002
Mental Health Services Fund	$1,138	$1,387	$1,590
Other Funds	$84	$422	$423
Total Expenditures	**$148,059**	**$156,544**	**$159,567**
Personnel Years	**769.7**	**835.7**	**886.7**

*Dollars in thousands

The Military Department also receives federal fund support. These funds are not allocated by the state or deposited in the State Treasury and are not included in program or statewide totals. All of the federal funds that are received from the Federal Government are for the support of the federal component of the California National Guard.

Federal Funds – California Military Department

	2013-14	2014-15	2015-16
Expenditures	$1,045.750	$1,004,160	$1,025,080
Personnel Years	4,450.0	4,184.0	4,184.0

Issue 1 – Consolidated Headquarters Complex

Governor's Budget Request: The Governor's budget includes a request to provide the California Military Department (CMD) with $8.88 million (General Fund) to acquire property for a 238,000 square foot consolidated headquarters complex, 20,000 square foot armory, and a 22,600 square foot storage complex.

Background: Currently, the CMD's main headquarters facility is a leased building in Sacramento, and the United States Property and Fiscal Office headquarters is located at Camp Roberts and Camp San Luis Obispo. According to CMD, the leased facilities do not afford the level of security that is required by the Department of Defense (DOD). Due to this requirement, the CMD cannot extend their current lease beyond the lease agreement's expiration date of 2017. To address this, the CMD has proposed acquiring thirty acres of land to construct a new headquarters complex, which will be located at Mather Airfield, in the Sacramento area.

CMD estimates that total project costs will be $113.14 million. The preliminary plans, working drawings, and construction phase of the project will be funded through lease-revenue bonds, which at $99.2 million, represent the majority of the costs associated with this project.

LAO Comment: The Governor's proposal is generally aligned with the Legislature's prior action to begin the process for CMD to have a consolidated headquarters that will meet federal security requirements and streamline operations. Moreover, owning its own headquarters will insulate CMD from potential future increases in lease prices. The land that has been selected for purchase is ideal for CMD needs as it is next to a military air force base and the Office of Emergency Services, an office with whom CMD collaborates extensively. In addition, finding another similar plot of land in Sacramento County could be difficult in the future.

While no federal funds are currently available for the project, federal funds could become available in the future if the federal budget outlook or federal priorities change. The availability of such funds could significantly reduce the cost of the project to the state. For example, if the federal government were to contribute 65 percent of project costs in the future—equivalent to the portion originally assumed—it would reduce state lease-revenue debt payments by $114 million.

LAO Recommendation: Given that the site proposed for the consolidated CMD headquarters is ideal and the land purchase option is set to expire, the LAO recommends the Legislature approve the Governor's proposal to purchase the land. However, before approving future phases of the project, the LAO recommends that the Legislature direct CMD to report at hearings on the prospects of receiving federal funds for this project and what the department is doing to secure such funds.

Staff Comment: Staff concurs with the LAO, regular reporting associated with efforts to secure federal funds for this project should be provided. Staff recommends that the CMD, in coordination with the DOF, include efforts to secure federal funds in Budget Change Proposals associated with this project.

Staff Recommendation: Approve as budgeted, request that CMD, in coordination with DOF, report annually on efforts to secure federal funds related to this project.

Vote:

Issue 2 – Stockton Youth ChalleNGe Academy

Governor's Budget Request: The Governor's budget includes a request to provide the California Military Department (CMD) $4.5 million (Federal Trust Fund) and 32 permanent positions to support the Stockton Youth ChalleNGe Academy.

Background: The Youth ChalleNGe Program (program) was created in 1993 and tasked the National Guard Bureau with assisting in efforts to address the needs of the thousands of youth that were at-risk of dropping out of high school. The program consists of a 22-week in-residence phase, followed by a one-year mentoring and placement phase in which students either seek job placement or receive additional education. The first Youth ChalleNGe program in California was established in 1998 at Camp San Luis Obispo, where the CMD and the San Luis Obispo County Office of Education have partnered to operate a charter public high school. The second Youth ChalleNGe program was established in 2007 at Los Alamitos as a partnership between the CMD and the Orange County Department of Education, to operate as a public high school.

According to the CMD, an average of twenty-five percent of the program's graduates earn their diploma and/or GED, and the remaining seventy-five percent of program graduates are directed towards the high school graduation path. The Stockton Youth ChalleNGe program is expected to graduate 300 students per year, and the program has already received over 350 applications for budget year 2015-16, when it is expected to be operational.

Staff Comment: The CMD received a $1.5 million (General Fund) ongoing appropriation as part of the 2014 Budget Act to support the Stockton Youth ChalleNGe Academy. The appropriated funds represent the required 25 percent match from the state. The remaining 75 percent match is provided through federal trust funds. The federal funds will support the 32 positions needed to fully staff the facility.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Special Olympics

Governor's Budget Request: The Governor's budget includes a request to provide the California Military Department (CMD) a one-time increase of $779,000 in General Fund expenditure authority to support the Special Olympics World Games, Los Angeles 2015.

Background: Los Angeles has been selected to host the 2015 Special Olympics World Games. The event will consist of over 7,000 athletes and 3,000 coaches representing 177 countries. The 9-day event (July 25 – August 2) will consist of 25 different competitive events at 27 venues throughout the Los Angeles area. The requested funds will allow the CMD to activate members on Emergency State Active Duty (EASD) status, which allows for greater leeway with federal law related to the use of military services. Additionally, utilizing EASD will allow the CMD to track more closely the expenses associated with this event.

Staff Comment: According to CMD, there will be approximately 250 CMD employees called up on EASD to support this effort. CMD intends on targeting the Los Angeles area to the greatest possible extent to identify eligible employees in order to reduce travel costs associated with supporting the event.

Staff Recommendation: Approve as budgeted.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Outcomes for Thursday, March 19, 2015
9:30 AM or Upon Adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room 2040
Consultant: Brady Van Engelen

Item Number and Title

0690	Office of Emergency Services
2240	Department of Housing and Community Development
7760	Department of General Services
7870	Victims Compensation and Government Claims Board
8940	California Military Department

(See Table of Contents on page 1 for a More Specific Listing of Issues)

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Thursday, March 26, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Agenda

State Finance and Tax Administration

- **Department of Finance**
- **Legislative Analyst's Office**

<u>Discussion / Vote Calendar</u>

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.

Item for Discussion

Oversight—Tax Compliance and Enforcement and the Underground Economy

Presentation: **Franchise Tax Board**
Board of Equalization
Little Hoover Commission

Comments: **Legislative Analyst's Office**

BACKGROUND

Compliance and Enforcement. The state has two principal tax collection agencies that administer revenue programs that benefit the state General Fund and various special funds:

- Franchise Tax Board (FTB) administers and collects the personal income tax (PIT) and the corporation tax (CT).

- Board of Equalization (BOE) administers and collects the sales and use tax, various excise taxes, and other taxes and fees.

As part of their administrative duties, the agencies operate extensive programs designed to (1) assist taxpayers in complying with the state's tax laws and (2) impose enforcement mechanisms in the event of non-compliance. The tax agencies are required to submit annually to the Joint Legislative Budget Committee (JLBC) extensive information on their compliance and enforcement activities. These activities for each of the agencies are outlined below:

The BOE efforts in compliance and enforcement encompass the following programs:

- **Audit Program.** The audit program is designed to ensure businesses report neither more nor less tax than required by law. The audit program operates on a three-year cycle and is designed to include the largest taxpayers and other accounts that maximize resource productivity. In 2013-14, net revenues (deficiencies less refunds) of the program were $463.6 million with a benefit-cost ratio of 4.1 to1.

- **Consumer Use Tax.** The consumer use tax section of BOE works closely with state and federal officials in administering the use tax due on non-dealer sales of vehicles, vessels, aircraft and mobile homes. In 2013-14, revenues of the program were $46.9 million with a benefit-cost ratio of 5.7 to1.

- **Collection Program.** The collection program collects on outstanding tax amounts owed using a collection model designed to maximize revenue per dollar of resources. In 2013-14, collection revenues were $686.9 million with a benefit-cost ratio of 13.1 to1.

- **Return Analysis.** The return analysis unit investigates discrepancies, creates billings, and makes other adjustments to tax returns as warranted. Returns are selected for review based on a matrix of information, including business type, taxpayer location, computational rules, thresholds and variances. In 2013-14, the program generated revenues of $48.1 million for a benefit-cost ratio of 11.7 to1.

- **Compliance Enforcement.** Compliance enforcement encompasses several programs designed to identify non-filers and under-reporters. In 2013-14, the program billed revenues of $138.7 million for a benefit-cost ratio of 4.4 to1.

The FTB implements programs that are similar to the BOE's, although they address issues that are particular to the taxes that it administers, specifically:

- **Accounts Receivable Management Program.** This collection program involves collection of accounts that the department establishes by its self-assessment, audit, and filing enforcement activities. The program includes the Statewide Collection Bureau, Personal Income Tax Billing, Compliance and Collection Bureau, Business Entity Collection Bureau, Field and Complex Account Collection Bureau, Special Programs Bureau, and Advisory, Analysis and Services Bureau. In 2013-14, the program generated revenues of $2.9 billion with a benefit-cost ratio of 14 to1.

- **Audit Program.** The audit program includes the National Business Audit Bureau, Individual & Pass-Through Entity Audit Bureau, Audit Protest and Administration Bureau, and Technical Resource and Services Bureau. The primary responsibility of the program is to conduct examinations of taxpayer income tax returns, determine the correctness of self-assessed liabilities, issue notices of proposed assessment, and resolve taxpayer disputes. In 2013-14, the program generated revenues of $1.4 billion for a benefit-cost ratio of 7 to1.

- **Filing Compliance Program.** The department's filing compliance efforts fall into activities related to filing enforcement, non-wage withholding, and fraud and discovery. In 2013-14, the program billed revenues of $2.5 billion for a benefit-cost ratio of 57 to1.

- **Tax Return Validation.** The tax return validation program amends and corrects routine mathematical discrepancies, complex taxpayer errors, incomplete returns, keying errors and validates e-file returns and payments. Perfection of tax returns is required prior to loading the data to main tax systems used by the department. In 2013-14, the program billed revenues of $1.6 billion for a benefit-cost ratio of 27 to1.

Tax Gap. The tax agencies compliance and enforcement programs address what is known as the 'tax gap.' The tax gap is defined as the difference between the amount of tax lawfully owed and the amount actually collected. The tax gap is the result of non-compliance with the state's tax laws, either through unintentional oversight, intentional disregard and outright active evasion. The presence of the tax gap puts an additional strain and burden on compliant taxpayers since, if all individuals and businesses complied, taxes for all compliant taxpayers could decline and still result in generating the same amount of revenue for the state. The tax gap, as defined by the tax agencies, is inclusive of those economic activities that are otherwise legal, but where compliance with the state's tax laws fails to occur.

Both BOE and FTB have estimated tax gap amounts over the last few years. The FTB estimates the current annual income tax gap to be $10 billion ($8 billion personal income tax and $2 billion corporation tax)—or roughly 15 percent of total taxes that should be collected from these sources. BOE estimates the current gap for taxes that it administers to be approximately $2.3 billion in lost revenues annually due to noncompliance, with General Fund reductions representing about $1.0 billion of this amount. The major components of the BOE portion of the tax gap are: (1) use tax liabilities of businesses and individual consumers; (2) tax evasion by non-filers; and (3) under-reporting and nonpayment by registered taxpayers. BOE and FTB have a number of initiatives that are specifically aimed at reducing the size of the tax gap in response to emerging issues in tax compliance.

BOE has had a tax gap strategic plan in place since 2007. In bringing the components of the plan into operation, BOE has initiated a number of specific programs above and beyond its regular compliance activities. Some of these are designed to increase voluntary compliance, and thus focus on education and outreach efforts to inform consumers and businesses regarding their tax collection and remittance obligations. In other cases, tax gap efforts are targeted more on the compliance and enforcement activities, such as the Statewide Compliance and Outreach Program (SCOP). BOE has a number of additional tax gap initiatives currently in place. These programs include more effective use of software applications, utilizing North American Industry Classification System (NAICS) codes, investigating misuse of resale certificates, and conducting special audits of auto auctions and gas stations. The results of these and other selected programs are shown in the following table:

Board of Equalization
Tax Gap Initiatives
(Dollars in Millions)

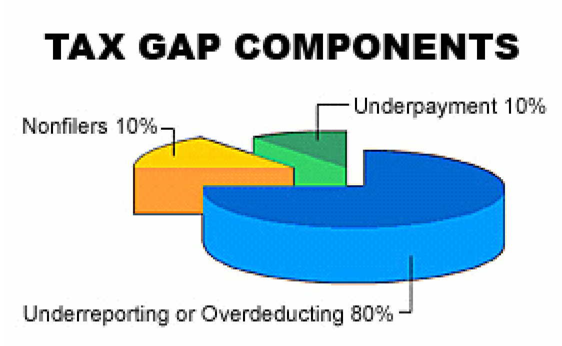
Tax Gap Program	2012-13 Actual Revenue	2013-14 Actual Revenue	2013-14 Benefit-Cost Ratio
US Customs	$13.0	$7.3	9.0:1
Agriculture Station Inspection	60.9	68.2	10.2:1
AB 4X 18 Qualified Purchaser	50.4	36.9	3.2:1
Statewide Compliance and Outreach	85.9	65.6	4.7:1
Instate Service	36.0	15.0	1.9:1
Tax Gap II	9.5	16.1	4.2:1
AB 155—Nexus	NA	387.3	121.0:1
Out of State 1032 Audits	28.9	*	NA
Enhancing Tax Compliance	140.5	*	NA

*No longer reported as individual programs.

FTB pursues various programs to narrow the tax gap. Some of these programs focus on taxpayer education and seek additional compliance from those who may not be aware of certain tax requirements. Other measures relate to enforcement efforts to improve compliance among individuals and businesses that chose not to comply with the state's tax laws. These measures result in additional revenue for the state that would otherwise not be received. Equally central to the core value of their collection practices is that such efforts make the tax system fairer to everyone by distributing the burden according to adopted laws.

In general, the efforts and programs of FTB are designed to address the following components of the tax gap:

- Non-filers—Entities that simply avoid filing required income tax forms.
- Under-reporters/Over-reporters—Entities that under-report the amount of income or over-report income deductions or tax credits.
- Non-Payers—Entities that file but do not remit tax owed.



Tax enforcement and compliance has become increasingly driven by information, data, and technology over the last couple of decades. The FTB processes more than 15 million personal income tax returns and one million business enterprise returns annually. Given the volume and complexity of tax returns, filings and programs, it has become imperative that the department remains current in information technology in order to access and exchange information. FTB's operations are heavily reliant on effective storage and use of data from a variety of sources, in order to maintain adequate compliance and enforcement activities. The FTB has made significant progress in this area, and this continues to be a focus of its activities (see discussion under EDR issue). These efforts can also have a positive impact on reducing the tax gap.

FTB's Tax Gap Action Committee (TGAC) identifies specific tax gap-related initiatives and recommends efforts to pursue remedial actions. Currently, TGAC's key initiatives are:

- Provide background information on the underground and illegal economies. Continue partnerships with California agencies to improve compliance with tax and related laws.

- Increase FTB's ability to identify fraudulent refund claims and prevent the issuance of erroneous refunds when the claim is the result of a thief using a real taxpayer's information to file a false claim.[1]

Underground Economy. The underground economy is defined as those activities where economic activities are not sanctioned by law and are in and of themselves illegal, as well as those activities that are legal, but fail to comply with certain state laws regarding health and safety or licensing or taxes. Thus, in terms of the revenue impacts of the underground economy, there is likely some overlap with the estimated revenue impacts attributed to the tax gap by the tax agencies. For example, FTB indicates an overlap of about 50 percent. The magnitude of the underground economy is most certainly in the multi-billions of dollars.

The Little Hoover Commission released its report on the underground economy on March 9, 2015. In the report, it took a narrower perspective on the underground economy than that put forth above, and limited its focus to those activities that are legal when all laws and regulations are followed and illegal when not. The commission last reviewed the underground economy 30 years ago, at which point it concluded, "…the state can and must do more to deter the growth of the underground economy and eliminate its activity in many areas." In the current study, the commission indicates that not enough has changed in this arena since the 1985 report, labeling the state's performance at controlling the underground economy as 'woeful.'

The commission cites several general areas where state efforts are lacking: centralized leadership; enforcement resources; statutory clarity and appropriate penalties; effective enforcement tools; local enforcement funding; enforcement personnel compensation equity; ease of compliance; and, incentives, education and outreach. The commission also developed 15 separate recommendations to improve the state's performance. Some of these recommendations—such as establishing an independent underground economy advisor—would have an indirect effect of tax compliance and enforcement. Other recommendations—such as standardizing the definition of independent contractor—could have more direct implications for the tax agencies and their work.

Staff Comments: The departments should provide background information to the committee regarding the status of tax gap efforts, and provide any updates from prior years. This update should include results from discreet programs as well as general successes in narrowing the tax gap through increased data sharing and advances in technological capabilities. The departments should outline, in particular, their progress in coordinating with other state agencies—as well as other states—in these activities. In addition, the departments should address whether there are additional steps that they should be taking, given the Little Hoover Commission report on the underground economy.

[1] In a related refund issue, as part of the 2012-13 statutory language was proposed that would have imposed a penalty on certain erroneous refund claims. The language imposing a penalty on these erroneous refund claims, when there is no reasonable basis, was not approved, thus allowing non-compliant taxpayers the opportunity to play 'audit roulette.' The language would have provided additional conformity with federal law. The corresponding federal treatment imposes a penalty if a claim for refund is made for an excessive amount unless there is a reasonable basis for the claim. The proposal would have closed a loophole in the general accuracy-related penalty framework by imposing a penalty equal to 20 percent of the excessive amount.

The LAO should provide comments regarding the department's efforts in this regard and any additional measures that the department could take to improve compliance.

Items for Discussion / Vote

0860 Board of Equalization
7730 Franchise Tax Board

Department Overview and Budget Summary: The departments and their budgets are described in the stand-alone sections for each agency below.

Issue for Discussion:

Issue 1: Department of Finance Budget Letter 14-12, July 12, 2014.

Background: In July of 2014, the Department of Finance (DOF) issued instructions to agencies and departments setting forth parameters for the preparation of the 2015-16 budget. The letter indicated that the priorities for the Administration continue to be maintaining a structurally balanced budget that "…preserves critical state services and pays down debt and obligations…" The instructions direct departments and agencies to continue to control costs and limits their ability to submit Budget Change Proposals (BCPs) or Enrollment/Caseload/Population (ECP) policy changes to the following circumstances:

a) Statutory changes necessary for departments to manage within their budgets;
b) Expected changes in programs' ECPs;
c) Paying down state debts and liabilities;
d) Reducing deferred maintenance;
e) Existing or on-going information technology (IT) projects;
f) Existing or ongoing capital outlay projects;
g) Critical new capital outlay projects;
h) Cost-cutting measures or authorizing efficiencies;
i) Improved budgeting practices related to zero-based budgeting, or other measures.

DOF issued a similar letter in 2013, as part of its instructions for preparing the 2014-15 budget. The first such restrictions were imposed for 2011-12, with further restrictions (equivalent to those in BL 14-12) imposed for 2012-13.

Impacts of Budget Letter: The DOF directive relates to all state departments, including those not directly under the Governor's authority. Thus, the directive applies to both of the state's major tax agencies—which together are responsible for the administration of the state's major taxes: personal income tax, sales and use tax and corporation tax. Total General Fund revenues generated by these taxes (and collected by the agencies) are expected to exceed $110 billion in 2015-16. In anticipation of the 2014-15 budget, the Franchise Tax Board (FTB) submitted to its board a BCP that would have addressed the tax gap (as discussed above) by focusing on federal audit revenue agents reports (RARs), withholding services and compliance, and fiduciary e-File services. The proposal would have cost approximately $1.9 million annually, and generated revenues of $13.9 million in the initial year and $20.4 million annually, thereafter. When fully implemented, the benefit-cost of the program would be about 10 to 1. The proposal was approved by the FTB board but rejected by the Administration on the basis that it did not meet any of the circumstances set forth in BL 14-12, as indicated by DOF staff.

Staff requested the FTB to update their estimates for the 2015-16 budget year. FTB estimates that a similar proposal would require 18-19 permanent positions in the audit program and generate $13.9 million in year one and $20.4 million annually thereafter. FTB is currently analyzing the fiduciary e-File services relative to a potential component of the Enterprise Data to Revenue (EDR) project BCP. EDR is described more fully in an item below.

Staff Comments: Notwithstanding the rejection by DOF of the FTB's proposed tax gap measure, the proposed BCP would squarely meet the Administration's circumstantial test in that 1) additional revenues could pay down debts and liabilities (c above), and 2) not spending $1 to generate an additional $10 is *prima facie* evidence of inefficient tax program administration (h above). More fundamentally—ignoring the revenue impact—by not applying existing tax laws to non-compliant taxpayers, the state sends a message to compliant taxpayers that is likely to have a very corrosive impact on the overall effectiveness of the state's tax programs. During other recent periods of fiscal restraint, administrations typically have recognized this potential negative impact, and specifically exempted the tax agencies' compliance activities from budget directives that might otherwise have limited their effective enforcement of the state's tax laws. Finally, the long term implication of the DOF directive is likely to have a chilling effect on the efforts of both agencies to initiate compliance and enforcement measures in the future, further jeopardizing the effective enforcement of the state tax laws. Whether this has already occurred is not known.

Questions:

Franchise Tax Board and Board of Equalization

1. In addition to the BCP from FTB discussed above, are there other programs that have been developed by the tax agencies that would further the appropriate enforcement of the state's tax laws and also generate additional net revenues for the state?

2. In this regard, what programs or efforts have been developed by the agencies and in what stage are these efforts?

3. What would the long-term impact of DOF's interpretation of its directive be on the state's tax administration and revenue collection?

Department of Finance

1. Is DOF open to a reinterpretation of its own rules in how they are applied to revenue generating agencies?

Legislative Analyst's Office

1. What would be the long-term impact of the current approach by DOF on tax gap efforts?

Staff Recommendation: No recommendation at this time, pending additional staff review.

Vote: NA

0860 Board of Equalization

Department Overview: The State Board of Equalization (BOE) is comprised of five members—four members each elected to the board on a district basis, and the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of BOE-administered taxes and fees and FTB decisions on personal income and corporation taxes.

Budget Summary: The Governor's budget proposes resource support of $577.9 million ($323.6 million General Fund), and 4,830 positions for the BOE in fiscal year 2015-16. The budget proposes a total funding decrease of $4.3 million (0.7 percent) and a very slight General Fund support decrease, compared with spending estimates for the current year. Proposed staffing in the budget would increase by just 18.3 positions from the current-year estimate. The department received much higher increases in funding during the current year, compared to 2013-14.

Issue for Discussion:

Issue 1: Centralized Revenue Opportunity System (Oversight)

Background: BOE is in the process of consolidating and modernizing its existing taxpayer information systems through the Centralized Revenue Opportunity System (CROS) project. As designed, CROS would replace the BOE's two existing systems of tax information and return management, expand online business and taxpayer services, and provide an agency-wide data warehouse. CROS would replace two legacy systems—Integrated Revenue Information System (IRIS) and Automated Compliance Management System (ACMS).

The acquisition of CROS will be achieved through a performance-based, benefits-funded procurement approach. This approach is similar to that used by the Franchise Tax Board (FTB) and the Employment Development Department (EDD) for their respective information and data management systems. The approach does not require up-front vendor funding, as the development and implementation costs are paid under a benefits-funded contract, with payment allowed only when increased revenues are received. Contractor payments would be dependent on the generation of additional revenues attributable to the project and would be capped overall.

The agency indicates in its most recent annual report to the Legislature (December 1, 2014), that it is conducting pre-implementation activities to mitigate risks that typically undermine large-scale IT projects, comprising: program area readiness, data readiness, external interfaces, and business intelligence analytics. The agency indicates that the project procurement phase was delayed eight months due to the following:

- The Department of Technology (CalTech) administered a detailed technical review of proposed revenue-generating strategies to assess possible impacts with BOE policy (four-month delay).

- Vendors expressed concerns regarding financial requirements for functional, technical, and project management deliverables expected during the implementation phase (three-month delay).

- BOE reviewed and streamlined requirements for functional, technical, and project management deliverables expected during the implementation phase (one-month delay).

The Special Project Report #2, approved by CalTech in February 2014, limits costs for planning, Request for Proposals development, and procurement to $25.2 million. This is expected to last to September 2015. The procurement contract is expected was to be awarded in October 2015. The project was given $30.1 million in budget authority in 2012-13, and incurred $25.0 million in costs. The BOE reports additional revenue (due to early implementation activities) of $38.7 million (data cleansing) in 2012-13, $70.4 million (enhanced tools and consulting services) in 2013-14 and an estimated $66.5 million (increased positions) in 2014-15.

The budget year is a key year for the implementation of the project. BOE provided the following next steps and timeline in its December report:

- Submission of Final Proposals February 26, 2015
- Notification of Award August 19, 2015
- Contract award and Execution October 21, 2015
- Project Start Date October 22, 2015
- Maximum Project End Date October 26, 2020

In March 2015 discussions with staff the agency indicated that the timeline has slipped roughly three months further, specifically the new timeline is: Submission of Final Proposals—May 11, 2015; Notification of Award—October 21, 2015; Contract Award and Execution—January 4, 2016; Project Start Date—January 5, 2016; and Maximum Project End Date—January 4, 2021.

Staff Comments: In the roughly three and one-half months since the agency issued its report to the Legislature, there have been additional delays. According to the agency, the contract award and project start date is now slated for January 2016. Complications with the financing model for the project—benefits based—were identified as one of the primary reasons for the additional delay. Clearly, it’s better to experience delays and ‘get it right’ than to accelerate a project that isn’t ready. Nevertheless, the frequent delays at least raise the question of the overall ability of the agency (and its partners) to manage a project of this scope. Fortunately, we are still in the procurement phase of the project, rather than implementation when delays would result in direct costs. While CROS is being prepared for implementation, BOE must maintain its legacy systems. As part of this, the agency will submit a Spring Finance Letter to provide for the implementation of AB 1717 (Perea), Chapter 885, Statutes of 2014, which established the Mobile Telephone Surcharge and assigned the administrative activities associated with the fee to BOE. Given this, staff recommends holding the agency's budget open, pending consideration of this as well as other issues.

Questions:

Board of Equalization

1. Would CROS have been able to prevent the misallocation of sales tax revenue from local governments to the General Fund that was uncovered last year?

2. How many and what changes in the timing of the implementation of CROS has occurred since it was first approved by the Administration?

3. When will revenues from the project first begin to occur?

4. In 2013-14, the BOE board approved a BCP designed to reduce the accounts receivable backlog, which was rejected by DOF on the basis that CROS would address this. Since as accounts receivable age, they become increasingly difficult to collect, and given the delays associated with CROS, what has been the revenue impact of not implementing this initiative? (Note: For 2015-16, the proposal would have had costs of $23.9 million and generated revenues of close to $100 million.)

California Department of Technology

1. Please provide you assessment of the status and the immediate prospects for the CROS project.

Staff Recommendation: Informational and oversight item.

7730 Franchise Tax Board

Department Overview: The Franchise Tax Board (FTB) is one of the state's two major tax collection agencies and administers the personal income tax and the corporation tax programs, the largest and third-largest contributors to the state's revenue, respectively. The department also performs some non-tax collection activities, such as the collection of court-ordered payments, delinquent vehicle license fees, and political reform audits. The FTB is governed by a three-member board, consisting of the Director of Finance, the Chair of the Board of Equalization, and the State Controller. An executive officer, appointed by the board, manages the daily functions of the department.

Budget Overview: The Governor's budget proposes expenditures of $698.9 million ($666.8 million General Fund) and 5,885 positions for FTB. This represents a continuation of a substantial increase in support for the agency, compared to the 2009-10 fiscal year, but somewhat of a decrease from the current year funding level of $729.8 million. Expenditures grew from $533.1 million in 2009-10 due primarily to reinstating some of the budget reductions from earlier years as well as new programs. The budget reinstatements were made to reverse negative revenue impacts of the prior Administration's statewide cuts and furloughs, which included the state's tax collection agencies. In addition, the budget calls for augmentations for specific tax compliance programs and technology improvements related to the department's revenue collection activities. Recent budget increases have also been the result of funding for the Enterprise Date to Revenue (EDR) project, a benefits-funded project discussed below.

Issues for Discussion / Vote:

Issue 1: Mainframe Workload Growth (BCP 1)

Background: The FTB is responsible for maintaining the mainframe environment so the Enterprise Data to Revenue (EDR) system, discussed below, can be implemented. In addition, the mainframe is essential for the department's legacy applications, including taxpayer information (TI), business entity tax system (BETS), and court-ordered debt (COD). In addition, the mainframe applications operates in conjunction with the accounts receivable collections system (ARCS), the professional audit support systems (PASS), integrated non-filer system (INC), and online self-service applications for taxpayers.

Typically, FTB has replaced the mainframe every four years, with the most recent replacement in 2011-12. In addition, the FTB upgrades the mainframe CPU every two years to increase the millions of instructions per second (MIPS). In the past, FTB experienced a ten percent annual growth rate in MIPS demand, but in 2013-14 the growth rate was 47 percent. In addition, there have been instances of MIPS demand spikes due to software upgrades, increased workloads, and testing demands. These factors combined have contributed to increased CPU usage beyond the original historical based ten percent annual growth projections. FTB has since determined that the annual growth in demand for MIPS is likely to be in the range of 12 to 15 percent.

Governor's Proposal: The FTB requests an augmentation of $8.6 million General Fund and $354,000 in special funds in 2015-16, and $1.8 million General Fund and $73,000 in special funds in 2016-17, for replacement of the mainframe's central processing unit, additional memory, storage space, and software to meet near-term workload growth projections. These additions and expansions will allow for the continued implementation of the EDR project as well as allow the department's legacy systems to maintain sufficient processing capacity to process and collect current revenues.

Staff Comments: Staff has no concerns with this budget request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2: Enterprise Data to Revenue Project—Information Technology (BCP 2)

Background: The FTB processes more than 15 million personal income tax returns and one million business enterprise returns annually. Its operations are heavily reliant on effective storage and use of data from a variety of sources. The continuation of the EDR project is expected to fund the technology-intensive portion of the project. FTB indicates that the initial revenues generated by the EDR project were primarily from adding staff to process the current backlog of business entity returns and begin collection correspondence in order to accelerate revenue. Beginning in 2011-12, substantial revenues were generated by the EDR project proper.

The EDR project has three major goals. First, it seeks to capture all tax return data in an electronic form. Second, the project will integrate the various existing "siloed" tax databases at FTB into a data warehouse. Third, the project will enable FTB to add third-party data (for example, county assessor data) to its data warehouse. The FTB asserts that the EDR Project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

The project includes the following improvements to FTB's systems that process personal income tax and business entity tax returns:

- An underpayment modeling process that would be integrated with the Accounts Receivable Collections System and Taxpayer Information System.
- An enterprise data warehouse with data search and analysis tools.
- A taxpayer records folder that is accessible to the taxpayer and allows taxpayers and FTB staff to access the information.

- Re–engineering of existing business processes—including imaging of tax returns, data capture, fraud and underpayment detection, tax return validation, filing enforcement, and other audit processes—and integration of these enhanced business processes with FTB's existing tax systems.

- Improved business services at FTB, such as address verification, issuance of notices, and a single internal password sign-on for its IT systems.

Contractor payment for system development and implementation are conditioned on generating additional revenue that will more than cover the cost. This approach is intended to protect the state and also give the contractors a strong incentive to develop the project in a manner that produces significant revenue quickly. The FTB has used this approach previously. FTB's benefit-funded approach made use of revenue gains from reducing the business entity backlog to more than offset costs in 2009-10 through 2012-13. Cleaning up the backlog was a necessary condition to efficient project development. In subsequent years, there have been large increases in annual revenue gains that are directly attributable to the IT project. For 2010-11 through 2013-14, revenue projections were $444 million, but actual revenue generated was $863 million. FTB expects that the projected $4.7 billion of additional revenue through the life of the project (terminating in 2017-18) will be realized. The benefits method of financing EDR is similar to that used by the Employment Development Department (EDD).

Governor's Proposal: The budget proposes $44.7 million and 20 three-year, limited-term positions in 2015-16 to continue the implementation of EDR project. Of the total budgeted amount, $41.2 million constitutes the vendor payment with the remainder slated for personnel costs and to pay for project oversight by the California Department of Technology (CalTech). The budget year is the fifth year of the project, and to date, FTB reports that the project is on schedule, within scope, and within budgeted project costs. The budget proposal includes a placeholder for the project's 2016-17 requirements, which includes $53.6 million for maintenance and operations (with $39.9 million earmarked for vendor payments). As indicated above, the vendor payment is directly tied to revenues generated. Revenues generated by the project for 2015-16 are expected to be between $760.5 million and $1.1 billion. The 20 limited-term positions will support the ongoing current IT work associated with the project. The positions will also facilitate and address knowledge management, transition of the system, and training. The efforts are designed to prepare FTB staff to take over maintenance and operations of EDR by January 1, 2017,

Staff Comments: The net benefit of this project ramps up quickly. As noted above, the project began to produce significant net revenues starting in 2011-12. The FTB has among the best track records in California state government for the successful development and implementation of major information technology projects. FTB projects have experienced some delays and cost increases in certain phases, although these problems generally have not prevented successful timely completion of overall project phases. The committee may ask the LAO and CalTech to comment on the project. The department has provided strong management of the implementation of EDR, to date. Nevertheless, given the sensitive nature of the project, and its direct relevance to revenue collection for the state, the committee is wise to provide continual annual oversight of the project. The department expects to submit an additional request to the Legislature in a Spring Finance Letter.

Questions:

Franchise Tax Board

1. When will FTB take over the operation of the system? Given the advance training and knowledge transfer, could additional reductions be made in the vendor payments if FTB staff can accelerate the displacement of vendor resources?

2. It does not appear from the documentation that there have been many change order requests, which can often drive excessive IT costs. What has been the department's approach in largely avoiding these?

California Department of Technology or Department of Finance

1. Could you provide for the submitted your assessment of the status of the project? Is the project on track for completion at the specified date?

2. What particular features of the EDR project are easily implemented in other venues?

Staff Recommendation: Hold open.

Vote:

Issue 3: Enterprise Data to Revenue Project—Program (BCP 3)

Background: General information about the EDR project is provided in the item above. The components in this proposal—Fraud Unit and Authenticated Live Chat—are being incorporated into the design of the project. The Fraud Unit detects and prevents fraud related to refundable credits, identity theft, and preparer-driven issues related to unwarranted deductions and credits. FTB implemented fraud detection rules as part of the return validation process over ten years ago. Such deduction and prevention of fraud is expected to improve by incorporating these activities into the EDR project. Authenticated Live Chat is the next step up from Live Chat. Under Authenticated Live Chat, security is such that confidential taxpayer information may be exchanged, and personal tax situations addressed. The current Live Chat protocol allows for only general tax information to be addressed, without the exchange of information regarding personal tax situation.

Governor's Proposal: The budget proposes $2.5 million and 33 positions (25 permanent and eight two-year, limited-term) to support the Fraud Unit and Authenticated Live Chat associated with the EDR. The EDR project includes enhanced fraud modeling tools that will allow the FTB to better detect fraudulent activity and stop an additional $40 million in refund and identity theft fraud returns from being issued to fraud perpetrators. The 25 permanent positions will be assigned to this unit. The proposal includes the provision of resources to Authenticated Live Chat, which will permit the exchange of personal tax information, and is expected to be implemented by July 1, 2015. The eight limited-term positions will be assigned to this activity. The proposal also calls for budget bill language which would allow the Department of Finance (DOF) to augment the department's budget by up to $3.5 million, upon 30 days notice to the Joint Legislative Budget Committee, to provide additional resources to the EDR project for tax data preparation and capture of information from personal income tax and corporation tax documentation.

Staff Comments: Staff has no fundamental concerns with the proposal, but recommends the item be held open pending receipt of an expected Spring Finance Letter. The proposed budget bill language is similar to that which the Legislature approved last year.

Questions:

Franchise Tax Board

1. Given the increase in personnel for the Fraud Unit, does it make sense to make some of these positions limited-term—especially as EDR comes on line and makes the process more efficient? What training is involved in the positions, and do we risk not attracting good personnel if they are made limited-term?

Staff Recommendation: Hold open.

Vote:

Issue 4: Top 500 Income Tax Delinquencies (BCP 4)

Background: As part of its efforts to reduce the tax gap, the Legislature approved AB 1424 (Perea), Statutes of 2011, Chapter 455, that expanded the list of designated delinquent taxpayers from 250 to 500, required updating the delinquent taxpayer list, and provided certain tax collection tools used to collect tax debt. To implement this legislation, the 2012-13 budget included funding for seven three-year, limited-term positions. These positions expire at the end of the current year. The revenue generated by the program was $64.9 million in 2012-13 and $74.1 million in 2013-14, and is expected to be $70.0 in 2014-15. The positions are responsible for the following activities: publishing the top 500 debtor lists at least twice per year; suspending occupational, professional, and driver licenses held by debtors appearing on the top 500 debtors list; administering the reinstatement of licenses of taxpayers who come into compliance; and, prohibiting state agencies from contracting for goods or services with a tax debtor on the list. The program involves the following actions regarding noncompliant taxpayers: 1) an initial letter indicating that placement on the top debtor's list will occur; 2) a secondary letter indicating such placement is imminent; and 3) placement of the taxpayer's name on the top debtors list. Most of the revenue generated by the program is attributable to the two letters, indicating that the prospect of public opprobrium is more effective than the actual publicity engendered by placement on the list.

Proposal: The department's proposal would make permanent six positions for the administration of the top debtors program. FTB indicates that the work associated with the tax compliance program is ongoing in nature and the resources are critical to the continued effectiveness of the efforts.

Staff Comments: Staff recommends approval of the request from the department. The program has been challenged in court—in particular, the license suspension aspect—but the decisions have been mixed. A least two cases are on appeal. Given the success of the program, it would seem wise to continue its funding.

Staff also notes the apparent inconsistent application of BL 14-12. This BCP, which is a program designed to address the tax gap—based on DOF's current interpretation—does not appear to meet any of the circumstantial tests noted in the BL 14-12 DOF directive. One could argue that this BCP request is an exception, since it results in the conversion of existing limited-term positions to permanent; however, this is not a qualified exception under the circumstances provided in BL 14-12.

Questions:

Franchise Tax Board

1. With a recent decision against the FTB action to rescind a state license, do you see this as affecting the efficacy of the program?

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5: Collection of Delinquent Accounts (Trailer Bill Language)

Background: The FTB is responsible for collecting certain delinquencies related to vehicles including registration fees, transfer fees, and parking violation penalties.

Governor's Proposal: The proposed trailer bill language would expand the types of vehicle-related charges that are collected by the FTB to include unpaid tolls, toll evasion penalties, or any related administrative or service fees.

Staff Comments: Staff has no concerns with this proposal.

Staff Recommendation: Approve placeholder trailer bill language.

Vote:

Item for Discussion

Oversight—State Debt and Financial Management

Presentation: **State Treasurer's Office**
Department of Finance

Comments: **Legislative Analyst's Office**

BACKGROUND

Long-Term Debt. The state uses general obligation bonds (GO bonds) to borrow funds for spending—primarily for infrastructure and other capital investments. The use of bonds to accelerate capital projects is a commonly-used practice of government entities. Bonds must be approved by voters and bond proceeds are either continuously appropriated (immediately available for expenditure) or require an appropriation from the Legislature. All bond debt service is continuously appropriated and, therefore, not appropriated in the annual budget bill. The state has $79.0 billion in outstanding GO bond debt (including self-liquidating bonds such as the Economic Recovery Bonds [ERBs]). Another $31.7 billion in bonds are authorized, but remain unissued. In most instances, bonds are sold at different lengths of maturity such that repayment is spread over about 30 years. The chart below indicates the authorized, but unissued, reservoir of bonds.

General Obligation Bonds Authorized and Not Issued
(Dollars in Millions)

Authorized Bond Program	Unissued Amount
Prop 1A of 2008: High-Speed Rail	$9,003
Prop 1 of 2014: Water Quality, Supply, and Infrastructure	7,545
Prop 1B of 2006: Transportation	4,585
Prop 84 of 2006: Safe Drinking Water	2,826
Prop 1E of 2006: Disaster Prep and Flood Prevention	1,719
Prop 71 of 2004: Stem Cell Research	1,340
Prop 46 of 2002 & Prop 1C of 2006: Housing	1,201
Prop 55 of 2004 & Prop 1D of 2006: Education Facilities	803
All other	2,684
Total	**$31,706**

The state generally goes to market to sell GO bonds twice annually—once in the spring and once in the fall. Bond structures are often tailored to meet market demand and investor appetite. This tailoring includes tinkering with variables such as fixed and variable rates, call features and premiums, and various security enhancements. Bonds are sold in amounts necessary to meet expenditure needs, plus an additional cash cushion to account for flexibility regarding how fast projects will expend funds and uncertainty about the timing of the next bond sale.

Debt Service. Expenditure of bond proceeds is reflected in the budgets of individual departments, with the payment of bond debt service consolidated in Item 9600 in the Governor's budget. It is the repayment of bond debt that is reflected as a General Fund expense. Some bond costs are offset by special funds or federal funds. Other bonds are 'self-liquidating,' or have their own dedicated revenue. For example, the ERBs receive a quarter-cent of the sales tax as a component of the 'triple flip' enacted as part of the 2004 budget package. Once the ERBs are paid off, largely in the current year, as proposed in the Governor's budget, sales tax resources dedicated to General Fund bond repayment would be freed up.

The Governor's budget includes $5.4 billion in General Fund costs for GO bond debt service and related costs. (As mentioned earlier, most of the remaining cost of the ERBs is expected to be paid in 2014-15 by making a payment of $3.9 billion. There may be a much smaller payment of $132 million in early 2015-16 to pay off the loans.) In addition, $1.2 billion in debt costs are scheduled to be funded from special funds. Finally, federal bond subsidies, through the Build America Bonds (BABs) program, will provide $326 million in 2015-16, allowing for a reduction in General Fund expenses. The Governor's proposed budget includes $114.6 billion in General Fund for debt service (not including carry-over balances and the transfer to the rainy day fund), so the net General Fund bond debt service as a percentage of General Fund resources is about 5.0 percent.

Governor's Budget for General Obligation Bond Debt
(Dollars in Millions)

Category	2013-14 Actual Cost	2014-15 Estimated Cost	2015-16 Forecasted Cost
General Fund Cost	$4,798	$5,091	$5,377
Other Funds Cost	1,050	1,076	1,195
Federal Subsidy (Build America Bond Program)	326	326	326
Total Debt Service	**$6,174**	**$6,493**	**$6,898**
Economic Recovery Bonds (ERBs, not included above because indirect GF cost)	$1,538	$3,931	$132

The budget plan includes an assumption that $2.0 billion in GO bonds will be sold in the spring of 2015, and that $1.6 billion more will be sold in the fall of 2015. Among these planned sales are $1.8 billion for transportation and related capital facilities, $800 million for various natural resources bonds, $421 million related to housing bonds, and $346 million for various education facility bonds.

Bond Management. As the state's cash situation deteriorated with the most recent recession, the Administration changed the methodology for managing bond cash. Prior to the recession, reserve cash funded project costs in advance of bond sales, and then bond sales replenished cash reserves. When reserve cash declined, the state had to instead sell bonds in advance of expenditures. Due to project expenditures occurring slower than anticipated at the time of bond sales, large bond cash balances developed—about $9.7

billion as of December 2011. As a result, the Administration implemented a plan to utilize commercial paper to aid cash flow, and reduce the need to carry large bond cash balances. The Administration also requires GO bond programs to demonstrate an immediate need for additional bond proceeds prior to issuing new bonds. Progress has been made to reduce bond cash, which is shown in the table below.

General Obligation Bonds Current Cash Proceeds
(Dollars in Millions)

Authorized Bond Program	Bond Proceed Cash Remaining*
Prop 1B of 2006: Transportation	$1,536
Prop 1E of 2006: Disaster Prep and Flood Prevention	569
Prop 50 of 2002: Water Security	314
Prop 1A of 2008: High Speed Rail	265
Prop 1D of 2006: Public Education Facilities	227
Prop 13 of 2000: Safe Drinking Water	197
Prop 84 of 2006: Safe Drinking Water	195
Prop 1C of 2006: Housing	184
Prop 71 of 2004: Stem Cell Research and Cures Bond	120
All others	416
Total	**$4,023**

* As of November 2014,

Staff Comments: Most state capital investments are intended to provide benefits over many years, and it is reasonable and appropriate that current and future taxpayers and beneficiaries provide the funding. Bonding for such projects is often the most feasible option, as well as the preferred option. Pay-as-you-go financing is also appropriate to the extent that payments show correspondence with the use and depletion of the public capital. However, bonds allow the public to enjoy the benefits of infrastructure investment more quickly than would otherwise be the case. Given the volume of the state's infrastructure needs and other competing priorities (including debt service on existing bonds), it is likely that bonds will continue to play a major role in infrastructure funding well into the future. These could be either general obligation bonds or bonds financed by user fees depending upon the distribution of benefits and the feasibility of collecting user charges.

California has steadily increased its reliance on debt to fund capital projects, resulting in debt-service-related cost pressures to the state's General Fund. The extent in which the state undertakes additional borrowing will affect the state's debt-service ratio—the portion of the state's annual General Fund revenues required for debt-service payments. The debt-service ratio has changed over time, peaking at about six percent in 2009-10 and 2010-11, according to LAO. If currently authorized bonds are issued, the debt-service ratio could reach close to these levels again in 2015-16. LAO notes that while there is no 'correct' debt-service ratio, elevated levels do restrict the ability to pay for other programs. Thus, the debt-service ratio provides an indication of the relative priority of debt service and infrastructure compared to other General Fund spending, with higher ratios associated with prioritization of infrastructure spending. Because debt payments are generally fixed and cannot be easily reduced by restructuring, they are significantly less flexible than other types of expenditures.

Voters approved over $40 billion in new bonds on the 2006 ballot, just prior to the national recession. During difficult budget times, such as the recent great recession, bonds enable the state to invest in infrastructure while the need for economic stimulus is most acute, borrowing costs are low, and construction procurement is favorable. Despite the benefits of bonds, they come with the cost of many years of debt service. Assuming that a bond carries an interest rate of five percent, the cost of paying it off with level payments over 30 years is close to $2 for each dollar borrowed—$1 for repaying the amount borrowed and close to $1 for interest. This cost, however, spread over a 30-year period, after adjusting for inflation is considerably less—about $1.30 for each $1 borrowed. That bond cost crowds out alternative expenditures over the life of the bond. The Legislature can prioritize or limit bond funding through the budget process as overall expenditures are prioritized. This question may be particularly acute as interest costs climb as a result of increased demand for capital as the economy continues to recover.

Questions:

State Treasurer's Office and Department of Finance:

1. Given the Governor's indicated concern about deferred maintenance, how would additional infrastructure investment be incorporated into the state overall debt service schedule?

2. How does the state maximize the cost advantages of a low interest rate environment? Are there additional steps the state could take to minimize these costs?

3. Describe the current approach for management of bond proceeds, forecasts of project expenditures, and the optimal level of cash balances.

Items for Discussion / Vote

9620 Cash Management and Budgetary Loans

Program Summary: This budget item appropriates funds to pay interest costs on General Fund borrowing used to overcome cash flow imbalances during the fiscal year. Because receipts and disbursements occur unevenly throughout the fiscal year, the General Fund borrows in most years, even though each budget is balanced when enacted, and funds are repaid within the fiscal year. This item additionally pays interest costs for budgetary borrowing by the General Fund from special funds. Budgetary borrowing is across fiscal years and is scored as a budget solution, whereas cashflow borrowing is not counted as a budget solution, but conducted in order to maintain adequate cash reserves.

Budget Overview: This item appropriates funds for interest costs associated with cashflow and budgetary borrowing. The budget includes $20.0 million General Fund for the interest costs associated with internal borrowing costs. The proposed amounts are conservative and based on budgeting sufficient funds to cover the uncertainty in interest rates and other factors. In addition, the budget includes $26.8 million in interest costs associated with the repayment of internal budgetary borrowing from special funds.

Issues for Discussion / Vote:

Issue 1: Cashflow Borrowing (Governor's Budget Proposal)

Background: The state can access both internal and external cashflow borrowing. Generally, internal sources are assessed first, and external borrowing is used to supplement internal sources. This provides an additional cashflow cushion to the existing availability of internal resources. Without the external borrowing, there would typically be insufficient cash reserves and other funds during the months of October, November, December, and March. Maintaining an adequate cash balance by using both internal and external borrowing allows the state to pay its bills in a timely fashion. Interest is paid on internal borrowing (such as cash flow loans from special funds) and external borrowing through the issuance of Revenue Anticipation Notes (RANs). For the current year, the state issued a RAN in September of 2014 of $2.8 billion. The RAN is payable in June 2015 and carries an expected interest cost of $20 million.

Total monthly borrowable internal resources from some 700 plus funds are typically in the range of $20 billion. The state also established an additional cash flow tool in the form of the Voluntary Investment Program (VIP) in 2012. This measure provided an additional means to assure cash flow continuity by establishing a new account for voluntary participation by local governments. Another cash management tool of the state is the State Agency Investment Fund (SAIF), which attracts deposits from entities not otherwise required to deposit funds with the state. The VIP and SAIF were not used in the current year.

An additional tool in managing cash is deferrals of payments within the fiscal year to K-12 and higher education, local governments, and other entities. In recent years, flexible deferrals have been enacted in statutes that allow specified deferrals, if necessary to maintain a prudent balance for bond debt and other priority payments. The 2014-15 budget included a statutory provision providing that any increases in the Proposition 98 minimum guarantee first be used to pay down late payments to schools and community colleges. For the current year, there were deferrals allowed for K-12 education, higher education, and local government payments. The fiscal impact of these deferrals varies from entity to entity, depending upon their own cash positions.

Governor's Proposal: The Governor's budget does not anticipate engaging in external RAN borrowing in 2015-16 and assumes that internal borrowing will be adequate to cover the low points in the state's cash position. The budget reflects the state's improved cash position and, if projections hold, would be only the second year since the mid-1980 that the state has not issued a RAN. Given the improvement in the cash status, no new education or other payment deferrals are incorporated in the budget. Based on the cash flow statements of the Administration, the cash low points will occur in December, and March, when unused borrowable cash resources are estimated to be $9.5 billion and $8.9 billion, respectively. By way of comparison, and reflective of the uneven flow of receipts and disbursements, the cash and borrowable resources in June of the budget year are estimated to be $24.2 billion.

The state anticipates engaging in its typical internal cash borrowing, with all internal cash flow borrowing managed such that the programs supported by these special funds are completely unaffected. The budget includes $20 million for internal borrowing costs. As mentioned earlier, the Administration has not proposed a RAN. However, the budget includes $20 million for RAN costs, which the Legislature can delete if the state does not need to borrow externally. There is no anticipated need for the VIP or the SAIF in the Governor's budget.

Consistent with law enacted as part of the 2014-15 budget, the Governor's budget proposal includes $992 million to eliminate all remaining school and community colleges deferrals. In addition, the Administration has not incorporated any new deferrals as part of the budget plan. However, there is the continuation of a $500 million within-the-year deferral to UC and a deferral of up to $250 million of CSU's annual General Fund appropriation. In addition, the Governor's budget assumes the continuation of smoothing of payments to UC and CSU that have been carried out in recent years. The continuation of this policy, proposed for budget bill language, would smooth payments over ten months with the remaining amount owed remitted in the final two months of the year.

Staff Comments: Maintaining an emphasis on cashflow borrowing from internal sources is sound fiscal policy that reduces the need for more expensive external borrowing. The LAO finds that some of the estimated borrowing costs may be too high based on past costs. At the time of the May Revision, the Administration's proposal will likely be updated and at that time should be reassessed to ensure that the estimated borrowing costs are appropriate. The LAO also notes that unlike most items in the annual budget plan, Item 9620 interest costs will automatically be paid if interest costs prove to be higher than budgeted. Both Items 9620-001-0001 and 9620-002-0001 include provisional language appropriating "any amount necessary" to pay required internal borrowing and budgetary loan interest costs.

Questions:

Department of Finance

1) Could you explain the basis for the estimated internal cashflow borrowing costs of $20 million for 2015-16?

2) How does the department assesses the potential of any impact on the lending program of cash flow borrowing by the General Fund?

Staff Recommendation: Hold open and reassess at the May Revision.

Issue 2: Budgetary Borrowing Payment Plan (Governor's Budget Proposal)

Background: Through budget actions over the last decade, the state has borrowed from special funds and deferred various payments to schools in order to help balance the state budget. By the close of 2010-11, DOF indicates that a total of $34.7 billion in loans and deferrals had accumulated and remained unpaid. This amount largely represents the debt overhang from prior year budgets adopted under the previous Administration and is referred to as the "wall of debt." By the beginning of 2015-16, this amount is expected to be reduced to $12.9 billion.

Some obligations included in the "wall of debt" have required repayment in specified years due to constitutional requirements or due to scheduled bond debt service. Other debt payments are more flexible and can be repaid over time as the budget situation allows, such as school payment deferrals, and as long as borrowing does not interfere with the activities that a special fund loan supports. The General Fund is typically used to pay off budgetary debt.

In addition to the "wall of debt," the state has accumulated liabilities for retirement costs for state employees, teachers, judges, and University of California employees. These liabilities total $221.6 billion at the start of 2015-16. Some of these unfunded liabilities are being addressed with routine annual payments over time.

Proposition 2, passed by the voters in November 2014, changes the way the state pays down debt and liabilities and saves money in reserves. According to the LAO, Proposition 2 could result in roughly $15 to $20 billion being used to pay down certain state debts. Choices about how calculations are made under Proposition 2 determine the amount of funds that will be split evenly between the Budget Stabilization Account (BSA) or paying down debt.

Governor's Proposal: Under the Administration's calculations, Proposition 2 captures a total of $2.4 billion in revenue in the budget year. Proposition 2 requires that this amount be split evenly between paying down existing state debt and deposits to the BSA. As shown in the figure below, the Governor proposes to spend the required $1.2 billion on paying down $965 million in special fund loans and $256 million in prior-year Proposition

98 costs known as “settle-up”. In addition, the Governor’s multi-year budget plan proposes to fully repay special fund loans and settle-up costs by the end of 2018-19.

Governor’s Proposal for Debt and Liabilities Payment (Dollars in Millions)

Debt and Liabilities	Amount Beginning 2015-16	Proposition 2 Eligible	Payment in 2015-16
Budgetary Debt			
Loans from special funds	$3,028	Yes	$965
Underfunding Prop 98- settle up	1,512	Yes	256
Unpaid mandate claims for local governments	257	Yes	-
Deferred payments to CalPERS	530	Yes	-
Unpaid costs to schools and community colleges for state mandates	4,219	No	196
Prop 98 Williams settlement	273	No	273
Deferred Medi-Cal costs	2,227	No	-
Deferral of state payroll costs from June to July	783	No	-
Borrowing from Transportation Funds (Prop 42)	84	No	84
Subtotal	**12,913**		**1,774**
Liabilities			
State retiree health	71,773	Yes	-
State employee pensions	49,978	Yes	-
Teacher pensions	74,374	Yes	-
Judges' pensions	3,371	Yes	-
University of California (UC) employee pensions	7,633	Yes	-
UC retiree health	14,519	Yes	-
Subtotal	**221,648**		**-**
Total	**$234,561**		**$1,774**

The special fund loans (as noted in the first line from the table above) that would be repaid under the Governor’s proposal are shown in the following table.

Governor's Proposal for Repayment of Special Fund Loans
(Dollars in Millions)

Fund Name	Amount
Unemployment Compensation Disability Fund	$303.5
Motor Vehicle Account	300.0
State Courts Facility Construction Fund	220.0
Electronic Waste Recovery & Recycling Account	27.0
Vehicle Inspection Repair Fund	25.0
Hazardous Waste Control Account	13.0
California Health Data and Planning Fund	12.0
Off–Highway Vehicle Trust Fund	11.0
Contingent Fund of the Medical Board of California	10.0
Enhanced Fleet Modernization Subaccount	10.0
Board of Registered Nursing Fund, Professions and Vocations Fund	8.3
Dealers' Record of Sale Special Account	6.5
Accountancy Fund	6.0
Private Security Services Fund	4.0
Debt and Investment Advisory Commission Fund	2.0
Debt Limit Allocation Committee Fund	2.0
Physical Therapy Fund	1.5
Behavioral Science Fund	1.2
Illegal Drug Lab Cleanup Account	1.0
Speech-Language Pathology and Audiology Fund	0.5
Driving-Under-The-Influence Program Licensing Trust Fund	0.4
Total	**$964.8**

Staff Comments: The Governor has prioritized using Proposition 2 funds to pay off special fund loans and prior-year Proposition 98 settle up obligations. However, alternative uses of these funds could pay down certain liabilities faster or potentially free up General Fund dollars for other purposes. For example, the Governor, in his budget, highlighted the $72 billion unfunded liability for retiree health care costs and described a plan largely reliant upon employee bargaining to eliminate the liability in about 30 years. The Administration could have used a portion of the Proposition 2 funds to pay down some of the retiree health care unfunded liability. Alternatively, Proposition 2 funds could be used to pay off liabilities that the Governor proposes to pay off using General Fund dollars, such as some of the California State Teachers Retirement System (CalSTRS) liability or potentially transportation fund borrowing. In addition, the state could pay off more or less special fund loans now than the Governor proposes. Some of the loan repayments proposed are necessary, some of the loans could be repaid to help meet the desired program objectives, and some repayments are unnecessary to make at this time, as the programs have been operating for many years without the funds.

Questions:

Department of Finance

1) What is the basis for the estimated borrowing cost of $26.8 million for the budgetary borrowing?

2) Describe the metrics that were used in the determination of the Proposition 2 debt reduction and the selection of budgetary borrowing to be repaid of the $3.0 billion outstanding.

Legislative Analyst's Office

1) Can you discuss various alternatives in terms of what can be included or not included in the Proposition 2 debt pay-down?

Staff Recommendation: Hold open and reassess at the May Revision.

0950 State Treasurer's Office

Department Overview: The State Treasurer's Office (STO), a constitutionally established office, provides banking services for state government, with goals to minimize interest and service costs, and maximize yields on investments while minimizing risk. The STO is responsible for the custody of all moneys and securities belonging to or held in trust by the state; investment of temporarily idle state moneys; administration of the sale of state bonds, their redemption and interest payments; and, payments of warrants or checks drawn by the State Controller's Office (SCO) or other state agencies. The STO includes the following programs: Investment Services; Centralized Treasury and Securities Management; Public Finance; and Administration and Information Services. The Treasurer chairs 14 boards and commissions related to state finance.

Budget Summary: The proposed budget for the STO calls for 232.4 positions and $29.7 million in funding ($4.8 million General Fund). The STO is funded largely through reimbursements from other funds. The budget represents a slight reduction and positions from the current year budget.

Issues for Discussion / Vote:

Issue 1: Debt Management System (Informational)

Background: The State Treasurer's Office has embarked on a new debt management system and received amounts in both 2013-14 and 2014-15 to fund this project. As part of last year's budget, the department received authority for $1.1 million in bond funds. The amounts have included funding for a procurement consultant and related vendor, oversight costs of California Technology Agency, and permanent positions. The system is necessary for debt administration, including duties associated with trustee, registrar and paying agent responsibilities, payment of debt service, disclosure and analysis of debt issuances. Given the increased legal and financial complexities in the debt markets, the STO indicates a need for a new system to administer outstanding debt, track and pay debt service and fees on outstanding debt, and track and validate the issuance of new debt. The existing system dates to 2004.

Governor's Proposal: There was no proposal submitted to the Legislature as part of the Governor's budget; however, the STO expects that a Spring Letter may be submitted.

Staff Comments: The project is a relatively limited project in terms of overall costs, nevertheless, given the state's recent track record on information technology procurement and projects, ongoing legislative oversight continues to be an important component to help ensure the best outcome possible.

Staff Recommendation: Informational issue.

Issue 2: Health Facilities Construction Financing (Trailer Bill Language)

Background: The California Health Facility Construction Loan Insurance Program is administered by the Office of Statewide Health Planning and Development and insures loans taken out by operators of nonprofit and public health-related facilities. The program collects fees and insurance premiums from the entities it insures, which are deposited into the Health Facility Construction Loan Insurance Fund. When insured entities default on their loans, the state makes payments instead of the insured entity. In the event the fund fails to pay the principal or interest on any debentures issued, the State Treasurer is required to pay holders out of any money in the state treasury not otherwise appropriated for that purpose. State law requires that the State Treasurer make these payments from the General Fund if necessary.

Governor's Proposal: The proposed trailer bill language would make the funds continuously appropriated from the General Fund would also require issued debentures to bear interest equal to the bond.

Comments: Staff has no concerns with the proposed language. The LAO indicates that a continuous appropriation is reasonable in this case in order to ensure that payments of obligations of the program are made without interruption. However, LAO also notes that the Administration's primary focus should be on continuing to ensure that the fund maintains a sufficient reserve and the Administration should take any necessary steps to ensure the program's financial soundness, such as requesting statutory changes to the program's structure or funding, as relevant.

Staff Recommendation: Adopt placeholder trailer bill language.

Vote:

8860 Department of Finance

Department Overview: The Department of Finance (DOF) is the state's fiscal control agency and acts as the Governor's chief fiscal policy arm.

Budget Overview: The Governor Budget proposes expenditures of $73.1 million and 476.1 positions compared to expenditures of $74.9 million and 476.1 positions in the current year. Proposed General Fund support in the budget year is $35.5 million.

Issues for Discussion / Vote

Issue 1: State Leadership Accountability Act (Trailer Bill Language)

Background: Under current law, the Financial Integrity and State Manger's Accountability Act (FISMAA) of 1983 requires state agency heads to be responsible for the management and maintenance of systems of internal accounting and administrative controls and makes legislative findings and declarations in this regard. The act requires a system of internal accounting and administrative control to include specific elements, including, but not limited to, a system of authorization and recordkeeping procedures adequate to provide effective accounting control over assets, liabilities, revenues and expenditures. The act requires a state agency head to conduct a biennial review and report the results to the Legislature, California State Auditor, Controller, Treasurer, Attorney General, Governor and Director of Finance. Since the act has been in place, there have been substantial changes in government program complexity and a realization of an increased need for monitoring of a broad array of program indices over the last 30 years. In addition, the federal government has provided additional guidelines of appropriate internal controls.

Governor's Proposal: The Administration's proposal would update the oversight and internal control activities of state agencies to reflect current thinking on appropriate levels and focus of internal controls. The update would incorporate additional guidance provided by the Government Accountability Office (GAO) as set forth in the agency's *Standards for Internal Control in the Federal Government*, known as the "Green Book." Internal control helps an entity run its operations efficiently and effectively, report reliable information about its operations, and comply with applicable laws and regulations. The Green Book sets the standards for an effective internal control system for federal agencies.

Currently, the applicable law limits internal controls to accounting and administrative control. The proposal would expand well beyond this to include controls related to fiscal, operational, programmatic, strategic, as well as other factors. It also specifies and mandates objectivity on the part of monitoring processes, and specifies the essential components of an effective internal control system (Control Environment, Risk Assessment, Control Activities, Information and Communication and Monitoring). Finally, the proposal limits, to a certain extent, the recipients of the biennial report, to the most appropriate agencies and bodies (Legislature, State Auditor, Controller, Director of Finance, plus the Secretary of Government Operations).

Staff Comments: Staff has no concerns with the proposal and views the proposal as an overdue update to state requirement regarding internal controls. Currently, the report may not be being distributed to the appropriate legislative office. DOF indicates that this may be addressed administrative rather than in statute, and staff recommends distribution to the Secretary of the Senate, Assembly Rules Committee, and the Joint Legislative Budget Committee.

Staff Recommendation: Approve placeholder trailer bill language.

Vote:

Issue 2: Public Works—State Building Construction (Trailer Bill Language)

Background: Existing law sets forth various requirements regarding public works projects, including: project performance criteria; authorization of the issuance of related bonds; property ownership upon bond retirement; asset transfer authority for financings; and competitive bond sale requirements.

Governor Proposal: The proposed trailer bill language would make various technical changes and provide clarification and updating to various provisions of law. Specifically, the language would:

- Provide technical changes to Public Works Board (PWB) oversight of design build projects, to clarify performance criteria (information that describes the scope of the project) may include concept drawings, which are schematic drawings or architectural renderings. Currently, they are treated as two different components.

- Repeal language that allows for members of the PWB to appoint a deputy to act in their place on the board. The Attorney General's Office has rendered an advice letter concluding that they cannot issue a bond opinion for the issuance of State Public Works Board lease revenue bonds if "a deputy or assistant director" is needed to achieve a quorum at a meeting wherein the PWB authorizes the issuance of bonds.

- Amends statute to correct jurisdiction of property going to the Department of General Services (DGS) for which DGS has no responsibility. This amendment results in increased governmental efficiency by eliminating paperwork by conveying property to the appropriate department when bonds are retired.

- Eliminates the July 1, 2015 sunset date of the PWB's Asset Transfer authority. The asset transfer authority allows the PWB to sell bonds on a completed project (and encumber that facility) and use the bond proceeds to fund the design and or construction of another legislatively authorized project(s). This authority has been used for projects that do not otherwise lend themselves to lease-revenue bond financing.

- Changes the criteria for awarding competitive bond sales. The statutory change would conform to how the state's GO bonds are competitively sold and virtually all long-term fixed competitive sales in today's market, basing such sales on True Interest Cost versus Net Interest Cost. The language also eliminates outdated references to bearer bonds.

Staff Comments: If adopted by the Legislature, the trailer bill language would need to be in a separate stand-alone bill for purposes of a clean bond opinion from the Attorney General for PWB-issued lease- revenue bonds. The proposal also includes an appropriation.

Staff Recommendation: Adopt placeholder trailer bill language.

Vote:

Control Section 6.10 Funding for Deferred Maintenance Projects

Program Overview: Budget Control Section 6.10 gives the Department of Finance the authority to allocate $125 million General Fund in the amounts identified below for deferred maintenance projects:

- University of California..$25,000,000
- California State University 25,000,000
- Department of Parks and Recreation.. 20,000,000
- Department of Corrections and Rehabilitation....................................... 15,000,000
- Department of Food and Agriculture.. 9,000,000
- Department of State Hospitals.. 7,000,000
- Department of Developmental Services 7,000,000
- Department of General Services... 5,000,000
- Office of Emergency Services 3,000,000
- State Special Schools.. 3,000,000
- Department of Forestry and Fire Protection... 2,000,000
- California Military Department 2,000,000
- Department of Veterans' Affairs.. 2,000,000

Under this proposal, departments would provide DOF a list of deferred maintenance projects for which the funding would be allocated. The DOF would review and provide the approved list to the Chairperson of the Joint Legislative Budget Committee (JLBC) 30 days prior to allocating any funds. The amounts specified above would be available for encumbrance or expenditure until June 30, 2017. If a department made a change to the approved list after the funds have been allocated, DOF' s approval is required and the JLBC would be notified 30 days prior to the change being approved.

Background: The proposed control section is virtually identical (except for the amounts and departments) to that proposed last year as part of the Governor's budget. The adopted budget incorporated a trigger—tied to property tax revenues—which was not activated. At this time, most deferred maintenance is funded through the baseline support budget provided to individual departments. Departments have some discretion to use these funds for maintenance projects or other higher priority needs within the department. In response to this proposal, some departments have provided lists of deferred maintenance projects and identified which projects are the highest priorities for completion. However, other departments have not.

Staff Comments: Given the similarity of the proposal to last year's, staff concerns are equally similar. The Governor's proposal to provide funding for deferred maintenance is a positive first step toward addressing the problem. However, the proposed process for the allocation of the $125 million (which in some cases could be for projects costing tens of millions of dollars) is not likely to provide for adequate Legislative oversight.

The process proposed for allocation of the $125 million would not provide the Legislature with an understanding of how each department prioritized projects. For example, it would be unclear if a department's prioritization process emphasized important factors, such as whether the projects could leverage additional federal or local funds, or if they would help to generate revenue for the state. Project prioritization could also be based on the extent to which the project addresses fire, life, and safety issues, or prevents future greater state costs. Neither would the proposed process allow the Legislature an opportunity to provide its input on other projects that it considers a high priority. Finally, this process would not allow the Legislature to consider other potentially appropriate funding sources for deferred maintenance projects, such as using bond funds or user fees, rather than state General Fund. Given these considerations, the Legislature may want to develop an alternative approach to allocating some of the funding proposed for deferred maintenance projects.

Questions:

Department of Finance

1) Would the proposed funding be in addition to the baseline funding for deferred maintenance included in departments' support budgets, or would this supplant existing funding? Could these funds be diverted to other higher priority activities or will their use be limited to funding deferred maintenance projects?

2) Why were the proposed departments chosen to receive funding and how where the amounts of funding for each department determined?

3) What is the distinction between a deferred maintenance project and a project that has had such significant deferred maintenance that the project has become a capital outlay project? Would these types of capital outlay projects be funded under this proposal?

4) How would the process work if the Legislature has concerns with the projects submitted and approved by DOF?

Legislative Analyst's Office:

1) Does the proposal allow for adequate review of deferred maintenance projects by the Legislature? How could the process be improved?

Staff Recommendation: Hold open.

Vote:

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Thursday, March 26, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Agenda Outcomes

State Finance and Tax Administration

Discussion Item—Oversight

Discussion / Vote Calendar

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Thursday, April 9, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Agenda

Local Government and Economic Development

Discussion / Vote Calendar

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.

Discussion / Vote Calendar

0000 Redevelopment Agencies

Issue 1: Redevelopment Agencies Dissolution Status (Informational Item)

Presentation: **Department of Finance**

Comments: **Legislative Analyst's Office**

Background: AB 26 X1 (Blumenfield), Chapter 5, Statutes of 2011, First Extraordinary Session, eliminated the state's approximately 400 redevelopment agencies (RDAs), replacing them with locally-organized successor agencies assigned with the task of retiring the outstanding debts and other legal obligations of the RDAs. The process of winding down redevelopment agencies was not expected to be a straightforward process without uncertainty and controversy. Yet, the extreme complexity of dissolving the program has befuddled many, delaying the receipt of property taxes by school districts and resulting in a lack of clarity for local governments.

In particular, allowing for the continuation of certain projects that meet pre-established criteria has proven to be more complex than most observers initially anticipated. As we noted last year, projects which are partially complete or require changes to existing agreements posed particular problems, and these problems have persisted, although at a reduced level in the last year. Local governments with various projects have raised questions regarding the application of the criteria, the consistency with which the criteria are applied, and what constitutes a reasonable level of state involvement with respect to local projects. Some local governments have expressed the view that the Administration has attempted to curtail projects in too aggressive a manner, given the intent of the enabling statutes, and has sought to establish on-going state review of activities that was not contemplated. Most, but not all, of these issues have been resolved over the last year.

The Administration is continuing the ongoing workload involved with winding down the state's former RDAs. From 2011-12 to 2013-14, approximately $990 million in property tax revenue has been returned to cities, $1.3 billion to counties, and $430 million to special districts. The budget anticipates that in 2014-15 and 2015-16 combined, cities will receive an additional $580 million, counties $660 million, and special districts $200 million. The budget anticipates ongoing property tax revenues of more than $900 million annually will be distributed to cities, counties, and special districts.

From 2011-12 through 2013-14, approximately $3.5 billion was returned to K-14 schools. The budget anticipates Proposition 98 General Fund savings resulting from the dissolution of RDAs will be $875 million in 2014-15. For 2015-16, Proposition 98 General Fund savings are expected to be $1 billion. On an ongoing basis, Proposition 98 General Fund savings are estimated to be over $1 billion annually. When Test 1 of the Proposition 98 calculation is operative, funds above the estimated $1 billion will increase available resources for K-14 schools.

Staff Comments: The Department of Finance (DOF) should provide detail regarding the wind-down of the RDAs and how they have dealt with some of the major issues. DOF staff should also provide information regarding when the process can be removed from state oversight and an indication of the future trajectory of property tax revenue flowing to local governments (cities, counties, special districts and school districts).The Legislative Analyst's Office (LAO) should comment on the process as well.

Staff Recommendation: Informational issue.

Issue for Discussion / Vote:

Issue 2: Redevelopment Agencies Dissolution Proposal (Trailer Bill Language)

Panel 1: **Department of Finance**
League of Cities

Panel 2: **City of Riverside**
City of Watsonville
City of Glendale

Panel 3 **California Special Districts Association**
County of Santa Clara

Background: General information regarding the dissolution of RDAs is presented in Issue 1, above. The DOF notes that ongoing workload related to the winding down of redevelopment agencies involves the generation, submittal, and review of Recognized Obligation Payment Schedules (ROPS). Every six months, operating under the supervision of a locally appointed oversight board, successor agencies must submit to the DOF their ROPS, which delineates their proposed payments during the upcoming payment cycle. The DOF reviews each ROPS to determine whether the identified payments are required by enforceable obligations, as defined by law. Once the DOF has completed its review, county auditors-controllers provide successor agencies with property tax allocations to pay the approved enforceable obligations. This process continues into the future until all the approved enforceable obligations have been paid.

Through this biannual process, DOF has reviewed the majority of all enforceable obligations listed for payment by successor agencies for compliance with the law. According to DOF, about 85 percent of all active successor agencies have complied with statutory audit findings and received a finding of completion, indicating compliance progress. As a result, DOF avers that oversight of the dissolution process has progressed to the point where legislative changes can be considered in order to add finality to the entire dissolution process and reduce the burden on all parties involved.

Governor's Proposal: In what it terms an effort to "…minimize the potential erosion of property tax residuals being returned to the local affected taxing entities…clarify and refine various provisions in statute to eliminate ambiguity…(and) maintain the expeditious wind-down of RDA activities…" the Administration has proposed legislation that would include the following steps:

- Transition all successor agencies from a biannual ROPS process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board.

- Establish a "last and final" ROPS process beginning September 2015. The last and final ROPS will be available only to successor agencies that have a finding of completion, are in agreement with DOF on what items qualify for payment, and meet other specified conditions. If approved by DOF, the last and final ROPS would be binding on all parties and the successor agency will no longer submit a ROPS to DOF or the oversight board. The county auditor-controller would remit the authorized funds to the successor agency in accordance with the approved last and final ROPS until each remaining enforceable obligation has been fully paid.

- Clarify that former tax increment caps and RDA plan expirations do not apply for the purposes of paying approved enforceable obligations. This clarification would confirm that funding will continue to flow until all approved enforceable obligations have been paid.

- Specify that re-entered agreements that are not for the purpose of providing administrative support activities are not authorized or enforceable.

- Stipulate that litigation expenses associated with challenging dissolution determinations are not separate enforceable obligations, but rather are part of the administrative costs of the successor agency.

- Establish that contractual and statutory pass-through payments end upon termination of all of a successor agency's enforceable obligations.

- Indicate that DOF is exempt from the regulatory process and specify that county auditor‐controllers' offices shall serve as staff for countywide oversight boards.

Staff Comments: DOF considers the proposed language as constituting simplifications and clarifications. However, other parties that would be affected by the legislation raised concerns about the proposed language. The League of California Cities (LCC) has indicated that the proposed statute contains provisions that it believes have retroactive impacts on calculated interest rates, repayment of loans from cities to successor agencies, DOF's exemption from the administrative procedures act, and certain activities of successor agencies. In addition, the LCC indicates that the proposal undercuts local agencies' abilities to recoup legal expenses and overturns previous court decisions regarding various re-entered agreements. Representatives of other taxing entities have indicated qualified support for certain aspects of the proposal as a means to clarify the existing process and assure the steady increase in the direction of property taxes revenues to core governmental services. In meetings with legislative staff, DOF has indicated some flexibility on certain aspects of the proposal, suggesting that it would continue to work with local government stakeholders. DOF also indicates that a revised proposal will be issued in conjunction with the May Revision.

Staff Recommendation: Hold open.

Vote:

0509 Governor's Office of Business and Economic Development

Department Overview: The Governor's Office of Business and Economic Development (GO-Biz) was created to serve as a single point of contact for economic development and job creation efforts. The department offers a range of services to businesses, including: business attraction, retention and expansion services; site location selection; permit assistance; regulatory filing and approval assistance; small business assistance; international trade development; and, assistance with state government. Under the reorganization plan from a few years ago, the Infrastructure Development Bank, the California Film Commission, the Office of Tourism, and the Small Business Loan Guarantee Program were relocated from the Business, Transportation and Housing Agency to GO-Biz.

Budget Overview: In the current year, the department is budgeted for $25.4 million and 89 positions. Most of the funding (46 percent) is derived from General Fund, with an additional 38 percent of the budget coming from the California Infrastructure and Economic Development Bank Fund. For 2015-16, GO-Biz is proposed to be funded at $23.5 million, and 97.3 positions.

<u>Issue for Vote-Only:</u>

Issue 1: Small Business Expansion Fund (Budget Bill Language)

Governor's Proposal: Current provisional language in the budget for GO-Biz contains obsolete language and refers to no-longer applicable code sections. The proposal would rectify existing language, as shown below:

> 0509-011-0001—For transfer, upon order of the Director of Finance, to the Small Business Expansion Fund.... 861,000
>
> Provisions: If the ~~trust fund described in Section 14030 of the Corporations Code~~ *Small Business Expansion Fund described in Section 63089.5 of the Government Code* incurs losses due to loan defaults and this results in outstanding guarantee liability exceeding five times the portion of funds on deposit in the *Small Business Expansion Fund*, ~~trust fund as specified in that section,~~ the Director of Finance may transfer an amount necessary from the General Fund to the *Small Business Expansion Fund* ~~trust fund~~ to maintain the minimum reserves required ~~by that section~~ *for the Small Business Expansion Fund.* The Director of Finance shall notify the Joint Legislative Budget Committee within 30 days of making such a transfer. In no case shall a transfer or transfers made pursuant to this provision exceed the total amount of $20,000,000. Any amount transferred pursuant to this provision, shall be repaid to the General Fund, upon the order of the Director of Finance, when no longer needed to maintain a minimum required reserve.

Staff Comments: Staff has no concerns with the proposal.

Staff Recommendation: Approve technical changes to existing budget bill language.

Vote:

Issue for Discussion:

Issue 2: California Competes Tax Credit Program (Informational Issue)

Program Outline: AB 93 (Committee on Budget), Chapter 69, Statutes of 2013 and SB 90 (Galgiani), Chapter 70, Statutes of 2013, together formed the basis of the revisions to local economic development programs. This legislative package included the elimination of enterprise zone programs, and enactment of: a sales tax exemption for certain capital purchases, a geographic specific hiring credit, and a targeted tax credit for specific businesses. The sales tax exemption is administered by the Board of Equalization and the hiring credit by the Franchise Tax Board. The targeted tax credit—termed the California Competes Tax Credit (CCTC)—is administered by GO-Biz and the Franchise Tax Board (FTB).

Program Details: In its administration of the CCTC, GO-Biz is responsible for a relatively new program that involves a sizeable commitment of state funds, in the form of revenues foregone, over several years. The funds 'flow' based on negotiated contracts with private companies. The purpose of the CCTC is to attract, expand, and retain businesses in California. The businesses that apply for the credit are evaluated on the basis of number of employees; jobs created or retained; location of the company in the state; and magnitude of investment by the business. The tax credit packages are negotiated between the business and the Administration (GO-Biz) and then voted on by the GO-Biz committee, consisting of the director of GO-Biz, the director of the Department of Finance, the State Treasurer, and one appointee each from the Senate and the Assembly.

Taxpayers may receive a maximum of 20 percent of the total amount of credits available for a particular year. In addition, 25 percent of the available credits must be provided to small businesses (companies with gross receipts of $2 million or less). The amount of credits that are allocated is up to $30 million in 2013-14, $150 million in 2014-15 and $200 million for years 2015-16 through 2017-18. These amounts may be reduced in order to ensure the total amount of tax reductions resulting from the three tax preference programs described above is no greater than $750 million in a fiscal year.

Program Administration and Status: In its December 2014 report to the Legislature, GO-Biz provided an outline of the evaluation process together with results to date. The implementation of the program is defined based on the application process, evaluation process, negotiation process and committee process, as described below:

- **Application Process.** During this stage of the program, CCTC staff engages in in one-on-one contact with applicants and their designated representatives by providing assistance with computing and entering the required information. CCTC staff also confirms eligibility, explains regulations, recommends other resources and provides information about deadlines.

- **Evaluation Process.** The evaluation process is two-phased. The initial phase determines the cost-benefit ration from the state's perspective, based on the credit request, aggregate employee compensation, and aggregate investment. The most completive proposals move to the second evaluative phase. The second phase involves looking at specific selection criteria, including number of jobs, amount of investment, extent of unemployment and poverty in the project are, and opportunity for additional growth.[1]

- **Negotiation Process.** Contract negotiations require a significant amount of analysis and discussion between CCTC staff and the applicant. The intent is to reach specific agreements that create definitive milestones, explain agreement provisions, and tailor language specific to the project.

- **Committee Process.** At this stage, CCTC staff briefs committee members and presents the negotiated agreements for approval at a public hearing. It also informs the Franchise Tax Board (FTB) of the approved items and conditions of the agreements and posts information on the awards to the website.

In its December 2014 report, GO-Biz indicates that for fiscal year 2013-14, during the initial round of funding, 396 applicants requested over $500 million in credits. Of those applications, 149 progressed to the second phase of the evaluation, and 29 were awarded $28.9 million in credits of the $30 million available. For the initial application period for 2014-15, 286 applications have been received requesting $330 million in credits of the $45 million available. There will be two additional application periods this fiscal year for an additional $10.1 million. GO-Biz should be prepared present updated figures at the hearing.

Other GO-Biz Initiatives: Go-Biz has also pursued significant economic development proposals outside of the AB 93 framework, specifically: Lockheed Martin tax credit ($420 million over 15 years); Northrup Grumman tax credit (accompanying measure); film tax credit extension/expansion (more than $1.5 billion over five years); Tesla 'gigafactory' (unsuccessful). The Administration deemed these agreements as too substantial to occur within the AB 93 parameters and pursued them as independent pieces of legislation. Nevertheless, the sizeable commitment of additional foregone General Fund resources was not contemplated as part of the AB 93 conversation.

Staff Comments: While programs similar to the CCTC are used in other states with varying degrees of success, this approach to business development and assistance is not one that California has used in the past. Given this new approach to awarding tax

[1] The specific criteria are: a) the number of jobs created or retained in the state; b) the compensation paid to employees, including wages and fringe benefits; c) the amount of investment in the state; d) the extent of employment or poverty where the business is located; e) the incentives available to the business in the state; f) the incentives available to the business in other states; g) the duration of the business's proposed project and the duration the business commits to remain in this state; h) the overall economic impact; i) the strategic importance to the state, region or locality; the opportunity for growth and expansion; the extent to which the anticipated benefit to the state exceeds the projected benefit to the business from the tax credit.

credits, it is important that the Legislature be vigilant in its oversight of the program, to ensure that it is implemented in as effective a manner possible. The committee may wish to have the GO-Biz provide an update on the development and implementation of the program.

One of the underlying problems associated with traditional open-ended tax incentives is that the majority of the tax benefit goes to businesses that would have engaged in the desired behavior irrespective of the incentive program. Put another way, only businesses operating ‘on the margin’ would engage in the desired behavior ***because*** of the incentive. The result is a significant loss in revenue with no associated impact on economic activity. The GO-Biz CCTC program attempts to eliminate or minimize this loss by targeting its incentives at companies on the margin; its ability to do this, however, is open to question (as it would be for any outside entity attempting to measure internal business investment decisions). One way to measure success in this regard would be to conduct a study of companies that met the cost-benefit threshold (initial evaluation phase) and were among the finalists in selected criteria (second evaluation phase), but for one reason or another, were not selected as credit recipient. GO-Biz could use the results of this to improve their filtering and selection methods and measure the effectiveness of their analyses.

As noted above, some of the sizeable initiatives undertaken by GO-Biz have been outside of the parameters established in the legislation establishing the California Competes Tax Credit. Notably, these efforts involved the Lockheed Martin tax credit, Northrup Grumman tax credit, the film tax credit extension/expansion and the unsuccessful efforts directed towards the Tesla ‘gigafactory.’ In large part, the details surrounding these incentive efforts were provided to the Legislature deep into the legislative session under a compressed schedule, making thorough independent analysis and review very challenging. The subcommittee may consider the value of regular quarterly or biannual meetings with GO-Biz staff, such that leadership is kept current on potential agreements. This could be of particular value for agreements with a significant budgetary impact that could affect the funding of the Legislature’s own priorities.

Questions:

Governor’s Office of Business and Economic Development

1. The effectiveness of the CCTC program is predicated on the ability to reasonably determine whether the jobs and investment would either not be retained or not created absent the existence of the credit. Based on self-assessment, what is your confidence on GO-Biz’s ability to do this? What evidence do you weigh in this determination?

2. Could you discuss the possibility of conducting an after-the-fact assessment of companies that would otherwise have qualified for the credit, but because of the competition, were not selected? Such an assessment could be used to determine

whether—in fact—the jobs were not created or retained due to the lack of incentives. This could lead to improvements in CCTC assessment methods.

3. There may be a perception by some businesses located in the state that while they are paying their fair-share in taxes, other businesses that succeed in making a case to GO-Biz, essentially get ‘paid’ to locate or keep their businesses in California. How do you respond to such criticism that credits awarded to particular companies essentially “un-level the playing field,” at a time when all the focus seems to be on leveling it?

4. While the Legislature enacted a process for the CCTC, much of the biggest commitment by the state has been through isolated proposals initiated late in the legislative session. How does the Administration see proceeding on these initiatives in the future in a manner that allows for adequate oversight and analysis by the Legislature?

Legislative Analyst’s Office

1. Could you comment on the potential feasibility and possible design of study to examine the effectiveness and efficiency of the CCTC program, particularly its ability to isolate companies where the award of the incentive is crucial to the creation or retention of jobs and investment?

Staff Recommendation: Informational issue.

Issue for Discussion / Vote:

Issue 3: California Film Commission Film Tax Credit Program (Governor's Budget BCP 1)

Background: The California Film Commission (CFC) is a program that exists within GO-Biz and serves as the state's primary liaison between the film production community and various state and local governments. The stated goal of CFC is to support California's film industry by offering a variety of support services and incentives. Among its other programs, the CFC administers the current film tax credit, established pursuant to AB 2026 (Fuentes), Chapter 842, Statutes of 2012, which sunsets in 2016-17 and phases out in 2017-18. In addition, CFC will administer the new film tax credit, established in AB 1839 (Gatto), Chapter 413, Statutes of 2014. The new program will begin in the budget year (2015-16), resulting in some overlap in the two programs. The new program significantly expands the size and scope of the incentive program. Annual credits will increase from $100 million to $330 million ($230 million in the initial year), with more than $1.5 billion to be awarded over a five-year period. AB 1839 allows a tax credit to a qualified taxpayer for certain costs incurred in the production of a qualified motion picture. Taxpayers can receive a 20 percent tax credit (in some cases 25 percent) on specified qualified expenditures and wages.

Governor's Proposal: The Governor's budget includes a request for $1.1 million in the budget year and $802,000 annually thereafter, and nine positions for the CFC to implement AB 1839 (current staff for the existing program is two positions). AB 1839 created a new film tax credit which expanded eligibility and tripled funding from the current film tax credit. The CFC is directed to administer the new program which will require the implementation of two or more application periods per fiscal year for specific types of productions, utilizing a new ranking system to determine which projects will receive a credit based on job creation and economic impact. The request would allow for the funding of a tax credit program director, program administrator, three tax credit program associates, program coordinator, and three program assistants. The request is inclusive of two positions already administering the existing program. The CFC request is based on the increased size and complexity of the new film tax credit program. For example, in contrast to the current first come-first served lottery approach of the current program, the new program involves a relatively sophisticated ranking system for projects.

Staff Comments: Given the adoption of the film tax credit legislation, staff does not have any fundamental concerns with the narrow budget request proposal, but notes significant issues related to programs of this type, as discussed briefly below.

The credit created by AB 1839 represents a significant commitment of state resources—some $1.5 billion in incentives granted over a period of five years. Programs of this sort, which essentially shift the state's tax burden away from a specific industry and onto taxpayers at large, are not without controversy and it would behoove the commission to institute careful internal studies of the effectiveness of this program, rather than relying on selected statistics that lend support to program. Programs that select individual industries or businesses for favored treatment are fraught with potential pitfalls, including the most common one of equating program over-subscription with success.

In fact, most economic analyses of incentives of this type find significant variation in ability of program administrators to select activities that are actually on the margin between locating in California and elsewhere. As noted in the issue discussed above, without such a determination, the overall efficiency of the program is in question. A well-designed program would result in incentives that are just sufficient (and no greater than sufficient) to cause a project to locate in California—and then only projects where a threshold net benefit-cost ratio for the state is exceeded. The commission cites a figure of 84 percent of projects that were denied the credit being produced elsewhere. While this snapshot may or may not be indicative of the program's overall effectiveness, it falls well short of a comprehensive analysis.

In its report in April 2014 on the state's existing film incentive, the Legislative Analyst's Office (LAO) concluded that the film tax credit does not pay for itself and its economic benefits are overstated. As part of earlier legislation creating the film credit—AB 2026 (Fuentes), Chapter 842, Statutes of 2012, and the most recent legislative in AB 1839—the LAO is directed to provide reports on the effectiveness of the program by January 2016 and July 2019. The LAO notes that it expects the required reports to "…lack…conclusive evidence…" of the program's effectiveness. Nevertheless, given the level of resource commitment, it would be appropriate to assess whether the CFC is in the process of collecting and compiling data and information that can make the report as helpful and conclusive as possible regarding the effectiveness of the program. With the decision to grant significant resources to a specific industry, any long-term commitment should informed by as comprehensive an approach and conclusive findings as possible.

Questions:

Legislative Analyst's Office

1. Acknowledging that your reports are not due this year and are still in the conceptual stage, could you comment on what your preliminary approach of investigation might be, such that the Legislature can gain access to the information it needs to improve the performance of program like these?

Staff Recommendation: Approve as budgeted.

Vote:

8885 Commission on State Mandates

Department Overview: The Commission on State Mandates (commission) is a quasi-judicial body created for the purpose of determining state-mandated costs. The objective of the commission is to impartially hear and determine if local agencies and school districts are entitled to reimbursement for increased costs mandated by the state, consistent with Article XIII B, Section 6 of the California Constitution. The commission consists of the director of Finance, the State Controller, the State Treasurer, the director of the Office of Planning and Research, and a public member and two local government representatives appointed by the Governor and approved by the Senate.

Background: The commission is responsible for determining whether a new statute, executive order, or regulation contains a reimbursable state mandate on local governments, and for establishing the appropriate reimbursement to local governments from a mandate claim. The Constitution generally requires the state to reimburse local governments when it mandates that they provide a new program or higher level of service. Activities or services required by the Constitution are not considered reimbursable mandates. The Constitution, as amended by Proposition 1A of 2004, requires that the Legislature either fund or suspend local mandates. Payments for mandate costs incurred prior to 2004 are one exception noted in the Constitution—such pre-2004 mandate costs can be repaid over time. Another exception in the Constitution is for mandates related to labor relations. In these cases, the state can defer payment of the mandates and still retain the mandates' requirements. In most cases, if the Legislature fails to fund a mandate, or if the Governor vetoes funding, the legal requirements are considered suspended pursuant to the Constitution.

Mandate reimbursement claims are filed with the commission for the prior fiscal year—after that fiscal year is completed and actual costs are known. The state pays the mandate claims in the following fiscal year. For example, local costs incurred in 2013-14 are reported and claimed in 2014-15, and the state will reimburse locals for these costs as part of the 2015-16 budget. Suspending a mandate does not relieve the state of the obligation of reimbursing valid claims from prior-years, but it does allow the state to defer payment. For example, several elections-related mandates were suspended for the first time in the 2011-12 budget. This means the activities for locals were optional in 2011-12 and locals cannot claim reimbursement for any new costs incurred in 2011-12. However, the mandate claims for these costs in 2009-10 and 2010-11 are still due—either over time or all at once in the year when the mandate suspension is lifted.

The state owes local governments approximately $1.8 billion in non-education mandate payments. Of this, about $790 million (which includes interest of $170 million) is associated with pre-2004 mandate claims. Pursuant to the constitutionally-required reimbursement, the 2014-15 budget included $100 million to reduce the outstanding balance for pre-2004 local government mandate claims. In addition, the current year budget incorporated a trigger mechanism that could result in an additional payment under specified conditions. This trigger will be activated if May Revision estimated revenues for the two years exceed the prior year's May Revision estimated revenues.

The Department of Finance currently estimates that the trigger amount that will be paid is $533 million, leaving $257 million remaining to be paid by 2020-21, as required by the passage of Proposition 1A.

Budget Overview: For 2014-15, the commission was budgeted at $1.9 million and 13 positions for state operations. This administrative support level was increased slightly from the prior year's funding of $1.8 million. For 2015-16, the administrative support resources will remain flat. Costs associated with funding mandates proposed in the Governor's budget for 2015-16 are approximately $46.8 million (all funds) and $44.2 (General Fund). Estimated mandate payments in the current year are much greater at $669.5 million, due largely to a trigger for the payment of mandate costs owed on pre-2004 claims, as described further below.

Issue for Discussion:

Issue 1: Mandate Process and Timing (Informational)

Background: Determining whether a particular requirement is a state-mandated local program, and the process by which the reimbursable cost is determined, is an extensive, time-consuming, and multi-stage undertaking. State and local officials have expressed significant concerns about the mandate determination process, especially its length and the complexity of reimbursement claiming methodologies.

In the past it took the commission several years to complete the mandate determination process for a successful local government test claimant. A past review of new mandates claims found that the commission took almost three years, from the date a test claim was filed, to render a decision as to the existence of a state-reimbursable mandate. The commission took about another year to adopt the mandate's claiming methodology, and almost another year to estimate the costs and report the mandate to the Legislature.

With the receipt of additional resources in prior years, the commission has attempted address the backlog and timing issues that are within its purview. The result has been a significant reduction in the elapsed time between when the test claim was submitted and the statewide cost estimate was issued. Based on data provided by the commission, for recent mandates the duration of this process has been reduced to a range of two to three years.

Staff Comments: Commission staff indicates that progress has been made regarding reducing the administrative backlog associated with the mandate process and the time involved in the process. That is, the additional resources budgeted for the commission have had a beneficial impact. Clearly, this is only the administrative component of a larger local mandate issue, but it nevertheless is a positive sign. The resources appear to have resulted in reducing the delays that have been endemic to the current system. It is important to note that delays are not necessarily within the commission's control. In particular, there can be great variation—sometimes years—as to when local agencies file a test claim. The result is that a significant period of time can elapse between the enactment of the statute triggering the reimbursable mandate, and the statewide cost estimate (and determination of reimbursement amounts).

Questions:

Commission on State Mandates

1. Can you describe the experience of the commission in shortening the time frame for the mandate process based on the additional resources received? Are there opportunities—given adequate resources—to further tighten-up the time-frame, or would statutory—or potentially constitutional changes—be required?

Department of Finance

1. In the past the Administration indicated that it would pursue policies to improve the mandate process, including deferring decisions to local government decision-makers and allowing for maximum flexibility. Please discuss the direction that it has taken (or will be taking) with respect to these reforms.

Staff Recommendation: Informational issue.

Issues for Discussion / Vote

Issue 2: Local Government Funded Mandates (Governor's Budget Proposal)

Background: Most local mandates must be funded through a commitment of General Fund resources. In the recent past, funded mandates have traditionally included those related to public safety and property tax collection.

Governor's Proposal: The Governor's mandate proposal is largely a continuation of the status quo. The budget proposes expenditures of $44.2 million related to non-education mandates. The budget would continue to fund the 13 mandates that were kept in force for 2014-15, the payments on which constitute the bulk of the General Fund cost. In addition, the budget proposes funding a one-time payment of $9.6 million to address the back costs local agencies accrued from 2001 to 2013 in performing activities related to the Public Records Act mandate. (In 2014, California voters approved Proposition 42, which placed the Public Records Act in the Constitution and removed the state's ongoing responsibility to fund the Public Records Act mandate). The budget also provides $218,000 to fund the Accounting for Local Revenue Realignments mandate which involves county administrative costs associated with funding changes in 2003-2004 that addressed budget shortfalls at that time. Two additional funded mandates relate to local agency ethics and tuberculosis control. Funded mandates are listed in the following table:

Mandates Funded in Governor's Budget
General Fund
(Dollars in Thousands)

Mandate Title	Amount
Accounting for Local Revenue Realignments	$218
Allocation of Property Tax Revenue	530
California Public Records Act	9,674
Crime Victim's Domestic Violence Incident Reports	178
Custody of Minors-Child Abduction and Recovery	12,216
Domestic Violence Arrests and Victim's Assistance	1,467
Domestic Violence Arrest Policies	7,481
Domestic Violence Treatment Services	2,082
Health Benefits for Survivors of Public Safety Officers	1,816
Medical Beneficiary Death Notices	10
Peace Officer Personnel Records	704
Rape Victim Counseling	351
Sexually Violent Predators	7,140
Threats Against Police Officers	3
Tuberculosis Control	8
Local Agency Ethics	36
Unitary Countywide Tax Rates	260
Total	**$44,174**

Note: *Italics* indicates that mandate is newly funded in the proposed budget.

Staff Comment: At the time the agenda was finalized, no concerns had been raised with this budget request. The mandates selected for funding generally continue the policy adopted in previous years by the Legislature, with selected additions, as noted. The budget also addresses funding one existing mandate in a new way, in an attempt to deal with its significant costs. The Interagency Child Abuse and Neglect Investigation (ICAN) Reports mandate requires certain local agencies to conduct various activities related to child abuse investigations and to provide reported child abusers due process protections. Instead of a mandate, the budget proposes a $4 million optional grant program, administered by the Department of Social Services, as a substitute funding mechanism for these activities. This will be considered by the Senate Budget Subcommittee No. 3 on Health and Human Services. As presented in the next issue, the budget suspends this mandate on the basis that these activities are long-established and involve the agencies' core missions. The commission adopted a $90.3 million statewide cost estimate which reflects the affected agencies' costs to comply with this mandate from 1999 to 2011.

Staff Recommendation: Approve the budget request for funding of selected local government mandates.

Vote:

Issue 3: Local Government Suspended Mandates (Governor's Budget Proposal)

Background: The budget incorporates a total of $984.5 million in savings from maintaining mandate suspensions or deferring payment of claims. Some 56 mandates are suspended under the budget proposal. In addition, payments on another 15 mandates that have been deferred or have expired have been delayed. The savings breakdown is as follows: (1) $276.4 million savings from deferring payment of post-2004 mandate claims for mandates that have since expired or are otherwise not in effect; (2) $620.3 million savings by continuing the suspension of certain local mandates; and, (3) $87.8 million savings from deferring payment on employee-rights mandates in effect. In prior years, there have been proposals to repeal certain mandates, but no such repeal is proposed in the budget. Repealing mandates does not offer any additional budget savings relative to suspension; however, if the mandate will otherwise be suspended indefinitely, the repeal of statutory provisions cleans up the code, improves statutory transparency, and provides more certainty to local governments.

Governor's Proposal: As part of the 2015-16 budget, the Governor proposes suspending the following local government mandates, generating $620.3 million in savings:

Mandates Suspended in Governor's Budget
General Fund
(Dollars in Thousands)

Mandate Title	Amount
Absentee Ballots	$49,589
Absentee Ballots-Tabulation by Precinct	68
AIDS/Search Warrant	1,582
Airport Land Use Commission/Plans	1,264
Animal Adoption	37,188
Brendon Maguire Act	0
Conservatorship: Developmentally Disabled Adults	349
Coroners Costs	222
Crime Statistics Reports for the Department of Justice & CSRDOJ Amended	154,937
Crime Victims' Domestic Violence Incident Reports II	2,010
Developmentally Disabled Attorneys' Services	1,201
DNA Database & Amendments to Postmortem Examinations: Unidentified Bodies	310
Domestic Violence Background Checks	20,627
Domestic Violence Information	0
Elder Abuse, Law Enforcement Training	0
Extended Commitment, Youth Authority	0
False Reports of Police Misconduct	10
Firearm Hearings for Discharged Inpatients	157
Grand Jury Proceedings	0
ICAN Interagency Child Abuse and Neglect Investigation	90,342
Identity Theft	93,918
In-Home Supportive Services II	443
Inmate AIDS Testing	0

Judiciary Proceedings (for Mentally Retarded Persons)	274
Law Enforcement Sexual Harassment Training	0
Local Coastal Plans	0
Mandate Reimbursement Process I	6,910
Mandate Reimbursement Process II (includes consolidation of MRPI and MRPII)	0
Mentally Disordered Offenders': Treatment as a Condition of Parole	4,910
Mentally Disordered Offenders’ Extended Commitments Proceedings	7,222
Mentally Disordered Sex Offenders’ Recommitments - Verify Name	340
Mentally Retarded Defendants Representation	36
Missing Person Report III	0
Modified Primary Election	1,817
Not Guilty by Reason of Insanity	5,214
Open Meetings Act/Brown Act Reform	110,593
Pacific Beach Safety:Water Quality and Closures	344
Perinatal Services	2,338
Permanent Absentee Voter II	12,098
Personal Safety Alarm Devices	0
Photographic Record of Evidence	-62
Pocket Masks (CPR)	0
Post Conviction: DNA Court Proceedings	410
Postmortem Examinations:Unidentified Bodies, Human Remains	-466
Prisoner Parental Rights	0
Senior Citizens Property Tax Postponement	481
Sex Crime Confidentiality	0
Sex Offenders: Disclosure by Law Enforcement Officers	0
SIDS Autopsies	0
SIDS Contacts by Local Health Officers	0
SIDS Training for Firefighters	0
Stolen Vehicle Notification	1,117
Structural and Wildland Firefighter Safety Clothing and Equipment	0
Very High Fire Hazard Severity Zones	0
Voter Identification Procedures	10,075
Voter Registration Procedures	2,481
Total	**$620,349**

Staff Comments: In prior years, the Legislative Analyst’s Office (LAO) has raised questions regarding a number of the mandates proposed for suspension. Depending on the particular mandate, the recommendations have included funding, repealing, or changing the underlying statute to reflect a best practices approach. The LAO has in the past recommended that the mandates relating to elections in the table above not be suspended but rather funded in the budget, along with the direction that the Administration work with counties to explore alternative funding mechanisms. If these mandates were not suspended, the budgetary impact of funding these mandates would be about $100.0 million on a one-time basis, and a substantially lesser amount of $30.5 million annually thereafter.

Despite the suspension, to date, it appears that no counties have deviated from providing services required pursuant to the previously mandated activities. Given that counties are not required to comply with suspended statutes, there may be a moderate risk that one or more counties may opt not to comply during future elections. According to the LAO, “The longer the state suspends these mandates and the more elections mandates the state chooses to suspend, the greater the risk that at least one county will decide not to perform the previously mandated activities."

As part of the 2014-15 budget, the Legislature approved budget bill language that requires the DOF to provide a report on local election mandates that evaluates simpler mechanisms and alternative funding, assesses as to whether modifications can be made to achieve lower costs, and estimates statewide costs associated with the goals of the mandates. This report, which was recently provided to the Legislature, could provide a prototype for alternative means of mandate implementation and reimbursement of local government activities. Suspending the election mandates would not preclude the Administration from working with counties to adopt one or more of the alternative funding mechanisms, as suggested in the recent report. The subcommittee may request that DOF outline the findings of the report, and LAO should comment.

Other than the issues discussed above, staff is not aware of major concerns being raised regarding the continued suspension of these mandates.

Staff Recommendation: Approve the suspension of the mandates proposed in the Governor's budget.

Vote:

9210 Local Government Financing

Item Overview: The 9210 budget item includes several programs that make state subventions to local governments. In past years, the payments have included General Fund appropriations for constitutionally-required repayment of 2009-10 Proposition 1A borrowing from local governments; a small subvention related to former redevelopment agencies (RDAs) to help retire a portion of outstanding debt that was backed by the personal property tax; and a subvention for counties and cities within those counties for insufficient Educational Revenue Augmentation Fund (ERAF) resources.

Budget Overview: The proposed budget for the 9210 item is $9.9 million General Fund. Of this, $5.1 million is slated for subventions to the counties of Alpine, Amador, and San Mateo (and cities within those counties), $393,000 in trial cost assistance and $4.3 million for the Property Tax Assessors' Partnership Agreement Program. The subventions are related to the so-called 'Triple Flip' and 'Vehicle License Fee (VLF) Swap,' both of which are described below. The Department of Finance (DOF) indicates it will not know the final subvention amounts for each of these counties until the May Revision.

<u>Issues for Discussion / Vote:</u>

Issue 1: Nevada County Trial Costs (Governor's Budget Proposal)

Governor's Proposal: The Governor's budget proposes to provide $393,000 to the Nevada County Public Defender's Office for extraordinary defense costs associated with State of California v. Lester et al proceedings, and budget bill language. The amount appropriated would be available through June 30, 2019 upon approval by the State Controller's Office.

Background: The state has in the past provided assistance to county for extraordinary expenses associated with homicide trial. In this case, there are exceptional expenses associated with the Public Defender's Office assigned to the case. The county is obligated to provide legal assistance to the defendants.

Staff Comments: Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2: Subventions to Amador, San Mateo and Alpine Counties (Governor's Budget Proposal)

Governor's Proposal: The Governor's budget proposes a General Fund subvention of $5.1 million to backfill Amador, San Mateo and Alpine counties due to circumstances that reduced property tax directed to those county governments, and cities within those counties, in 2012-13, and budget bill language. These circumstances also occurred in these counties in the prior year, and the state provided a subvention. The revenue losses will likely continue to some degree in the future, but the Administration indicates its current proposal is of a one-time nature. The estimated amounts are: $1.5 million to Amador, $3.4 million to San Mateo and $198,000 to Alpine.

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

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

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

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

Staff Comments: The financing shifts and educational financing provisions are complex, and perhaps not entirely relevant to making a determination on this budget request. Some issues for consideration are the following:

- The funding shifts included revenue growth uncertainty and risk, as the relative growth of various revenue streams over many years was unknown. On a statewide basis, data suggests most counties have received a net benefit from the shifts.

- There was no backfill guaranteed in the original legislation, although the Alpine, Amador and San Mateo outcomes were also not anticipated. The enacting legislation did not include provisions for the state to backfill locals with new subventions if the baseline funding mechanism proved to be insufficient.

- At the time of the legislation, stakeholders were likely aware of the risk of variable levels of growth for different revenue streams, but may not have anticipated that outcome of all schools within the county becoming basic aid.

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

LAO Perspective: Previously, LAO has suggested that the state could reimburse cities and counties for all Triple Flip and VLF Swap funding shortfalls, as proposed in the Governor's budget or, in recognition of the significant fiscal benefits cities and counties receive under the VLF Swap, reimburse cities and counties only where necessary to replace actual sales tax and VLF revenue losses (what they would have received had they retained these revenue streams). Either level of reimbursement could be accomplished through the budget or through a shift in property taxes. The former approach would provide more revenue certainty for local governments while the latter would be more reflective of actual costs.

Staff Recommendation: Hold issue open, pending May Revision request.

Vote:

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Thursday, April 9, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Agenda

ACTIONS

Local Government and Economic Development

Discussion / Vote Calendar

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, April 16, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

Item Number and Title

0840	State Controller's Office
0845	Department of Insurance
0890	Secretary of State
7502	California Technology Agency
8880	Financial Information System for California

(See Table of Contents on page 2 for a More Specific Listing of Issues)

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

0840 State Controller's Office

Issue 1 – Property Tax Postponement (PTP)

Governor's Budget Request: The SCO requests 10.2 permanent positions and 6.7 two-year limited-term positions and $1,715,000 in 2015-16 ($1,673,000 in 2016-17, and $1,107,000 ongoing) from the Senior Citizens and Disabled Citizens Property Tax Postponement Fund for the reinstatement and administration of the Property Tax Postponement program, pursuant to AB 2231 (Gordon), Chapter 703, Statutes of 2014.

Background: The PTP program allows eligible homeowners to postpone payment of part or all of the property taxes on their primary residence. To participate, the homeowner must apply annually; be at least 62 years of age, blind or disabled; own and occupy the home as their place of residence have a; total household income not exceeding statutory limits; and at least 20 percent equity in their home in the initial year of application.

The PTP loan became due and payable on demand when the homeowner died, moved, changed title, sold the home or allowed senior lien to become delinquent. The SCO is responsible for making every effort to collect PTP loans that are due and payable.

SB 8 3X (Ducheny), Chapter 4, Statutes of 2009, suspended the PTP program effective February 20, 2009. Due to program suspension, the PTP program stopped accepting applications postmarked after this date. Additionally, the SCO no longer allowed claimants to re-borrow from the impound account. Monthly reconciliations were required for the maintenance of the impound account and monthly reports were prepared in order to transfer the payments from the special deposit fund to the General Fund.

Prior to the suspension of the PTP program, the SCO had 14.8 positions administering the program. The suspension and reduction of the program brought the total staff down to 4.8 positions.

AB 2231 restores a modified version of the PTP program, which allows eligible California senior, blind, and disabled citizens to apply to the SCO for property tax deferral beginning July 1, 2016. AB 2231 also creates the Senior Citizens and Disabled Citizens Property Tax Postponement Fund, an interest-bearing fund appropriated to the SCO, in the State Treasury as of January 1, 2015.

Staff Comment: This proposal also includes the following:

- Converting existing General Fund appropriations for PTP functions to the PTP fund to reduce SCO's General Fund appropriation by $254,000 in 2014-15, and $509,000 in 2015-16, and increases Special Fund authority by the same amount.

- Provisional language in the Budget Act for PTP Fund to cover support costs for the administration of the PTP program.

Staff Recommendation: Approve as budgeted.

0890 Secretary of State

Issue 1 – Ballot Measure Contributions

Governor's Budget Request: The Governor's budget includes a request to provide the Secretary of State with 1.0 full-time position, 0.25 part-time position, and an augmentation of $135,000 (General Fund) in fiscal year 2015-16, and $125,000 (General Fund) ongoing, in order to implement the provisions of SB 844 (Pavley), Chapter 920, Statutes of 2014.

Background: SB 844 requires that the Secretary of State compile data on total contributions and top contributors to ballot measures and ballot measure committees, and to provide a means for public access campaign finance reports filed by statewide candidates. The data must be compiled and reported within five days of receiving quarterly, semiannual, and pre-election reports. For contributions of $5,000 or more made within sixteen days of an election, the data must be compiled and posted within two days of receipt.

Staff Comment: The reporting system currently utilized by the Secretary of State, known as CAL-ACCESS, does not possesses the functionality to produce the data required by SB 844. Therefore, the data will be compiled manually by staff within the Secretary of State's Political Reforms Division. Future conversations discussing upgrades to CAL-ACCESS that will increase its functionality may be warranted; however, recognizing the need to comply with the provisions of SB 844, staff has no concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

7502 Department of Technology

Issue 1 – Capacity Budget Change Proposals

Governor's Budget Request: The Department of Technology is requesting a decrease of $5.86 million (Technology Services Revolving Fund) in fiscal year 2015-16. The decrease reflects the difference between $32.167 million needed to address capacity increases in the datacenters and a concurrent decrease of $38.027 million (Technology Services Revolving Fund) as a technical adjustment to align previously approved budget actions with actual costs. The requested amount for each service provided is listed below:

Request Number	Service Area	BCP Amount
1	Mainframe CPU Capacity	$7,185,000
2	Midrange Server Capacity	$9,093,000
3	Enterprise Data Storage	$8,618,000
4	Network Capacity	$7,271,000
5	Prior Year Adjustments	-$38,027,000
	TOTAL	**-$5,860,000**

1) **Mainframe CPU Processing Capacity ($7.185 million)** - The Governor's 2015-16 budget includes a proposal to increase expenditure authority by $7.185 million (Technology Services Revolving Fund) in fiscal year 2015-16 to allow the Office of Technology Services (OTech) to purchase 1,786 million of instructions per second (MIPS) of mainframe processing capacity to meet projected customer needs.

   The Office of Technology currently has over 500 customers, of which, approximately 250 are mainframe processing customers. Many are still adding new applications, building new databases, and using WebSphere to add Web interfaces to their legacy applications.

2) **Midrange Server Capacity ($9.093 million)** - The Governor's 2015-16 budget requests increased expenditure authority of $9.093 million (Technology Services Revolving Fund). The request stems from the OTech need for additional hardware, operating system software, applications software, statewide E-mail, and database software to ensure adequate midrange service capacity to meet the needs of customer-driven workloads. This request also includes resources to meet the disaster recovery requirements of customers.

   There is an increased demand on services by customer departments at a variety of state entities. This increased demand, largely stemming from increased population and use of services, results in the growth of customer applications and the need for additional server capacity. OTech continues to experience a substantial increase in the midrange computing workload, database instances, disaster recovery, and web services.

3) **Enterprise Data Storage ($8.618 million)** - The Governor's 2015-16 budget includes a request to increase the spending authority of the Department of Technology by $8.618 million (Technology Services Revolving Fund) in fiscal year 2015-16 for hardware,

software, and connectivity components to ensure adequate data storage support to meet the needs from customer-driven workloads, approved information technology (IT) projects, and disaster recovery.

While providing for the increasing needs of current customers, the OTech must provide resources for approved IT projects supported by the Department of Technology. In order to achieve both normal growth and approved IT projects, OTech must increase the number and density of virtual servers in preparation of departments growing or migrating over to the Office of Technology. Virtual servers require large amounts of data storage to support their efficient and effective use of IT resources and data processing. Increased IT density allows OTech to support the migration of IT workload from other agencies. In addition, OTech must provide for customers with disaster recovery data storage requirements that are currently located at OTech or relaying them to their data center.

4) **Network Capacity ($7.271 million)** - The Governor's 2015-16 budget includes a request to increase the spending authority of the Technology Agency by $7.271 million (Technology Services Revolving Fund) in FY 2015-16 to purchase switches, circuits, load balancers, firewalls, and maintenance services.

   OTech currently manages two data centers located in Vacaville and Rancho Cordova, and is responsible for the network infrastructure needs of the data centers that provide network services connecting their data center facilities to most of the executive branch departments and local agencies.

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

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Prior Year Adjustments

Governor's Budget Request: The Department of Technology is requesting a technical adjustment to align previously approved budget actions with ongoing costs related to prior year capacity budget requests. The adjustment amounts to a net reduction of $23.981 million in 2014-15 and a net reduction of $38.027 million in 2015-16.

Background: These technical adjustments are a result of one-time reductions, project cost reductions due to favorable contracts, and/or project completions. The initial budget request is determined in advance of the service or product being acquired and the actual cost may vary by the time the expense is incurred. The intent of the request is to better align the Department of Technology's budget with actual expenditures for prior year requests.

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

Staff Recommendation: Approve as budgeted.

Vote:

Issues Proposed for Discussion / Vote

0840 STATE CONTROLLERS OFFICE

Department Overview: The State Controller (SCO) is the Chief Fiscal Officer of California. The Controller provides fiscal control for, and independent oversight of, more than $100 billion in receipts and disbursements of public funds. In addition, the Controller offers fiscal guidance to local governments, and performs audit functions to uncover fraud and abuse of taxpayer dollars. The SCO's primary objectives are to:

- Account for and control disbursement of state funds.
- Determine legality and accuracy of issue warrants in payment of the state's bills.
- Pay claims against the state.
- Administer the Uniform State Payroll System.
- Audit and process personnel and payroll transactions for state civil service, exempt employees, and state university and college system employees.
- Audit state and local government programs.
- Inform the public of the state's financial condition.
- Administer the Unclaimed Property Law.
- Inform the public of financial transactions of city, county, and district governments.

The SCO is funded through the General Fund, as well as over 300 special funds and accounts and reimbursements. The Governor's budget requests $198.14 million ($49.42 million General Fund) and 1,386.8 personnel years to support the SCO.

2015-16 State Controller's Budget

FUND SOURCE	2013-14	2014-15	2015-16
General Fund	$54.83	$55.52	$49.42
Unclaimed Property Fund	$35.80	$39.55	$39.17
Central Service Cost Recovery Fund	$24.16	$24.11	$24.59
Other Special Funds and Accounts	$12.62	$14.59	$21.89
Reimbursements	$62.03	$65.66	$63.07
Total Expenditures	$189.44	$199.43	$198.14
Personnel Years	1,376.6	1,395.5	1,383.8

*Dollars in thousands

Issue 1 – State Government Reporting

Governor's Budget Request: The State Controller's Office requests 5.3 permanent positions and $592,000 (Non-Governmental Cost Fund, Special Fund, and Bond Fund) in 2015-16, and $581,000 ongoing, to address the increased reporting workload associated with the preparation of the annual Budgetary/Legal Basis Report (BLBR) and the Comprehensive Annual Financial Report (CAFR).

Background: The BLBR and the CAFR both contain a financial statement for state funds. However, each report is based on different reporting requirements. The BLBR is prepared on the same basis as the applicable Governor's budget, while the CAFR is prepared strictly in accordance with generally accepted accounting principles (GAAP). The CAFR includes a more thorough and detailed presentation of the State's financial condition than the BLBR.

According to the SCO, over the last five years, there have been yearly increases in new accounting standards set by FASB and GASB. Additionally, the number of funds reviewed by the SCO has continued to increase each year. As a result, the number of reports reviewed and total transactions entered into the SCO's accounting system have increased. The SCO has provided minimal GAAP training and guidance departments related to the new reporting requirements, which has led to inaccurate information reported by the departments.

The SCO states that it has not been able to keep up with this increased workload despite the use of staff overtime and temporary help resources. In 2011-12 and 2012-13 the CAFR was found to contain numerous errors.

Staff Comment: With the implementation of the Financial Information System for California (FI$Cal), a project designed to prepare the state systems and workforce to function in an integrated financial management system environment, the SCO will continue to be responsible for reviewing the information submitted by various departments, boards, and commissions. The goal for SCO is to have experienced staff in place to handle the workload.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Payroll Audits

Governor's Budget Request: The State Controller's Office (SCO) requests five permanent positions and $701,000 ($400,000 General Fund and $301,000 Central Cost Recovery Fund) in 2015-16, and ongoing, to perform audits on payroll controls and payroll records.

Background: In 2013-14 and 2014-15 the SCO received five two-year limited-term positions to perform audits of payroll controls and payroll records. These positions are set to expire on June 30, 2015. This request will convert the limited-term positions that were approved previously to permanent. The positions were provided in response to an internal audit at the California Department of Parks and Recreation (Parks), as well as an investigation by the California Attorney General's office that disclosed a vacation buyout program that was instituted by Parks without authorization from Parks management or CalHR.

In 2013-14, 14 audits were to be performed by SCO, but only eight audits were completed. The SCO explains that eight of the 14 were only performed because staffing and training for the audit program took longer than expected.

The first year of payroll audits disclosed the following:

- $1,441,134 in questionable costs due to poor payroll controls and processes at departments throughout the state.

- Strong internal controls are needed at the department level since the payroll system is decentralized.

- Having a decentralized system allows voluminous areas where fraud can occur rather than one central area to audit.

Staff Comment: Staff does not have any issues or concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Special Fund Review and Reporting Workload

Governor's Budget Request: The State Controller's Office (SCO) requests 1.5 permanent positions and $162,000 ($92,000 General Fund and $70,000 Central Service Cost Recovery Fund) in 2015-16, and ongoing, to continue the detailed analyses and reporting of the State's 570 special funds.

Background: In 2011-12, the Department of Parks and Recreation was identified as having significantly underreported available fund balances to the Department of Finance (DOF) for two special funds. The Governor directed DOF to undertake a fund-by-fund review of more than 500 special funds. Since then, the SCO has been working with DOF to ensure that agency information is both reported to the SCO and DOF. DOF's review focused on two areas:

- The extent to which there were differences in special fund balances as of June 30, 2011, that were reported by departments to DOF and to SCO.
- The reason or reasons for any variance in the two reported year-end balances.

A Special Fund Reconciliation report, dated August 3, 2012, provided details of the findings. As a result, in August 2012, a joint policy was adopted by DOF and SCO that SCO would provide DOF with annual reports for special funds beginning in 2013-14.

In 2013-14, SCO received 7.9 two-year limited-term positions to submit the following reports:

- Preliminary reports, to be submitted in mid-October, for the Governor's budget development.
- Final reports to be submitted mid-March to help determine if budget decisions by the Governor need to change as part of the May Revision.
- Account Balance by Fund report for the fiscal year ended, to be submitted in July, to assist DOF with identifying all share fund users and reconciling any differences in fund balances.

SCO is requesting a reduced level of staffing beginning in 2015-16; from 7.9 limited-term positions to 1.5 permanent positions, to continue the review of special funds on a permanent basis.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – 21st Century Project

Governor's Budget Request: The State Controller's Office (SCO) requests 8.0 one-year, limited-term positions and $12.544 million ($4.397 General Fund, $1.685 reimbursements, and $6.462 in special funds) in fiscal year 2015-16, to support on-going legal activities associated with the 21st Century Project (TFC). This request also includes trailer bill language that would extend the sunset date of the 21st Century Project until June 30, 2016.

Background: The SCO is responsible for disbursement of pay to the state's 275,000 employees. In 2004, the Department of Finance (DOF) approved the justification documents submitted by the SCO requesting an updated payroll system that would provide a greater level of integration known as the 21st Century Project. The SCO procured Commercial Off-the-Shelf (COTS) software in 2005 and intended on utilizing that COTS software to update the state's payroll system.

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

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

In June 2013, the SCO and SAP participated in contractual mediation. The mediation process did not provide an acceptable outcome and, on November 21, 2013, the SCO filed a lawsuit against SAP for breach of contract. According to SCO, the state has the potential to recoup 1.5 times the contract amount, or up to $150 million. Alternatively, SAP could be awarded $50 million. The Budget Act of 2014 provided the SCO with 5.0 positions and $6.529 million to support the legal efforts associated with the TFC.

Request Detail:
A more specific cost breakdown of the SCO's request for $12.544 million to support ongoing legal costs is provided below.

- $1.123 million for 8.0 one-year positions (5.0 continuing and 3.0 new). These positions will be responsible for pertinent document retrieval, developing a project history and timeline, and maintenance of the MyCalPays system in support of the legal team.

- $996,000 for the project management advisory contract. SCO has contracted with Flagship Advisors to provide two advisors who provide assistance with business processes, integration, coordination, configuration, customization, testing, training, installation, data conversion, and work force transition.

- $7.3 million for legal counsel to defend the state against claims made by SAP. This request may only reflect a portion of total legal costs, as there is provisional language in the budget and a budget control section that provide for additional funding for legal costs, if necessary.

- $1.075 million for costs associated with leasing a facility, of which $928,000 will be reimbursed to the SCO through sub-leasing to accommodate project staff and house documents related to the lawsuit.

- $2.05 million for software contracts and data center services that support the environment which are needed to support the lawsuit filed against SAP.

Proposed Trailer Bill Language - Government Code §12432 authorized the State Controller, beginning in FY 2006-07, to assess special funds within the state treasury for costs attributable to the replacement of the state payroll disbursement system, also known as the 21st Century Project. This code section also notes that costs assessed to the 21st Century Project will be evenly split between the General Fund and special funds within the state treasury.

This section was set to expire on June 30, 2011; however, AB 119 (Blumenfield), Chapter 31, Statutes of 2011, extended the original sunset date by three calendar years, moving it to June 30, 2014. The requested trailer bill language would once again extend the sunset date by one additional calendar year, until June 30, 2016.

Staff Comment: It is worth noting that the requested positions and funding support the continued suspension of the 21st Century project, not a progression towards an updated automated payroll disbursement system. The subcommittee may wish to ask that the SCO, and the Department of Technology, provide the subcommittee with an update on the progress towards implementing an updated payroll disbursement system.

Staff Recommendation: Hold this item open for further discussion.

Vote:

0845 DEPARTMENT OF INSURANCE

Department and Budget Overview. The California Department of Insurance (CDI) regulates the California insurance market and enforces the California Insurance Code, including conducting examinations and investigations of insurance companies and producers, and responding to consumer inquiries. CDI reviews and approves insurance rates to enforce the statutory requirement that rates are not excessive or unfair. The CDI also administers the conservation and liquidation of insolvent and delinquent insurance companies and investigates insurance fraud, in conjunction with local and state law enforcement agencies. The Governor's budget provides the CDI with 1,402.8 authorized positions and $261.17 million (Insurance Fund, federal funds, and reimbursements).

Issue 1 – Health Insurance Rate Review

Governor's Budget Request: The California Department of Insurance (CDI) is requesting an augmentation of $452,000 (Federal Trust Fund) for fiscal year 2015-16, and $137,500 (Federal Trust Fund) for fiscal year 2016-17, in order to utilize federal grant funds that were awarded to CDI to support federal efforts aimed to increase transparency in the pricing of medical services.

Background: The federal Patient Protection and Affordable Care Act (ACA), which was passed on March 23, 2010, includes grant funding provided to states in order to promote accountability in the health care system and improve rate review and reporting processes. The grant funds, which were awarded to CDI in September 2014, represent the fourth iteration of federal funds that have been made available to states as part of the Health Insurance Rate Review Grant Program.

According to CDI, the fourth iteration of federal grant funding will support two actuarial staff that were added as part of the third iteration of grant funding, support project management and consulting for activities associated with the jointly-operated data center located at the University of California, San Francisco (UCSF), and support the funding of a project manager at the data center who will be responsible for the project timeline and budget.

Staff Comment: Staff does not have any issues with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Menu Modernization

Governor's Budget Request: The California Department of Insurance (CDI) is requesting a $2.77 million ($1.52 million General Fund and $1.25 million Insurance Fund) one-time increase of expenditure authority for the second year of implementation of the replacement of the CDI menu and integrated database.

Background: The CDI menu was originally developed in 1992, and supports nearly all of the mission critical applications for CDI. The technology that supports the CDI menu is antiquated, and CDI staff has been required to build "work around" solutions in order to maintain functionality of the software platform. Additionally, the vendor that supports the platform will no longer provide that support after June 2017.

CDI submitted a Feasibility Study Report (FSR) to the Department of Technology, which was approved on April 1, 2014. According to the FSR, total project costs associated with the CDI menu modernization project are $21.391 million. Year one of the menu modernization project was approved by the Legislature as part of the 2014 Budget Act, the Legislature authorized $1.3 million (Insurance Fund) to begin the project. The second year of the project will include re-engineering the fraud investigation database (FIDB), and the completion of upgraded systems for Community Programs and Policy Initiatives.

Funding for the second year of the project is split 55 percent General Fund and 45 percent Insurance Fund. CDI will utilize proceeds from a $46 million dollar settlement that were directed to the General Fund, and are required to be utilized to enhance fraud investigation, to fund a portion of the project. The General Fund portion of the project will support efforts to upgrade CDI's FIDB, which serves as the Fraud Division's case management, analysis, and timekeeping system. The upgrade of the Community Programs and Policy Initiatives Branch will be supported by the Insurance Fund.

Staff Comment: According to the most recent quarterly Independent Project Oversight Report (IPOR), which was released in December 2014, the project is operating within the anticipated cost structure and remains on schedule. However, the IPOR did raise concerns related to the development of formal documentation of the requirements and management plan. Specifically, the IPOR notes that the requirements gathering and documentation methodology be documented and formally approved, to allow the project to train and implement a consistent methodology across all sub-projects. According to CDI, the concerns raised by the IPOR have been addressed, and will be reviewed as part of the next quarterly IPOR.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 3 – Health Insurance Reform

Governor's Budget Request: The California Department of Insurance (CDI) requests a $1.005 million (Insurance Fund) increase in expenditure authority in fiscal year 2015-16, and ongoing, to address the continuing workload associated with health insurance reform.

Background: Limited-term resources to support CDI's efforts to implement health care reform were approved as part of the Budget Act of 2011, and again as part of the 2013 Budget Act. CDI has been working to adapt its regulation of the state's health insurance industry to accommodate the market changes that developed as part of Patient Protection and Affordable Care Act (ACA). According to CDI, their role in the reform of health insurance will remain ongoing. CDI has cited several factors that contribute to this observation: changes in the health insurance marketplace will require continued adjustment by both federal and state regulators; provisions of ACA will continue to be phased in until 2018; and regulatory adaptions will be required at the state level to due to growth in the health insurance marketplace.

Staff Comment: CDI contends that, due in part to the passage of ACA, their role in the health insurance marketplace has greatly expanded. The requested funding supports 4.0 attorney positions and 4.0 health program specialists on a permanent basis. The workload analysis conducted by CDI concludes that there will be an additional 16,000 hours of work that can be attributed to the reform of health insurance. The requested resources align with the projected workload analysis.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – Health Policy Form Review

Governor's Budget Request: The California Department of Insurance (CDI) has requested a $280,000 (Insurance Fund) increase in expenditure authority for fiscal year 2015-16 and $264,000 (Insurance Fund) for fiscal year 2016-17 and ongoing for 2.0 permanent attorney positions that are responsible for policy review related to the Patient Protection and Affordable Care Act (ACA) and related state legislation.

Background: The Health Policy Approval Bureau (HPAB) within CDI is responsible for the review of health insurance policy forms. The HPAB received limited-term support to address anticipated workload associated with the passage of SB 900 (Alquist), Chapter 659, Statutes of 2010; however, the anticipated workload associated with the California Health Benefit Exchange did not materialize. The resources were redirected to review policy forms submitted in compliance with the Patient Protection and Affordable Care Act (ACA).

According to CDI, the ACA-related mandates, the ongoing changes in federal and state law, and the rate of noncompliance by insurers has resulted in an attorney workload per policy form submission that far exceeds historic reviews. CDI's HPAB currently has 7.0 attorney's on staff to review policy forms, including the 1.5 redirected positions that were previously approved on a limited-term basis.

Staff Comment: This proposal would be funded by fees assessed at the time policy forms are approved. It is likely that staffing resources would increase revenue by conducting a quicker turnaround on the number of forms reviewed and approved. The workload analysis conducted by CDI concludes that there are a projected 8,000 hours annually required to complete functions associated with the health policy review process. The requested resources align with the projected workload analysis.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – Workers' Compensation Fraud Program

Governor's Budget Request: The California Department of Insurance (CDI) has requested a $5.417 million (Insurance Fund) increase in expenditure authority to fund workers compensation fraud investigation and prosecution workload increases. Additionally, CDI is requesting 15.0 permanent positions in fiscal year 2015-16, and 18.0 permanent positions ongoing to support this workload.

Background: The Workers' Compensation Fraud Program (program), which was established in 1991, requires that insurers report suspected fraud, and contains a mechanism for funding enforcement and prosecution activities. The same law that established this program in 1991, created the Fraud Assessment Commission (FAC). The FAC is comprised of seven members who are appointed by the Governor to serve a four-year term. The FAC meets on an annual basis, in order to determine the amount of funding necessary to support investigation and prosecution of workers' compensation insurance fraud. The FAC met for their annual meeting on September 10, 2014, and unanimously approved a 10 percent increase in the workers' compensation assessment in fiscal year 2015-16.

CDI has proposed focusing resources associated with this request to investigate provider fraud in the workers' compensation system, which is on the rise and involves substantial financial losses. A provider in the workers' compensation system can include medical doctors, attorneys, chiropractors, copy services, pharmacists, surgery centers, transportation companies, translation services, and providers of durable medical equipment. There are two components to this request: state operations, which totals $2.19 million; and local assistance, which totals $3.227 million.

The $2.19 million directed to CDI's Fraud Division will support up to 18.0 new permanent positions. Six of the proposed positions are non-sworn support personnel, the remaining twelve are sworn investigators. The remaining $3.227 million will be available to local district attorney's to support the prosecution of complex medical provider cases involving workers' compensation insurance fraud.

Staff Comment: According to CDI, measurements of each county's investigations and prosecution accomplishments are captured in their annual and bi-annual program report to the Insurance Commissioner. CDI's Fraud Division captures this reported information and includes it in its annual report to the Governor, the Legislature, and respective committees in the Assembly and the Senate.

Staff Recommendation: Approve as budgeted.

Vote:

0890 SECRETARY OF STATE

Department Overview: The Secretary of State (SOS), a statewide elected official, is the chief election officer of the state and is responsible for the administration and enforcement of election laws. The SOS is also responsible for the administration and enforcement of laws pertaining to the filing documents associated with corporations, limited partnerships, and the perfection of security agreements. In addition, the office is responsible for commissioning notaries public, enforcing the notary laws, and in conjunction with being the home of the State Archives, preserving documents and records having historical significance. The SOS is the filing officer for lobbying and campaign registration and disclosure documents filed under the Political Reform Act. The SOS also operates the Safe-At-Home program, maintains the Domestic Partners and Advanced Health Care Directives Registries, and is home to the California Museum for History, Women and the Arts.

The Governor's budget proposes total spending of $124.66 million ($28.35 million General Fund) for the SOS in 2015-16. Proposed staffing totals 564.3 personnel years (PYs), an increase of approximately two PYs compared with the current year.

2015-16 California Secretary of State Budget
(Dollars in millions)

Funding	**2013-14**	**2014-15**	**2015-16**
General Fund	$10,350	$31,265	$28,352
Secretary of State's Business Fees Fund	$39,984	$53,803	$55,579
Federal Trust Fund	$22,236	$26,871	$37,618
Reimbursements	$12,088	$8	--
Victims of Corporate Fraud Compensation Fund	$3,871	$1,630	$1,530
Other	$54	$580	$1,587
Total Expenditures	$88,582	$114,157	$124,666
Personnel Years	502.0	562.0	564.3

*dollars in thousands

Issue 1 – Help America Vote Act/VoteCal

Governor's Budget Request: The Secretary of State's Office has submitted three requests associated with the implementation of the statewide mandates of the Help America Vote Act (HAVA) of 2002.

1) $34.38 million (Federal Trust Fund Authority) in fiscal year 2015-16; to continue the implementation of the statewide voter registration database, known as VoteCal.

2) $2.976 million (Federal Trust Fund Authority) in fiscal year 2015-16, to continue the implementation of HAVA mandates. These mandates include modernization of voting equipment, education and training programs for local officials, and development and dissemination of voting information to increase voter participation.

3) $305,000 (Federal Trust Fund Authority) in fiscal year 2015-16 for the testing of voting systems, pursuant to the statewide mandates of the HAVA. According to the Secretary of State, costs associated with testing were previously incorporated into the HAVA spending plan.

VoteCal - Section 303 of the federal Help America Vote Act (HAVA) of 2002 (Public Law 107-22, 107th Congress) mandates that each state implement a uniform computer voter registration database that can be maintained at the state level. To address this mandate, the Secretary of State has begun the implementation of VoteCal, the state's voter registration database. This database must contain the name and registration information of every legally registered active or inactive voter in the state.

On January 10, 2013, Special Project Report Number 5 (SPR 5) was approved by the Department of Technology. According to SPR 5 full-deployment of VoteCal is planned for June 30, 2016. The SPR projects that the total cost of VoteCal through implementation will be $98.2 million.

Help America Vote Act (HAVA) - On October 29, 2002, President Bush signed into law the Help America Vote Act of 2002. This legislation requires states and localities to meet uniform and nondiscriminatory election technology and administration requirements applicable to federal elections. To date, California has received $391.3 million in federal funds to implement these mandates.

HAVA has, so far, allowed the state and counties to replace punch-card voting systems and improve voter outreach, poll worker training, county security measures, and voter access for persons with disabilities. Activities in FY 2015-16 include voting system testing and approval and voter education programs. Grants to counties account for $2.3 million of the funding.

Staff Comment: Staff has no concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Business Connect Project

Governor's Budget Request: The Secretary of State's Office requests an augmentation of $7.75 million ($6.759 million Business Fees Fund and $1.0 million Business Programs Modernization Fund) for the continuation of the Business Connect Project. Total project costs for fiscal year 2015-16 are estimated to be $10.377 million; there is $2.896 million of existing resources approved as part of the 2014 Budget Act that will supplement the requested funds.

Background: The Secretary of State is responsible for the management of over 150 different types of filings of business entities in California. The Business Programs Division, which is responsible for the management of business filings, is comprised of three sections: the business entities section; Notary Public/Special Filings Section; and, the Uniform Commercial Code/Statement of Information section.

The Secretary of State receives more than one million business filings annually, and its current systems rely on antiquated methods, such as index cards and other paper documentation, to process and maintain records. Many business filings and other requests for services must be conducted in-person or by mail. These outdated methods result in very slow processing times, preventing new businesses from opening their doors and creating jobs. Processing times for the office have been as long as 117 days, preventing new businesses from beginning operations and creating delays and uncertainty for existing businesses.

AB 113 (Committee on Budget), Chapter 3, Statutes of 2013, was passed to address the backlog of, and increase the turnaround time for, for processing claims. AB 113 included an appropriation of $1.6 million to augment the Secretary of State's Business Programs Division, which is dedicated to processing business filings. However, AB 113 focused on the manual processing of claims, and did not address the state's need for an automated business filings system.

In March 2011, the Secretary of State submitted a Feasibility Study Report (FSR) that proposed automating many of the functions associated with business filings. At that time, it was estimated that total project costs would be approximately $21.36 million, with annual ongoing maintenance and support costs totaling $1.8 million. Resources to support the project would be directed from the Business Fees Fund.

The project's overall cost has been revised in an updated Special Project Report (SPR), which was issued in December 2013, to reflect the selection of a vendor. Even though project costs associated with systems integration and the purchase of hardware and software are lower than originally anticipated, project costs will increase due to a greater need for offsite backup and disaster recovery. Total project costs are now estimated to be $26.9 million, reflecting an increase of approximately $4.7 from the originally approved FSR amount.

Staff Comment: As noted in the most recent Independent Project Oversight Report (IPOR), which was issued in February 2015, the scheduled completion of the Business Connect Project has been pushed back to September 2017. According to the IPOR, the vendor-proposed schedule was no longer feasible. The Secretary of State has submitted a corrective action plan to the vendor, and the vendor has responded by hiring a schedule manager to assist the Business Connect Project staff develop a more accurate schedule that ensures the remaining tasks are completed in a more realistic timeframe. Despite the challenges the project has faced in terms of schedule delays, it is the Independent Project Oversight Consultant's (IPOC) opinion that this project can still achieve success.

Staff Recommendation: Approve as budgeted.

Vote:

7502 DEPARTMENT OF TECHNOLOGY

Department Overview: The Department of Technology was established to support state programs and departments in the delivery of state services and information to constituents and businesses through agile, cost-effective, innovative, reliable, and secure technology. The department retains statewide authority to centralize and unify information technology projects and data center services to enhance the ability to develop, launch, manage, and monitor large information technology projects.

In August 2010, the California State Legislature passed AB 2408 (Smyth), Chapter 404, Statutes of 2010, to reestablish the Office of the State Chief Information Officer (OCIO) as the California Technology Agency and to rename the State Chief Information Officer as the Secretary of the California Technology Agency. While Senate Bill 90 (Committee on Budget and Fiscal Review), Chapter 183, Statutes of 2007, had already made the OCIO a cabinet-level agency with statutory authority over strategic vision and planning, enterprise architecture, IT policy, and project approval and oversight for the state in 2007, AB 2408 codified into law significant functions, duties, and responsibilities of the office that had been assigned to the Office of the Chief Information Officer. In addition to consolidating statewide IT functions under one cabinet-level agency, the legislation passed in 2010 was also responsible for coordinating the activities of agency and department CIOs and promoting the efficient and effective use of IT in state operations.

On July 1, 2013, the Governor's Reorganization Plan No. 2 (GRP2) created the Government Operations Agency and, as a part of that plan, reestablished the California Technology Agency as the Department of Technology under the newly-created Government Operations Agency.

The Office of Technology Services (OTech), within the Department of Technology, provides the information technology processing platforms for over 500 customers, including the Executive Branch and public entities. OTech is accountable to its customers for providing secure services that are responsive to their needs and represent best value to the state. OTech is a fee-for-service organization and operates as a 100 percent reimbursable department.

Budget Overview: The Governor's 2015-16 budget proposes $372.80 million dollars ($4.80 million General Fund) and 910.7 personnel years for the Department of Technology reflects a decrease of $6.49 million dollars ($90,000 General Fund increase) and an increase of 8.0 Personnel Years.

Issue 1 – Statewide Telecommunications Procurement

Governor's Budget Request: The California Department of Technology (CalTech) has requested 6.0 permanent positions to support the statewide telecommunications procurement function within CalTech. .

Background: Prior to 2012, the Department of General Services (DGS) was responsible for statewide telecommunication efforts. AB 2408 (Smyth), Chapter 404, Statutes of 2010 transferred responsibility of the acquisition of telecommunications services and all contracts for telecommunications goods, whether by lease or purchase, to CalTech by February 1, 2012.

CalTech addressed this new responsibility by creating the Statewide Technology Procurement Division (STPD), which included 4.5 permanent positions, as part of the Budget Act of 2013. CalTech has determined that the workload associated with STPD will require that 6.0 temporary positions be ongoing, which will increase the staffing of the STPD to 10.5 permanent positions.

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

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Statewide Project Management Office

Governor's Budget Request: The California Department of Technology (CalTech) requests an augmentation of $1.499 million (Technology Services Revolving Fund) in fiscal year 2015-16, and 11.0 permanent positions, to develop a new project management framework. $1.067 million of the increase is proposed as a loan from the General Fund to the Technology Services Revolving Fund, and is to be repaid by June 30, 2021.

Background: Historically, the state has relied on a decentralized approach to project management, tasking individuals within a department to manage IT project implementation. Under the decentralized approach, project management staff are expected to learn project methodologies and create a team to support the project implementation process. This approach often relies heavily on vendor support to assist with the project implementation process.

One of the primary challenges of utilizing a decentralized project management approach is the lack of experienced project management staff at the department level. Many project managers are starting from scratch; they lack experienced team members, structure, and have a limited understanding of project methodologies. Lessons learned from one project to the next are infrequently shared, and training is applied at varying levels.

To address the problems inherent in a decentralized approach, CalTech proposed moving to a centralized approach through the creation of a statewide project management office. This office would be responsible for the management of an IT project from the beginning to final deployment. CalTech eventually intends to consolidate much of the state's project management effort to one centralized location, where information sharing is more feasible, training can be applied in a more uniform fashion, and the personnel utilized for project management are experienced professionals, capable of managing more complex projects. The Budget Act of

2014 included 2.0 positions and $208,000 (General Fund) to begin the process of creating a statewide project management office at CalTech.

CalTech has proposed the following three distinct service models for supporting IT projects. Each service model reflects a different level of engagement of the project management office (PMO) depending on the project management capacity and needs of the sponsoring department. In all of these models, sponsoring departments retain control over and ultimate ownership of the project.

- *Advisory Project Management Assistance.* Under this model, a CalTech PMO project manager would work with a sponsoring department's IT project staff on a full–time *advisory* basis to provide assistance on a variety of project management issues. The PMO's responsibilities in this model would include: (1) reviewing project plans and ensuring plan completeness, correctness, and soundness; (2) identifying major risks and issues and providing advice on how to resolve them; (3) identifying areas of need and suggesting the addition of experts, advisors, or consultants; (4) ensuring that the project is following industry best practices; (5) helping to communicate between various stakeholders; and (6) providing general project management expertise. This model provides the lowest level of services to departments and provides CalTech with little authority and the departments the greatest amount of discretion.

- *Balanced Engagement.* Under this model, a CalTech project manager or associated support staff would be absorbed into the sponsoring department's project management team. Rather than allocating a complete project management team (which includes a project manager and associated support staff, such as schedule, testing, and quality assurance managers), the PMO would allocate targeted resources based on the specific needs of the project. Ultimately, the project management team would include a combination of PMO and sponsoring department staff resources. In the case where CalTech assigns a project manager, that manager would have complete authority over all project staff resources—whether from the PMO or the department. The project manager would follow the standard processes to modify any of the project parameters, such as scope, cost, and schedule. The sponsoring department would maintain final authority over the decisions that affect the project, as prescribed in the project's governance structure.

- *Full Engagement.* Under this model, the PMO would provide a project manager and associated support staff to assume the day–to–day management of the project in lieu of the sponsoring department's staff resources. The project budget and contract executing authority would be transferred to the deputy director of the PMO. This model provides CalTech with the greatest degree of authority. However, as with the targeted assistance model, the sponsoring department would maintain final authority over the decisions that affect the project.

CalTech has identified three distinct scenarios that would trigger PMO engagement:

- **Department requests PMO services** – When a sponsoring department recognizes that they lack the personnel or management experience, necessary for the project, the department could request the services of the PMO.

- **Engagement required as a condition of approval** – When CalTech identifies a lack of management capacity at the sponsoring department, the project could be approved with the condition that the PMO provide project management services to the sponsoring department. According to CalTech, after an agreement has been reached, a transition plan that addresses the shifting of responsibilities, staff, facility infrastructure, budgetary authority, reporting, structure, and contracts would need to be developed.

- **Engagement of at-risk projects –** While performing oversight responsibilities, CalTech may determine that a project require the engagement of CalTech. Under this model, CalTech could utilize its consulting division to provide coaching and assistance in order to get a project back on track, or it could utilize one of the three service models described above to engage the services of the PMO.

The CalTech budget is structured so that departments pay for services they receive directly from CalTech and the General Fund pays for the "statewide" activities of CalTech. As CalTech primarily provides services, most of the department is funded through the Technology Services Revolving Fund, which collects fees paid by customer departments for services provided by CalTech. As noted earlier, the Legislature approved a General Fund appropriation that would allow CalTech to create the foundation of the PMO. CalTech's proposal includes a loan of $1.067 million from the General Fund in fiscal year 2015-16 that will support 8.0 positions within the project standards and support unit. The General Fund loan will bridge start-up costs until all staff expenses can be recovered through PMO fees to customers. The General Fund loan will be repaid by building the cost of the loan into future PMO rates. CalTech is in the process of developing rates that are intended to be competitive with private sector rates.

LAO Recommendations: The LAO has noted that while there may be some concerns regarding CalTech's ability to oversee projects, on balance the state would benefit from the development of a body of skilled project management officials that serve IT projects throughout the state. The LAO has conducted a thorough analysis of the Governor's proposal to create a statewide project management office. A summary of the recommendations provided by the LAO are below:

- ***Monitor CalTech's Efforts to Improve Approval and Oversight Functions***. Given the connection between approval, effective oversight, and project management, the LAO recommends the Legislature monitor CalTech's progress in implementing the State Auditor's recommendations intended to address the deficiencies in CalTech's oversight of IT projects and modifications to the project approval process. CalTech could update the Legislature on its progress during budget or policy hearings.

- ***Establish, and Provide Policy Direction for, the PMO in Statute.*** The LAO recommends the Legislature formally establish the centralized PMO in statute, given the vague (and unexercised) current authority in statute for CalTech to manage projects. The statute would provide the Legislature an opportunity to indicate its priorities and guide the operation of the office.

- ***Annual Reporting on Performance Measures.*** The LAO recommends the Legislature require CalTech to develop performance measures that enable an assessment of how well the office is meeting its objectives.

- ***Strategy for Bolstering Program Expertise Over Time.*** The LAO recommends the Legislature direct CalTech to develop a strategy to bolster program area expertise of the PMO so that the PMO may more effectively support IT projects. In the short term, CalTech's strategy may largely be to rely on the sponsoring departments offering pertinent program briefings to PMO–based project managers.

- ***Justification for Existence of Both the Consulting Division and Advisory Service Model.*** The services offered by CalTech's Consulting Division and the advisory service model for the PMO seem duplicative. The LAO recommends the Legislature require CalTech to justify the need for both forms of assistance. If CalTech provides insufficient justification, we recommend the Legislature direct CalTech to consolidate the services offered by the Consulting Division and the advisory service model into a single entity.

Staff Comment: Concerns have been raised about a potential conflict between CalTech's oversight role and project management role. The plan proposed by CalTech includes a "firewall" that would place these two functions in different units within CalTech. Each unit would have a deputy director who would report to the director. Given that the underlying idea is to centralize IT-related functions under one agency, CalTech's proposal seems feasible.

Accountability represents of one of the more significant benefits to transitioning to a centralized IT project management model. However, as noted by the LAO, an assessment on progress will be difficult to achieve if performance measures are not identified. CalTech has noted that establishing a consistent, complete baseline to measure the effectiveness of its services will be developed over time. CalTech has identified three basic principles that will serve as the foundation in developing their performance measures:

- Project specific processes – this is intended to measure the project management framework and will be collected using surveys, interviews, forums, and project artifacts.

- Professional knowledge – this is intended to measure the workload of the project management office.

- Statewide measures – this is intended to look at the state's IT portfolio as a whole.

The high-level schedule provided by CalTech does not specify when reportable outcomes will be established. This subcommittee may wish to seek further clarification from CalTech on when the reportable outcomes will be established. The Subcommittee may wish to consider whether it would be appropriate to codify reportable outcomes, the circumstances under which the PMO would manage projects, the jurisdiction of CalTech, and necessary firewalls.

Staff Recommendation: Hold this item open for further discussion.

Vote:

8880 FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Background: The Financial Information System for California (FI$Cal) project is a partnership of four control agencies: the Department of Finance, the State Controller's Office, the State Treasurer's Office and the Department of General Services. FI$Cal is expected to provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. This "Next Generation" project, through the adoption of best business practices, is expected to reengineer business processes; improve efficiency; enhance decision-making and resource management; and provide reliable, accessible, and timely statewide financial information allowing the state to be more transparent. After a lengthy multi-stage procurement process, a vendor was selected in 2012 to begin designing and implementing the project.

The Governor's budget includes $135.391 million ($102.872 million General Fund and $32.519 million other funds) to support FI$Cal for fiscal year 2015-16. Consistent with the 2012 and 2013 budget acts, the General Fund continues to pick up a larger share of the project costs to make up for General Fund expenditures that were deferred in fiscal years 2012-13 and 2013-14. The overall split between General Fund and other funds remains consistent with FI$Cal's approved cost allocation plan.

FI$Cal is the state's largest information technology project in terms of budget and scope, and has considerable project risks. In recent history, the Legislature has taken action to mitigate this risk and ensure the best chance for project success by prescribing a multi-stage procurement, requiring additional reporting, and stipulating that the State Auditor's Office monitor the procurement process.

Bureau of State Audits: Pursuant to Government Code, Section 15849.22(e), the California State Auditor (State Auditor) is required to monitor the FI$Cal project throughout its development. The most recent report, issued January 9, 2015, notes that the project has made progress, but continues to raise some concerns. These include:

- Previously reported progress on addressing the projects vacancy rate remains stagnant, which may create future workload challenges.

- Scheduling challenges continue to persist, and some functions have not been implemented as plan.

- Wave 4, which includes many large departments, may present FI$Cal project staff with a significant challenge.

Initially, the FI$Cal project plan anticipated that groups of state departments would join the new system over three 12-month waves of implementation between 2014 and 2016. According to the most recent Special Project Report (SPR), SPR #5, the project team has lengthened the waves to 24-month periods and moved most of the departments into the last wave of implementation; this will extend implementation of the project by one year, until 2017.

Staff Comment: As noted above, Wave 4 contains a large number of departments. While no new functionality will be introduced during this wave, the volume of departments included in this wave may overwhelm the FI$Cal project team. To avoid the risk of the project schedule slipping further beyond the July 2017 date proposed in SPR #5, this subcommittee may want to ask the FI$Cal project team to provide an assessment of what resources will be required to implement Wave 4.

Staff Recommendation: Informational item, no action necessary.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, April 16, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

OUTCOMES

Consultant: Brady Van Engelen

Item Number and Title

0840	State Controller's Office
0845	Department of Insurance
0890	Secretary of State
7502	California Technology Agency
8880	Financial Information System for California

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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 916-324-9335. Requests should be made one week in advance whenever possible.

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Thursday, April 23, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Agenda—Part A

State Finance

<u>**Vote-Only Calendar**</u>

<u>**Discussion / Vote Calendar**</u>

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.

Vote-Only Calendar

7730 Franchise Tax Board

Issue 1: Enterprise Data to Revenue Project—Information Technology (BCP 2)

Governor's Proposal: The budget proposes $44.7 million and 20 three-year, limited-term positions in 2015-16 to continue the implementation of Enterprise Data to Revenue (EDR) project of the Franchise Tax Board (FTB). Of the total budgeted amount, $41.2 million constitutes the vendor payment, with the remainder slated for personnel costs and to pay for project oversight by the California Department of Technology (CalTech). The budget proposal includes a placeholder for the project's 2016-17 requirements, which includes $53.6 million for maintenance and operations (with $39.9 million earmarked for vendor payments). As indicated in the prior agenda on this issue, the vendor payment is directly tied to revenues generated. Revenues generated by the project for 2015-16 are expected to be between $760.5 million and $1.1 billion. The 20 limited-term positions will support the ongoing current information technology (IT) work associated with the project. The positions will also facilitate and address knowledge management, transition of the system, and training. The efforts are designed to prepare FTB staff to take over maintenance and operations of EDR by January 1, 2017.

Staff Comments: This issue was discussed at the March 26, 2015 hearing date. Staff has no concerns with the proposal.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2: Enterprise Data to Revenue Project—Program (BCP 3)

Governor's Proposal: The budget proposes $2.5 million and 33 positions (25 permanent and eight two-year, limited-term) to support the Fraud Unit and Authenticated Live Chat associated with the EDR, and budget bill language. The EDR project includes enhanced fraud modeling tools that will allow the FTB to better detect fraudulent activity and stop an additional $40 million in refund and identity theft fraud returns from being issued to fraud perpetrators. The 25 permanent positions will be assigned to this unit. The proposal includes the provision of resources to Authenticated Live Chat, which will permit the exchange of personal tax information, and is expected to be implemented by July 1, 2015. The eight limited-term positions will be assigned to this activity. The proposal also calls for budget bill language which would allow the Department of Finance (DOF) to augment the department's budget by up to $3.5 million, upon 30 days' notice to the Joint Legislative Budget Committee, to provide additional resources to the EDR project for tax data preparation and capture of information from personal income tax and corporation tax documentation.

Staff Comments: This issue was discussed at the March 26, 2015 hearing. Staff has no concerns with the proposal. The proposed budget bill language is similar to that which the Legislature approved last year.

Staff Recommendation: Approve as budgeted.

Vote:

0860 Board of Equalization and Other Departments

Issue 1: Revenue Recovery and Collaborative Enforcement Plan (Supplemental Report Language)

Background: In AB 576 (V. Manuel Pérez), Chapter 614, Statutes of 2013, the Legislature established the Revenue Recovery and Collaborative Enforcement Team (RRACE), intended to enhance existing efforts to combat criminal tax evasion associated with underground economic activities by institutionalizing collaboration among state agencies. RRACE membership comprises: 1) Franchise Tax Board; 2) Department of Justice; 3) State Board of Equalization; and 4) Employment Development Department. In addition, the following agencies may participate in the pilot program in an advisory capacity to the team: 1) California Health and Human Services Agency; 2) Department of Consumer Affairs; 3) Department of Industrial Relations; 4) Department of Insurance; and 5) Department of Motor Vehicles. A key element of the effort is to facilitate data and intelligence sharing among participating state agencies.

The legislation requires that the participating agencies develop a plan for a central intake process and organizational structure to document, review, and evaluate data and complaints. The date for the development of the plan is not specified in statute or otherwise. The item was discussed at the March 26, 2015, Subcommittee No. 4 hearing and the committee indicated that the plan should be completed by December 31, 2015.

Staff Comments: Staff recommends the adoption of supplemental report language that would direct the completion of the plan:

> *Pursuant to AB 576 (V. Manuel Perez), Chapter 614, Statutes of 2013, the Revenue Recovery and Collaborative Enforcement Team (RRACE) was established in state government as a pilot program. As set forth in statute, RRACE is required to develop a plan for a central intake process and organizational structure to document, review, and evaluate data and complaints. This plan shall be presented in report form and provided to the Senate Committee on Budget and Fiscal Review, the Assembly Committee on Budget, the Senate Committee on Governance and Finance and the Assembly Committee on Revenue & Taxation on or before December 31, 2015.*

Staff Recommendation: Approve proposed supplemental report language.

Vote:

0985 California School Finance Authority

Issue 1: Federal Funds Audit Requirement (Spring Finance Letter)

Background: Federal law requires annual single audits for state authorities that administer certain federal funds, such as those administered by the California School Finance Authority (CSFA).

Governor's Proposal: The Spring Finance Letter request $35,000 (Federal Trust Funds) to cover the costs of complying with an annual single audit requirement.

Staff Comments: Staff has no concerns with the proposal.

Staff Recommendation: Approve as budgeted.

Vote:

Discussion / Vote Calendar

0860 Board of Equalization

Issue 1: Prepaid Mobile Telephony Services (Spring Finance Letter)

Background: The provisions of AB 1717 (Perea), Chapter 885, Statutes of 2014, impose a new Mobile Telephony Service (MTS) surcharge and local charge to be administered by the Board of Equalization (BOE) beginning January 1, 2016. The statute sunsets January 1, 2020. The prepaid MTS surcharge and local charges are imposed upon the consumer of prepaid MTS, but are required to be collected by the retail seller and the direct seller. The program for retailers of prepaid MTS will be administered by the Sales and Use Tax Department of the BOE, while the program that applies to direct sellers will be administered by the Special Taxes and Fees Department.

The prepaid MTS surcharge rate is subject to calculation each year by BOE. The state rate consists of the 911 surcharge rate, determined by the Office of Emergency Services, plus the California Public Utilities Commission (CPUC) end-user surcharges, which includes the annual user fee established by the CPUC. The local charge rates are to be provided by local jurisdictions to the BOE annually. The BOE is responsible for publishing the combined rate for each jurisdiction by December 1 of each year, with the published rates becoming operative April 1 of the following year.

Governor's Proposal: The budget proposes $5.7 million (special funds) and 22.3 positions in 2015-16 and $2.6 million (special funds) and 18.9 positions in 2016-17, and ongoing, to implement the provisions of AB 1717. Except for five limited-term positions, all the positions would be permanent. In addition, there is a proposal for budget bill language that would allow for a budget augmentation upon approval of the Department of Finance (DOF) and 30 notification to the Joint Legislative Budget Committee (JLBC). The program is a new one for BOE, and administrative start-up costs will be funded through a temporary loan (addressed in the following issue) from the General Fund which will be repaid, in the same budget year, once fee revenue is generated.

The program will require that sellers of MTS register with the BOE, collect the prepaid MTS surcharge from consumers, and remit amounts collected to the BOE. Administration of the new surcharge will be conducted by Sales and Use Tax Department of BOE, but the surcharge falls under the Fee Collection Procedures Law, and will require several additional functions. Activities required for the implementation and administration of the surcharge will affect registration, return processing, collections, audits, appeals, and refunds.

- **Registration.** Some sellers of MTS do not sell personal tangible property, so they will need to be registered with BOE. This will require preparation and distribution of registration materials and information, along with necessary returns and reporting schedules.

- **Return Processing.** The program will require additional programming to the Integrated Revenue Information System. The surcharge will be reported on a separate return, requiring a new e-file return for retail sellers of MTS. Both state and local rates are subject to change, requiring annual testing. Return processing must also incorporate deposits to the 911 and PUC accounts and address direct and retail sellers.

- **Collections and Audits.** The program will result in additional delinquencies from surcharge payers. In addition, the guaranteed funding of 911 surcharges will require BOE calculations regarding any potential deficiency determination and subsequent billing. Additional audits may be required at the end of the three-year cycle, but no resources have been requested at this time.

- **Appeals and Refunds.** The program may generate additional activity for these programs, but no additional resources have been requested at this time.

Given the distribution of anticipated activity required by the surcharge, the proposal calls for: two permanent accounting and administrative positions; seven permanent positions for technology services for the legacy system; three limited-term programmer analysts; two permanent positions for technology system maintenance and operations; two limited-term and two permanent positions for information system analysis; two permanent business tax representatives for training and tax issues; one permanent outreach coordinator; two permanent business tax representatives for return analysis; five permanent positions for the local revenue and allocation unit; one permanent position for compliance and technology; one permanent position for audit and information activities; and one permanent position for special taxes and fees.

Staff Comments: The wide range and duplication of many of the activities covered in the proposal is—if nothing else—a strong indicator of the need for a more unified and comprehensive approach to tax and fee administration for the agency. Initial estimates for the implementation of the program were almost twice the amount now requested, and DOF has succeeded in refashioning the administration of the surcharge in a manner that is more cost effective than originally conceived by the agency. Nevertheless, the proposal could potentially be further curtailed by converting additional permanent positions to limited-term, in particular, the positions related to training and outreach. BOE indicates that it is requesting permanent positions instead of limited-term "due to difficulties in hiring and retaining staff." In addition, the proposed budget bill language imposes no additional criteria on the allocation of additional funds. The committee could consider additional restrictions, such as a limitation on the amount. DOF has indicated a willingness to consider amendments to the language in this regard and has suggested the changes noted below:

0860-001-3251—For support of State Board of Equalization payable from the
Prepaid Mobile Telephony Services Surcharge Fund…………………………..2,358,000
Schedule:
(1) 0570—Administration of the Board of Equalization……….2,358,000

Provisions:

1. The Department of Finance may augment the amounts appropriated in Schedule (1) by up to $1,000,000 to implement Chapter 885 of the Statutes of 2014, if the number of registered retailers is expected to exceed 6,500 and it is determined that the Board of Equalization requires additional resources to implement the statute. The Department of Finance shall authorize the augmentation not sooner than 30 days after notification in writing to the Joint Legislative Budget Committee.

0860-001-3270—For support of State Board of Equalization payable from the
Local Charges for Prepaid Mobile Telephony Service Fund………………….3,265,000
Schedule:
(1) 0570—Administration of the Board of Equalization……….3,265,000
Provisions:

1. The Department of Finance may augment the amounts appropriated in Schedule (1) by up to $1,000,000 to implement Chapter 885 of the Statutes of 2014, if the number of registered retailers is expected to exceed 6,500 and it is determined that the Board of Equalization requires additional resources to implement the statute. The Department of Finance shall authorize the augmentation not sooner than 30 days after notification in writing to the Joint Legislative Budget Committee.

Questions:

Board of Equalization

1. Can you relate the new program to the implementation of Centralized Revenue Opportunity System (CROS)? Will the program be designed such that it can easily be incorporated into CROS?

2. If there is not a means of seamlessly—or at least easily—incorporating into CROS, is there an approach to implementing the program such that the system does not need to be re-created once CROS comes on line?

3. In the past, the agency has asserted hiring problems associated with limited-term positions. Can you provide information about positions that are unfilled because of this or implementation of programs that have been jeopardized due to the limited-term requirement?

Staff Recommendation: Hold open.

Vote:

Issue 2: Prepaid Mobile Telephony Services (Trailer Bill Language)

Background: The background regarding Prepaid Mobile Telephony Services (MTS) established pursuant to AB 1717 (Perea), Chapter 885, Statutes of 2014, is presented in the previous issue.

Governor's Proposal: The Governor has proposed clean-up language to AB 1717 that would address three issues: allow for a *de minimis* sales threshold for retailers of MTS; a temporary General Fund loan for cash flow purposes; and, direct fee revenue to the appropriate funds. Specifically, the proposal would establish:

- ***De Minimis* Amount.** Establishes that retailers with MTS annual sales of less than $15,000 are not required to collect the surcharge or local charge.

- **General Fund Loan Authorization.** Allows for a loan from the General Fund to address cash flow issues and specifies that the loan is to be repaid in the same fiscal year, or delayed until six months after the adoption of the budget act in the subsequent fiscal year.

- **Technical Changes and Clarifications.** Specifies the accounts and funds for the deposit of the surcharge and local charge revenues, clarifies dates regarding the imposition of rates, and indicates the means by which service suppliers are notified of rates.

Staff Comments: Staff has no fundamental concerns with the proposal. However, there are a few areas in the language that could benefit from some additional specificity. For example, the $15,000 threshold may be adjusted Department of Finance (DOF) to "reflect any necessary changes." DOF indicates that the purpose of this clause is to allow some flexibility such the threshold is neither too high nor too low to adequately fund the costs of the program, and staff suggests that this more specific guideline be incorporated in the proposal.

Staff Recommendation: Hold open.

Vote:

0950 State Treasurer's Office

Issue 1: Personal Services Funding (Spring Finance Letter)

Background: The State Treasurer's Office (STO) serves as the state's asset manager, banker, and financier. It is responsible for providing banking services including: ensuring fund safety, maintaining liquidity, minimizing borrowing costs, maximizing investment returns, investing temporarily idle funds, administrating bond sales, and processing warrants. The STO notes that in 1990-91 it administered $180 billion in security investment transactions and administered the sale of $12 billion in bonds with a staff of 225. Volume has increased, such that in 2013-14, the figures were $271 billion in investments and $24 billion in bond sales with basically static staffing of 228. In addition, while the staffing characteristics for the department has generally been upgraded during this period, the funds with which to provide additional compensation were not provided until 2008. Subsequent to this, fiscal restraints eroded the augmentations slated for compensation support.

Governor's Proposal: The proposal would provide additional funding of $650,000 for compensation for existing STO staff in authorized positions. This would include compensation based on increased staff responsibilities, annual merit salary adjustments, and various unallocated budget adjustments. Currently, three divisions are deficient in their personal services budges: public finance division; information technology division; and, executive office. Funding for the proposals is based on reimbursements and funding from various boards, commissions and authority under the purview of the State Treasurer. No General Fund resources are proposed.

Staff Comments: LAO indicates that it is not uncommon for departments to periodically have higher than expected personal services costs, but that departments are expected to manage their authorized positions within their budgeted authority. Additionally, LAO expresses concern that this proposal may not address the underlying causes of STO's personal services deficiency.

While acknowledging the overall validity of LAO representations, staff notes that the activities included in the proposal involve more than general administration and program delivery, but rather professional services related to core costs of financing government. STO capital markets activities involve engagement in a highly technical and protean field, and while the state cannot compete directly with the compensation packages typical of private industry, the state should be as competitive as possible within the confines of the civil service system. Moreover, given the increase in volume and complexity of STO activities, an increase in compensation commensurate with these duties is warranted. Currently, vacant positions are often filled above the entry level, and there are ongoing difficulties in competing for talent with private sector employers.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2: Strategic Information Technology Initiatives (Spring Finance Letter)

Background: The STO is attempting to improve the accessibility to services, data and information provided, as well as to improve and upgrade its information technology (IT) capabilities. The proposal will realign funding in accordance with benefits received and would be consistent with the Treasurer's strategic plan.

Governor's Proposal: The proposal from the STO, approved by the Administration, calls for upgrading and improving several components of the STO IT technical services. For the entire proposal, 11 new positions in three areas (discussed below) would be established, with additional required resources of $1.4 million (reimbursements and special funds).

- Five additional positions for the Data and Government Transparency Unit, to redesign and expand the STO's public website and interfaces with various databases.

- Three additional positions for the Project Management Office, to establish a permanent presence at the STO, in response to a request from the California Department of Technology (CalTech).

- Three positions for technical support services, to address additional workload from the prior Administration, and manage the conversion from obsolete and dated systems.

Legislative Analyst's Perspective: LAO recommends rejecting the proposed funding and positions for a Data & Government Transparency Unit to redesign STO's website and the Project Management Office. It indicates STO has not clearly demonstrated that the website modifications that it proposes justify the additional costs of five staff on an ongoing basis, nor has STO identified sufficient ongoing project management needs to justify three positions for this workload on an ongoing basis. LAO indicates it would be more appropriate for these positions to be considered during the January budget process allowing for additional time to further refine the plan and justification for these new units, and provide the Legislature with additional opportunity to more fully evaluate STO's request.

Staff Comments: The STO proposals to increase transparency and upgrade project management capabilities are laudable, as is the increased focus on IT performance. However, staff is in general agreement with LAO recommendation regarding the Data and Government Transparency Unit, in that this proposal could benefit from additional germination allowing for refinements. Nevertheless, some preliminary scoping of this area could be accomplished prior to the formulation of a follow-up proposal (presumably as part of the January 2016 budget), and thus, a limited amount of resources could be appropriate at this time. Establishing a Project Management Office, given ongoing concerns with IT procurement, is a worthwhile investment, and the STO proposal is a reasonable approach. The IT positions, similarly, are a wise investment; however, given that some of the work associated with these positions is related to conversion to new systems and may not involve an ongoing obligation, it may be worth considering these as limited-term positions.

Staff Recommendation: Staff recommends the following: approving one initial position for Data and Government Transparency Unit; funding the requested positions for the Project Management Office; and approving funding for the two technical IT positions and the IT deputy chief, with the two technical positions provided on a limited-term basis.

Vote:

Issue 3: Letters of Credit (Trailer Bill Language)

Background: The STO Centralized Treasury and Securities Management Division operates under the provisions specified in California Government Code sections 16300 et seq. (Title 2, Division 4, Part 2). With respect to the collateralization of accounts, California Government Code allows letters of credit (LOCs) issued by the Federal Home Loan Bank of San Francisco (FHLBSF) to be received as collateral for demand deposits, fiscal agent deposits, time deposits, and state agency deposits outside of the centralized treasury system. It also allows the Federal Reserve Bank of San Francisco (FRBSF), or any of its branches, to receive deposits of securities approved by the State Treasurer for all of the programs.

References to specific bank locations of the Federal Home Loan Bank (FHLB) and Federal Reserve Bank (FRB) were originally placed in statute since many of the state's depository banks were located in California, resulting in the designation of FHLBSF as their bank. In addition, FRBSF is California's administrative reserve bank. In recent years, this proscription has presented challenges, since fully half of the state's demand deposits reside outside California. These depositories do not have the option to use LOCs since they are not members of FHLBSF. In addition, while initially management of the State Treasure's FRB account operations originated in the FRBSF, the FRB has consolidated these operations in FRB of Boston and FRB of Kansas City, thus placing the management of these accounts out-of-compliance with statute. In addition, the STO notes that new requirements under the third accord of Basel Committee on Banking Supervision, (Basel III) has tightened capital requirements and increased the cost of collateral to banks, which could result in added costs to the state, absent the proposed changes.

Governor's Proposal: The proposed trailer bill language would remove restrictions and references to "San Francisco" in California Government Code sections. This would ensure that the STO is in compliance with statutes regarding the management of its account at FRB and would also enable depository banks to submit LOCs as collateral from any FHLB.

Staff Comments: Given the dispersal of financial activities, the proposal provides a needed update to existing statute. A review of other large states—including New York, Texas and Florida—confirmed that these states have already liberalized their LOC policies. Staff has no concerns with the proposal. There is no known opposition.

Staff Recommendation: Approve the proposed trailer bill language.

Vote:

0984 California Secure Choice Retirement Savings Investment Board

Issue 1: Legal Services and Market and Financial Feasibility Study (Spring Finance Letter)

Background: The California Secure Choice Retirement Savings Investment Board and the California Secure Choice Retirement Saving Program were established pursuant to SB 1234 (De León), Chapter 734, Statutes of 2012, for the purpose of creating a statewide savings plan for private-sector workers who lack access to an employer-sponsored retirement savings plan. The legislation requires that the board to conduct a market analysis and financial feasibility study and legal analysis to determine whether the necessary conditions for implementation of the program can be met. The board is required to conduct the analyses only if funds are made available through a nonprofit or private entity, or from federal funding. The board can implement the program only if it determines, based on the market analysis, that the program will be self-sustaining; funds are made available through a nonprofit or other private entity, federal funding, or an annual budget act appropriation in amounts sufficient to allow the board to implement the program until the California Secure Choice Retirement Savings Trust has sufficient funds to be self-sustaining; and an authorizing statute is enacted that expresses the approval of the Legislature for the Program to be fully implemented.

The board will be entering into a legal contract for $275,000 which will be in place in the spring of 2015. The board expects to interview finalist firms for the market analyses and financial feasibility study in the spring of 2015, with the contract in place in April of 2015. The board expects both studies to be completed by fall 2015. The studies and analyses must be paid for only through donated funds, of which the board has received $572,000 as of January 2015. The board indicates that written agreements for matching funds and 'verbal assurances' from potential funding sources make the board optimistic that it will achieve the funding goal.

Governor's Proposal: The budget proposes an appropriation of $1.0 million (donated funds) for the purposes of conducting a market analysis, financial feasibility study and legal analysis for the California Secure Choice Retirement Saving Program. In addition, budget bill language is proposed to allow for the additional expenditure authority, if additional private funds are available, upon approval of Department of Finance (DOF) and notification to the Joint Legislative Budget Committee.

Staff Comments: Support for the program must come from donated funds. Staff has no concerns with the proposal, except for potential refinements to budget bill language to address the potentiality of resources that could potentially be less than $1.0 million. In particular, verbal assurances may not be a sufficient basis for an appropriation.

Questions:

California Secure Choice Retirement Savings Investment Board:

1. Retirement programs are closely governed in terms of security and tax implications at the federal level. Are there any outstanding issues related to federal oversight or legal requirements that might affect the program?

2. How much has the board received in contributions to date?

Staff Recommendation: Approve as budgeted.

Vote:

0989 California Educational Facilities Authority

Issue 1: Administration of College Access Tax Credit Fund (Spring Finance Letter)

Background: The California Educational Facilities Authority (CEFA) was established in part for the purpose of providing students with better access and opportunities in higher education by providing assistance with capital financing needs. In addition, CEFA's charge was expanded to include the financing of student loan borrowing programs. CEFA activities were further expanded through SB 798 (De León), Chapter 367, Statutes of 2014, which created the College Access Tax Credit Fund (CATCF), for the purposes of attracting private contributions to fund additional Cal Grants. The legislation allows a tax credit equal to 60 percent in 2014, 55 percent in 2015, and 50 percent in 2016 for contributions to the fund. The maximum amount of credit that may be allocated during any year is $500 million.

Under SB 798, CEFA is required to carry out a number of administrative activities in furtherance of the program. Specifically, the major duties include:

- Allocate and certify the credit to personal and corporate taxpayers from January 1, 2014 to December 31, 2016.
- Certify the contribution amounts eligible for the credit within 45 days following the receipt of the contribution.
- Establish a procedure for taxpayers to contribute to the fund and obtain certification for the credit.
- Provide to Franchise Tax Board (FTB) a copy of each credit certification by March 1 of the calendar year immediately following the year of issue.

Governor's Proposal: The budget proposal calls for $244,000 and one position for the board and $134,000 and one position for the State Treasurer's Office (STO) in the budget year to administer the program. All resources are special funds and reimbursements. The two positions are limited-term and consist of associate treasury program officer and accounting officer. Duties include allocation and certification of the credits, certification of contribution amounts, managing and assisting in procedures for taxpayers, preparing and providing certification documentation, monitoring taxpayer contributions, preparing and providing technical information, and performing research.

Staff Comments: Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

Vote:

7730 Franchise Tax Board

Issue 1: Enterprise Data to Revenue Project—Risk Mitigation (Spring Finance Letter)

Background: The Franchise Tax Board (FTB) processes more than 15 million personal income tax returns and one million business enterprise returns annually. Its operations are heavily reliant on effective storage and use of data from a variety of sources. The continuation of the EDR project is expected to fund the technology-intensive portion of the project. FTB indicates that the initial revenues generated by the EDR project were primarily from adding staff to process the current backlog of business entity returns and begin collection correspondence in order to accelerate revenue. Beginning in 2011-12, substantial revenues were generated by the EDR project proper. The project is 70 percent complete at this point and FTB indicates project revenue is 194 percent over the original estimates.

The EDR project has three major goals. First, it seeks to capture all tax return data in an electronic form. Second, the project will integrate the various existing "siloed" tax databases at FTB into a data warehouse. Third, the project will enable FTB to add third-party data (for example, county assessor data) to its data warehouse. The FTB asserts that the EDR project will allow it to substantially improve detection of underpayment and fraud in order to collect taxes from those who are not paying the full amount that they owe. In addition, FTB indicates that the project will enable it to improve service and give taxpayers better access to their tax records.

The project includes the following improvements to FTB's systems that process personal income tax and business entity tax returns:

- An underpayment modeling process that would be integrated with the Accounts Receivable Collections System and Taxpayer Information System.
- An enterprise data warehouse with data search and analysis tools.
- A taxpayer records folder that is accessible to the taxpayer and allows taxpayers and FTB staff to access the information.
- Re–engineering of existing business processes—including imaging of tax returns, data capture, fraud and underpayment detection, tax return validation, filing enforcement, and other audit processes—and integration of these enhanced business processes with FTB's existing tax systems.
- Improved business services at FTB, such as address verification, issuance of notices, and a single internal password sign-on for its IT systems.

Contractor payment for system development and implementation are conditioned on generating additional revenue that will more than cover the cost. This approach is intended to protect the state and also give the contractors a strong incentive to develop the project in a manner that produces significant revenue quickly. The FTB has used this approach previously. FTB's benefit-funded approach made use of revenue gains from reducing the business entity backlog to more than offset costs in 2009-10 through 2012-13. Cleaning up the backlog was a necessary condition to efficient project development. In subsequent years, there have been large increases in annual revenue gains that are directly attributable to the IT project. For 2010-11 through 2013-14, revenue projections were $444 million, but actual revenue generated was $863 million. FTB expects that the projected $4.7 billion of additional revenue through the life of the project (terminating in 2017-18) will be realized. The benefits method of financing EDR is similar to that used by the Employment Development Department (EDD).

Governor’s Proposal: The department has requested $6.1 million and 17 limited-term positions in 2015-16 and proposed EDR changes that will allow it to take risk mitigation actions necessary to meet program objectives. The proposed changes incorporated in the proposal are the following:

- **Business Entities Return Analysis (BERA) Ramp-up Approach.** $3.0 million is slated for this component, which will include a methodical approach to the implementation of return validation for business entities. Funding will be used for the vendor’s specialized staff for the slow roll-out of the program incorporating adjustments on an as-you-go basis. The total cost of $6.0 million is shared equally by the state and the vendor.

- **Temporary Help Positions for Ramp-Up Approach for BERA.** $791,000 is for limited personnel for the methodical implementation of the return analysis for business entities. The approach minimizes risks by keeping volume low initially and increasing volume as processing issues are addressed.

- **Up-Grade Vendor Staff Expertise to Support Knowledge Management Transfer.** $2.3 million is set-aside to retain vendor key staff with specialized expertise during the budget year (instead of more generalized personnel as called for in the contract). This will allow the knowledge transfer of the program to shift to FTB in a more comprehensive fashion and time and resources to understand the key and complex features of EDR.

Staff Comments: The proposal would not result in additional functionality of the EDR system; rather the proposal represents ‘insurance’ as a means of mitigating risk. It is possible that a more rapid incorporation of return analysis would be less costly—if everything went well. The slow methodical incorporation on a risk-return basis seems a much more prudent approach. Similarly, purchased ‘specialize’ expertise rather than ‘general’ is an investment that should improve FTB understanding and operational capabilities of a complex and powerful data technology project. The department has provided an overview of the project at the March 26, 2015 hearing of this subcommittee, as has the Department of Technology. The project is on track, and staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

Vote:

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Thursday, April 23, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Agenda—Part A

ACTIONS

State Finance

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.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, April 23, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

Agenda Part B

Item Number and Title

0650	Office of Planning and Research
1110/11111	Department of Consumer Affairs
7760	Department of General Services
8620	Fair Political Practices Commission

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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 916-324-9335. Requests should be made one week in advance whenever possible.

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

Office of Planning and Research

Issue 1 – Native Americans: California Environmental Quality Act (CEQA)

Spring Finance Letter: The Office of Planning and Research has submitted a spring finance letter requesting $138,000 (General Fund) and one limited-term position for fiscal year 2015-16, and $66,000 (General Fund) in fiscal year 2016-17 to implement the provisions of AB 52 (Gatto), Chapter 532, Statutes of 2014, and SB 1241 (Kehoe), Chapter 311, Statutes of 2013.

Background: Over the last several years, the Legislature has adopted several new laws that will require the Office of Planning and Research (OPR) to either update or amend CEQA guidelines. OPR notes that the passage of SB 1241, which made several changes to land use law related to fire hazard planning, requires OPR to adopt or incorporate provisions for fire safety in its next update of the General Plan Guidelines. AB 52 requires that OPR prepare and develop revisions to the guidelines that will (a) separate the consideration of paleontological resources from tribal cultural resources, and (b) add consideration of tribal cultural resources to the relevant sample questions.

Staff Comment: Staff has no issues or concerns with this item. AB 52 and SB 1241 require that OPR make specific revisions to the CEQA guidelines by a specific date. OPR has created an implementation plan with one additional limited-term attorney that will allow the additional workload to be completed prior to the updates to the CEQA guidelines.

Staff Recommendation: Approve as budgeted.

Vote:

Department of General Services

Issue 1 – Statewide Disability Access and Education Program

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS), Division of the State Architect, with a three-year extension of one limited-term position and $132,000 (Disability Access and Education Revolving Fund) to meet workload requirements associated with SB 1186 (Steinberg), Chapter 383, Statutes of 2012.

Background: SB 1186 made several changes to the state's accessibility laws, including several related to the CASp program. Recognizing that this measure would require additional workload of CASps, the measure also addressed the need for additional CASps. To fund the workload, the measure imposed a $1 charge on all business licenses issued or renewed in the state from 2013 to 2018. Local government will retain 70 percent of collections and the remainder will go to the Disability Access and Education Revolving Fund to address the additional workload requirements.

DGS was provided five positions and $532,000 as part of the Budget Act of 2013 in order to address workload associated with this measure. Two of the limited-term positions that were provided as part of that budget package are set to expire on June 30, 2015. DGS has identified a need for one limited-term position to address workload requirements mandated as part of SB 1186.

Staff Comment: This subcommittee heard this request on March 19th. At that time, it became apparent that additional steps may be needed to limit non-compliance of collections at the local level. Additionally, the reporting requirements currently included in SB 1186 may need to be refined. Both changes should occur through the legislative process, not as a part of the budget. Staff concurs that the requested position is justified and would recommends approval.

Staff Recommendation: Approve as budgeted.

Vote:

Issues Proposed for Discussion / Vote

1110/1111 DEPARTMENT OF CONSUMER AFFAIRS

Issue 1 – BreEZe

Spring Finance Letter: The Department of Consumer Affairs (DCA) has submitted a spring finance letter requesting $23.248 million (Special Funds) in fiscal year 2015-16, and $24.433 million (Special Funds) in fiscal year 2016-17, to support the continued implementation of the BreEZe information technology project. DCA has also requested an increase of 29.8 personnel year's (PY's) for fiscal year 2015-16, and 34 PY's for fiscal year 2016-17, and ongoing.

Background: DCA is comprised of 37 regulatory boards, bureaus, committees, commissions, and programs, all of which regulate more than 100 businesses and 200 industries and professions. While these entities are responsible for the day-to-day regulatory activities related to their specific professions and do have some autonomy, DCA is responsible for establishing general administrative policies and provides administrative support, when needed. The DCA-regulated use of computer systems to conduct their day-to-day regulatory functions has created a large network of legacy computer systems, under the DCA umbrella, that aren't compatible with one another, and lacked some basic case management functionality that could assist staff with licensing and enforcement efforts.

Historically, the regulatory entities housed under DCA have utilized either one, or both, of the Applicant Tracking System (ATS) and Consumer Affairs System (CAS) to perform many of the day-to-day duties that they are required to perform. The ATS was created to track and monitor cashiering-related activities and accept license applications. The ATS was originally developed in the early 1990's, and has not been upgraded for over a decade. The CAS was designed to track license-related activities, such as complaints, investigations, and enforcement. According to the November 2009 Feasibility Study Report (FSR) the legacy computer systems have led to excessive turnaround times for licensing and enforcement-related activities, which is one of the primary objectives of the regulatory entities housed within DCA.

Modernization of the licensing and enforcement process had been attempted on a number of occasions prior to the BreEZe project; most recently with iLicensing, which was abandoned in 2009. DCA's interest in revisiting the concept of automating its licensing process can be attributed to the Consumer Protection Enforcement Initiative (CPEI), which DCA noted would enhance the enforcement capacity of the DCA's healing arts boards. In 2008, a series of investigations conducted by the Los Angeles Times found that the Board of Registered Nursing had been allowing nurses to continue to practice even though there were pending enforcement related activities, and that the enforcement backlog had grown to over three years. DCA responded by proposing the CPEI, which would overhaul the enforcement process. This new enforcement initiative was largely dependent on the implementation of BreEZe into the healing arts boards, and DCA has noted that the targeted turnaround time for enforcement related activities would be reduced from over three years, as noted by the investigation, to eighteen months.

The November 2009 Feasibility Study Report (FSR) proposed not just to transition the healing arts boards, but all 37 boards and bureaus, to the BreEZe platform. According to the FSR, the 37 boards and bureaus were scheduled for transition to BreEZe over five phases, which would be completed by fiscal year 2014-15. The FSR noted that DCA chose a modifiable commercial off-the-shelf (COTS) system that was to provide DCA organizations with applicant tracking, monitoring, licensing, enforcement, renewal, cashiering, and data management capabilities. DCA envisioned the BreEZe system to be web-enabled, which would allow the public to file complaints and review licensee information through the internet. The 2009 FSR projected that the BreEZe project would cost approximately $27.5 million. The procurement model proposed in the FSR included a two-stage procurement process to award up to $250,000 to multiple bid winners, which elongated the procurement timeline. Affording the vendors to familiarize themselves with the business processes of the DCA boards and bureaus by working alongside their state counterparts. The second stage would have involved the submission of final proposals that might more accurately reflect the business needs of DCA's boards and bureaus, followed by selection of a single vendor to complete the implementation of BreEZe.

After consulting with the (then) Technology Agency and the Department of General Services (DGS), DCA chose a slightly different procurement approach than what was proposed in the FSR. The modified approach eliminated the first stage of the bid process, and instead relied on "working sessions" to inform the selected vendor or vendor candidates on the business requirements of the DCA entities. Through this process, DCA selected Accenture as the vendor for BreEZe implementation, and submitted a Special Project Report (SPR) that reflected the costs associated with the selected bid. According to SPR 1, which was submitted June 22, 2011, costs for the BreEZe project had grown to $45.8 million, an $18 million increase. Additionally, according to SPR 1, DCA chose to accept the vendor's proposed timeline, which reduced the schedule to three releases, rather than the five that had been a part of the November 2009 FSR.

In July 2013, DCA submitted SPR 2, which increased the overall project cost to $77.9 million. The need for an amended project report was due to the system testing taking much longer than originally anticipated. According to SPR 1, system testing was anticipated to take approximately 30 business days, but instead took 138 business days initially. SPR 2 realigned the schedule to allow for a greater level of testing, which in turn increased the project's timeline by approximately two years, and increased cost by $50.4 million from the November 2009 FSR.

DCA was required to further adjust the cost and scope of the BreEZe project, first proposing SPR 3, which increased the cost by $118 million, and further revised the approach under SPR 3.1, which increased the project cost by $96.1 million. According to SPR 3.1, the project was not moving in the timeframe that had been originally forecast, nor was it achieving the results that had been originally assumed. In SPR 3.1, project staff proposed re-scoping the project due to significant cost increases and staffing needs. The revised SPR proposed Release Two, which consists of eight boards and bureaus, for March 2016. Nineteen regulatory entities, to be included in Release Three, will now be excluded from the current design contract. DCA has noted that after implementation of Release Two, it will reassess how best to approach the remaining nineteen entities no longer a part of the BreEZe system.

Staff Comment: Subsequent to CalTech approving SPR 3.1, the Department of Finance (DOF), pursuant to Budget Control Section 11.00, notified the Joint Legislative Budget Committee (JLBC) that the DCA had amended their current contract, increasing overall project costs by $17.5 million in fiscal year 2014-15. The JLBC initially did not concur with action proposed under the Control Section 11.00 notification, pending legislative oversight hearings on the project. After both policy and fiscal committees held public hearings on BreEZe and given the limited options available and, the potential for significant additional costs if the existing contract remains in place the JLBC notified the DOF that the Administration could proceed with the contract amendment proposed in the Control Section 11.00 notification. Additionally, the chair of the JLBC expressed his expectation that DCA will provide the Legislature with more comprehensive and timely information regarding the implementation of the BreEZe project on an on-going basis. Specifically, the chair request that this information include (1) any relevant project updates related to Release One and Release Two, including those related to software functionality, schedule, cost, and the associated impact on licensing fees; (2) a plan for Release Two, including DCA's best current estimate of anticipated project schedule and costs, as well as the expected costs to each board and bureau and their licensees; and (3) copies of DCA's mandated status reports to the State Auditor regarding the implementation of the Auditor's recommendations.

As noted in the Section 11.00 response, the Senate Budget and Fiscal Review Subcommittee No. 4 held an oversight hearing on March 19th, to better understand the escalating costs, extended timeline, and condensed scope of the BreEZe project. During that hearing, it became apparent that the current contract terms and conditions with the vendor did not adequately protect the state. The spring finance letter requests funding associated with the newly amended contract, as described in the Control Section 11.00 notification.

This request includes a significant increase in permanent positions, totaling 34.0 by fiscal year 2016-17. DCA has noted that the requested positions will support the ongoing maintenance and operations associated with the regulatory entities included in Release One and Release Two, work that is currently being performed by 10.0 vendor staff. Staff does not concur with DCA that the entire workload associated with this request, will be ongoing. Furthermore, costs associated with the requested 34.0 positions will be distributed to every entity housed under DCA, including the nineteen regulator entities that were intended to be included in Release Three and are now excluded from inclusion in the BreEZe project. The department should provide greater clarity as to the rational as to why these nineteen boards and commissions should participated in paying for a system from which they will derive no benefit.

Staff Recommendation: Hold this item open.

Vote:

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 1 – Statement of Economic Interest Enhance Filing System Project

Spring Finance Letter: The Fair Political Practices Commission (FPPC) has submitted a spring finance letter requesting $651,000 (General Fund) in fiscal year 2015-16, and $1.188 million (General Fund) in fiscal year 2016-17, to implement the Statement of Interest (SEI) enhanced filing system project. Additionally, the FPPC has requested 1.0 permanent position and 4.0 two-year limited-term positions to support the implementation of the SEI enhanced filing system.

Background: The Fair Political Practices Commission (FPPC) has primary responsibility for the impartial administration, implementation, and enforcement of the Political Reform Act of 1974 (Act), as amended by the voters and Legislature. The overriding purpose of the Act is to restore confidence in governmental processes. The major objectives of the commission are to:

- Provide education about the act and its requirements to the public and the regulated community including public officials, candidates, and lobbyists, and assist with compliance.

- Ensure that election campaign contribution and expenditure data is fully and accurately disclosed so that the voters may be fully informed.

- Enforce the provisions of the act and regulations fairly and with due process.

- Regulate the activities of lobbyists and disclose their finances to prevent any improper influencing of public officials.

- Provide for the disclosure of assets and income of public officials, which may affect their official actions, to avoid any conflicts of interest, or appearances of impropriety.

- Provide adequate mechanisms to public officials and to private citizens to ensure vigorous enforcement of the act.

The FPPC is responsible for the administration and enforcement of the SEI reporting requirements for all state and local agencies. Currently, filers and various levels of state and local government submit an estimated 500,000 to 800,000 forms annually. Some agencies have implemented an automated filing process to support the submission of SEI forms in their agency. In 2012, the Legislature authorized all state and local agencies to develop electronic filing systems so long as the agency complies with FPPC guidelines. Thus far, four state agencies (Economic Development Department, Cal-PERS, State Compensation and Insurance Fund, and the Department of Food and Agriculture) have exercised their right to procure their own electronic filing platform, and continue to pay ongoing costs associated with maintenance and software subscriptions, which is estimated to be $142,500.

Recognizing that there was a potential for greater efficiency, AB 409 (Quirk-Silva), Chapter 643, Statutes of 2013 permitted the FPPC to develop its own electronic filing platform. Instead of each agency paying their own maintenance and software costs associated with an electronic filing system, FPPC has proposed to coordinate with CalTech and offer the software to other state entities through the newly created CalCloud, which could result in further efficiencies to the state.

The Feasibility Study Report, which was submitted to CalTech in December 2014, notes that the FPPC would utilize a modified-off-the-shelf (MOTS) software platform to create an automated filing mechanism for 25,000 filers located within state government. The FSR notes that upon full implementation, which is anticipated to occur in August 2017, the requested limited-term positions are set to expire. At that point, the FPPC has noted that they intend on assessing the capacity of the automated filing system in order to determine whether the system has the capacity to receive electronic submission's from the remaining filers, not included in the plan proposed by the FSR.

Staff Comment: According to early analysis conducted by the FPPC, there could be some operational efficiency achieved by migrating to an electronic filing process. For example, in 2008, the Legislature authorized a pilot project authorized certain local jurisdictions to develop an electronic filing program. To date, the participating local agencies have reported annual cost savings ranging from $21,120 to $86,420. Additionally, there has been a decline in errors.

Staff Recommendation: Approve the spring finance letter request of $651,000 (General Fund) in fiscal year 2015-16, and $1.188 million (General Fund) in fiscal year 2016-17, to implement the Statement of Interest (SEI) enhanced filing system project. Also, approve the requested 1.0 permanent position and 4.0 two-year limited-term positions to support the implementation of the SEI enhanced filing system.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, April 23, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

Agenda Part B

OUTCOMES

Item Number and Title

0650	Office of Planning and Research
1110/11111	Department of Consumer Affairs
7760	Department of General Services
8620	Fair Political Practices Commission

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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 916-324-9335. Requests should be made one week in advance whenever possible.

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Agenda—Part A

Thursday, May 7, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

Vote-Only Calendar

Discussion / Vote Calendar

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.

Vote-Only Calendar

0971 California Alternative Energy and Advanced Transportation Financing Authority

Issue 1: California Hub for Energy Efficiency Financing Pilot Program (BCP 1 and Spring Finance Letter)

Background: In September 2013, the California Public Utilities Commission (CPUC) approved a decision ordering the investor-owned utilities (IOUs) to direct ratepayer funds outside the budget process for use in specific energy efficiency financing pilot programs. As part of the 2013 budget, prior to the above discussed CPUC decision and after lengthy discussions in budget committees, the Legislature restricted the CPUC's ability to start nonprofit entities without prior legislative approval. The Legislature's actions in the 2013 budget were designed to curtail the direction of ratepayer funds by the CPUC to state-directed programs without prior legislative approval. The 2014 budget included reimbursement and expenditure authority of $4.4 million, over two years, to enable the California Alternative Energy and Advanced Transportation Financing Authority (CAETFA) to serve as the administrator of the California Hub for Energy Efficiency Financing (CHEEF), funded directly through IOU ratepayer funds. These IOU ratepayer funds are derived directly from the IOUs, not from the CPUC, thus circumventing the restrictions set by the Legislature on the CPUC.

2015-16 Budget Proposals. The Governor's budget requests increased reimbursement and expenditure authority in the amount of $1.5 million and three limited-term positions in 2015-16, and $1.9 million and seven limited-term positions in 2016-17. Funds are directed by the CPUC from investor-owned utility ratepayers directly to CAETFA. The spring finance letter requests increased reimbursement and expenditure authority (from the January budget figures) of $85,000 in 2015-16 and $918,000 in 2016-17, and two permanent positions.

Staff Comments: The policy and budget implications of this proposal were heard in the Senate Budget Subcommittee No. 2 on Resources, Environmental Protection, Energy and Transportation and have been referred to the Senate Budget Subcommittee No. 4 for a conforming action. Senate Budget Subcommittee No. 2 expressed concern regarding oversight for the program, as well as monitoring and maintenance. Senate Budget Subcommittee No. 2 staff recommended approval of the 2015-16 and 2016-17 funding and limited-term positions (consistent with previous legislative actions); rejection of the permanent positions; and approval of placeholder trailer bill language, as follows:

> *The CPUC is prohibited from directing ratepayer funds to create programs at any state agency without prior approval of the Legislature. The CPUC will provide a report on the outcomes of the CHEEF program to the policy and fiscal committees of the Legislature prior to approving any extension of the program, as part of CPUC budget requests.*

Senate Budget Subcommittee No. 2 voted to approve the staff recommendation.

Staff Recommendation: Conform to actions of Senate Budget Subcommittee No. 2.

Vote:

0984 California Secure Choice Retirement Savings Investment Board

Issue 1: Legal Services and Market and Financial Feasibility Study (Spring Finance Letter)

Background: The subcommittee heard this issue on April 23, 2015 and approved the requested appropriation of $1.0 million.

Governor's Proposal: In addition to the appropriation, the proposal calls for budget bill language allowing for additional resources upon the availability of private funds, approval by Department of Finance (DOF), and notification to the Joint Legislative Budget Committee (JLBC). The proposed provisional language reads:

> *Notwithstanding any other provision of law, the Director of Finance may authorize expenditures for the California Secure Choice Retirement Savings Investment Board to conduct a market analysis pursuant to Chapter 734 of the Statutes of 2012 in excess of the amount hereby appropriated, but not sooner than 30 days after notification of the Chairperson of The Joint Legislative Budget Committee, or not sooner than whatever lesser time the chairperson of the joint committee, or his or her designee, may in each instance determine. The additional expenditure authority is contingent upon the receipt of adequate donations through a nonprofit or private entity, or from federal funds.*

Staff Comments: Staff has no concerns with the proposal.

Staff Recommendation: Approve the budget bill language.

Vote:

8860 Department of Finance

Issue 1: Public Works—State Building Construction (Trailer Bill Language)

Background: The subcommittee heard this issue on March 26, 2015, and approved the trailer bill language, which provides clarification and updating to the statute. The proposed language also includes an appropriation.

Governor's Proposal: As part of the proposal, the language included an appropriation of $36.9 million to the Department of Forestry and Fire Protection for the San Luis Obispo Unit Headquarters Replacement Project.

Staff Comments: At its March 26 hearing, the subcommittee directed that language be adopted that would require DOF report to the Legislature on the asset transfer aspect of the trailer bill language. The asset transfer authority allows the Public Works Board (PWB) to sell bonds on a completed project (and encumber that facility) and use the bond proceeds to fund the design and construction of another legislatively-designated project. The proposed additional placeholder trailer bill language would read:

> *On or before June 30, 2017, the Department of Finance shall report to the fiscal committees of the Legislature the following regarding the removal of the sunset from the asset transfer authority of the Public Works Board, specifically: (1) the number of times the asset transfer authority has been invoked; (2) the aggregate amount of financing secured through such assert transfers; (3) an estimate of the financing savings realized through the use of such asset transfers.*

The appropriation associated with this trailer bill proposal is being considered in Senate Budget Subcommittee No. 2.

Staff Recommendation: Clarify that approval of the trailer bill language does not constitute approval of the appropriation, which is being considered in Senate Budget Subcommittee No. 2. Approve additional trailer bill language noted.

Vote:

Discussion / Vote Calendar

0860 Board of Equalization

Issue 1: Prepaid Mobile Telephony Services (Spring Finance Letter)

Background: The provisions of AB 1717 (Perea), Chapter 885, Statutes of 2014, impose a new Mobile Telephony Service (MTS) surcharge and local charge to be administered by the Board of Equalization (BOE) beginning January 1, 2016. The statute will sunset on January 1, 2020. The prepaid MTS surcharge and local charges are imposed upon the consumer of prepaid MTS, but are required to be collected by the retail seller and the direct seller. The program for retailers of prepaid MTS will be administered by the Sales and Use Tax Department of the BOE, while the program that applies to direct sellers will be administered by the Special Taxes and Fees Department.

The prepaid MTS surcharge rate is subject to calculation each year by BOE. The state rate consists of the 911 surcharge rate, determined by the Office of Emergency Services, plus the California Public Utilities Commission (CPUC) end-user surcharges, which includes the annual user fee established by the CPUC. The local charge rates are to be provided by local jurisdictions to the BOE annually. The BOE is responsible for publishing the combined rate for each jurisdiction by December 1 of each year, with the published rates becoming operative April 1 of the following year.

Governor's Proposal: The budget proposes $5.7 million (special funds) and 22.3 positions in 2015-16, and $2.6 million (special funds) and 18.9 positions in 2016-17 and ongoing, to implement the provisions of AB 1717. Except for five limited-term positions, all the positions would be permanent. In addition, there is a proposal for budget bill language that would allow for a budget augmentation upon approval of the Department of Finance (DOF) and 30-day notification to the Joint Legislative Budget Committee (JLBC). This is a new program for the BOE, and administrative start-up costs will be funded through a temporary loan (addressed in the following issue) from the General Fund, which will be repaid, in the same budget year, once fee revenue is generated.

The program will require that sellers of MTS register with the BOE, collect the prepaid MTS surcharge from consumers, and remit amounts collected to the BOE. Administration of the new surcharge will be conducted by Sales and Use Tax Department of BOE, but the surcharge falls under the Fee Collection Procedures Law, and will require several additional functions. Activities required for the implementation and administration of the surcharge will affect registration, return processing, collections, audits, appeals, and refunds.

- **Registration.** Some sellers of MTS do not sell personal tangible property, so they will need to be registered with BOE. This will require preparation and distribution of registration materials and information, along with necessary returns and reporting schedules.

- **Return Processing.** The program will require additional programming to the Integrated Revenue Information System. The surcharge will be reported on a separate return, requiring a new e-file return for retail sellers of MTS. Both state and local rates are subject to change, requiring annual testing. Return processing must also incorporate deposits to the 911 and PUC accounts and address direct and retail sellers.

- **Collections and Audits.** The program will result in additional delinquencies from surcharge payers. In addition, the guaranteed funding of 911 surcharges will require BOE calculations regarding any potential deficiency determination and subsequent billing. Additional audits may be required at the end of the three-year cycle, but no resources have been requested at this time.

- **Appeals and Refunds.** The program may generate additional activity for these programs, but no additional resources have been requested at this time.

Given the distribution of anticipated activity required by the surcharge, the proposal calls for: two permanent accounting and administrative positions; seven permanent positions for technology services for the legacy system; three limited-term programmer analysts; two permanent positions for technology system maintenance and operations; two limited-term and two permanent positions for information system analysis; two permanent business tax representatives for training and tax issues; one permanent outreach coordinator; two permanent business tax representatives for return analysis; five permanent positions for the local revenue and allocation unit; one permanent position for compliance and technology; one permanent position for audit and information activities; and one permanent position for special taxes and fees.

Staff Comments: This issue was heard April 23 and was held open by the committee. The wide range and duplication of many of the activities covered in the proposal is—if nothing else—a strong indication of the need for a more unified and comprehensive approach to tax and fee administration for the agency. Initial estimates for the implementation of the program were almost twice the amount now requested, and DOF has succeeded in refashioning the administration of the surcharge in a manner that is more cost effective than originally conceived by the agency. Nevertheless, the proposal could potentially be further curtailed by converting additional positions proposed as permanent to limited-term. Given the uncertainty associated with the workload for the program, the potential short-term nature of some of the activities, and the need for future staffing adjustments, this would be a suitable approach. Specifically the following positions could be converted to limited-term: three business tax representatives (two in External Affairs and one in the Sales and Use Tax Department); two business tax specialists (one in Compliance and Technology and one in Audit and Information Section); one associate government program analysts (External Affairs).

In addition, the proposed budget bill language imposes no additional criteria on the allocation of additional funds. The committee could consider additional restrictions, such as a limitation on the amount. Staff has worked with DOF to develop the proposed changes noted below:

0860-001-3251—For support of State Board of Equalization payable from the
Prepaid Mobile Telephony Services Surcharge Fund………………………..2,358,000
Schedule:
(1) 0570—Administration of the Board of Equalization……….2,358,000
Provisions:

1. The Department of Finance may augment the amounts appropriated in Schedule (1) <u>by up to $1,000,000</u> to implement Chapter 885 of the Statutes of 2014, if <u>the number of registered retailers is expected to exceed 6,500 and</u> it is determined that the Board of Equalization requires additional resources to implement the statute. The Department of Finance shall authorize the augmentation not sooner than 30 days after notification in writing to the Joint Legislative Budget Committee.

0860-001-3270—For support of State Board of Equalization payable from the
Local Charges for Prepaid Mobile Telephony Service Fund……………..….3,265,000
Schedule:
(1) 0570—Administration of the Board of Equalization……….3,265,000
Provisions:

1. The Department of Finance may augment the amounts appropriated in Schedule (1) <u>by up to $1,000,000</u> to implement Chapter 885 of the Statutes of 2014, if <u>the number of registered retailers is expected to exceed 6,500 and</u> it is determined that the Board of Equalization requires additional resources to implement the statute. The Department of Finance shall authorize the augmentation not sooner than 30 days after notification in writing to the Joint Legislative Budget Committee.

Staff Recommendation: Approve revised budget bill language. Approve proposal dollars and positions, but convert the following six positions to limited-term: Business Tax Representative (Sales and Use Tax Department); Business Tax Representative (2) (External Affairs); Associate Government Program Analysts (External Affairs); Business Tax Specialist (Compliance and Technology Section); Business Tax Specialist (Audit and Information Section).

Vote:

Issue 2: Prepaid Mobile Telephony Services (Trailer Bill Language)

Background: The background regarding Prepaid Mobile Telephony Services (MTS) established pursuant to AB 1717 (Perea), Chapter 885, Statutes of 2014, is presented in the previous issue.

Governor's Proposal: The Governor has proposed clean-up language to AB 1717 that would address three issues: allow for a *de minimis* sales threshold for retailers of MTS; a temporary General Fund loan for cash flow purposes; and, direct fee revenue to the appropriate funds. Specifically, the proposal would establish:

- ***De Minimis* Amount.** Establishes that retailers with MTS annual sales of less than $15,000 are not required to collect the surcharge or local charge.

- **General Fund Loan Authorization.** Allows for a loan from the General Fund to address cash flow issues and specifies that the loan is to be repaid in the same fiscal year, or delayed until six months after the adoption of the budget act in the subsequent fiscal year.

- **Technical Changes and Clarifications.** Specifies the accounts and funds for the deposit of the surcharge and local charge revenues, clarifies dates regarding the imposition of rates, and indicates the means by which service suppliers are notified of rates.

Staff Comments: Staff has no fundamental concerns with the proposal. However, the language could benefit from some additional restrictions. Specifically, the $15,000 threshold may be adjusted by the DOF to "reflect any necessary changes." DOF indicates that the purpose of this clause is to allow some flexibility, such as if the threshold is neither too high nor too low to adequately fund the costs of the program. Staff suggests that this more specific guideline be incorporated in the proposal. This proposal was heard by the subcommittee on April 23, where subcommittee members expressed support of the revised trailer bill language, as noted above. The proposed revised language would allow for an adjustment of the *de minimis* threshold by DOF in order to align program administration costs with revenues.

> *Commencing January 1, 2017, a seller, other than a direct seller, with de minimis sales of prepaid mobile telephony services of less than fifteen thousand dollars ($15,000) during the previous calendar year is not required to collect the prepaid MTS surcharge or local charges pursuant to Section 42010. The Department of Finance shall annually review the de minimis sales level and adjust the threshold <u>as necessary to minimize program administration costs and maintain revenues to support program administration, enforcement, and Public Utilities Commission public purpose programs and rulemaking activities</u> ~~to reflect any necessary changes~~. Any adjustment of the de minimis sales threshold shall become operative on January 1 of the following calendar year. Nothing in the section prevents a seller from collecting and remitting the surcharge on a voluntary basis even if they meet the de minimis threshold. The de minimis sales threshold as defined, shall be based on the aggregate of all sales of prepaid mobile telephone services subject to the surcharge at all retail locations operated by the seller and not the individual sales at each retail location operated by the seller. This section shall not apply to direct sellers, as defined in 42004(b)(1).*

Staff Recommendation: Approve placeholder trailer bill language as revised.

Vote:

Issue 3: Cigarette Tax and Licensing Program (Informational Issue)

Background: California imposes excise taxes on cigarettes and other tobacco products, such as cigars and chewing tobacco. Most revenue raise by the tax goes to special funds with a minor amount going to the state General Fund. The state also licenses sellers of tobacco products. The BOE administers the tax and licensing programs. Recently, concerns have been raised—largely by programs and beneficiaries that receive the tax revenues—regarding program costs. In particular, while licensing fees pay for some of the licensing program costs, most of the costs are borne by tax revenues—which results in a decrease in the amount benefiting the actual programs. Currently, tax revenues pay for about 80 percent of the licensing program costs.

In response to concerns, the Legislature approved supplemental reporting language in 2014, requiring BOE to submit a report to the Legislature on the costs of the program and alternative funding approaches. The BOE's report on funding options for the licensing program describes eleven options—six of the options raise revenue to pay for the licensing program administrative costs (thus reducing the reliance of tax revenue), four of the options reduce administrative costs, and one option places additional cost responsibilities on the General Fund. The LAO chart below provides additional detail on the options:

Board of Equalization
Cigarette Taxes and Licensing Programs
Supplemental Report Options

Proposals to Raise Revenue to Pay for Licensing Program Costs

- Institute a recurring fee at the retail level to increase the share of costs covered by the licensing fees.
- Increase the taxes assessed on cigarettes and tobacco products by an unspecified amount.
- Reevaluate the cigarette stamp discount in order to increase revenue.
- Increase penalties and fines to mitigate the shortfall of the licensing program.
- Tax electronic cigarettes, dissolvable tobacco, and other recently developed products by expanding the definition of "tobacco products."
- Increase collection efforts related to tax due on out–of–state cigars shipped into California by unregistered distributors.

Proposals to Reduce Licensing Program Administrative Costs

- Reduce spending and cap administrative costs on the cigarette and tobacco products licensing program.
- Allow cigarette and tobacco retailer licenses to be issued in perpetuity.
- Require cigarette and tobacco products licensees to file electronically.
- Create efficiencies between state and local agencies in order to reduce the duplication of efforts.

Proposal to Change Allocation of Administrative Costs

- Pay for the cigarette and tobacco products licensing program with funds from the General Fund.

Source: Legislative Analyst's Office

Legislative Analyst's Office Perspective: In its review of the BOE report, the LAO makes the following observations and recommendations: (1) excise tax revenues should be used for tax administration costs and not for licensing program costs; (2) amounts and frequency of payment for licensing fees should increase such that they are sufficient to pay licensing program costs. LAO also recommends that the Legislature adopt budget bill language that would require BOE and the Department of Justice to report on an approach to an electronic filing system.

Staff Comments: The support of the licensing program by tax revenues appears to result in subsidizing activities that—while related to the tax—are not directly related to its administration. LAO notes that addressing the appropriate use of tax revenues and considering a means to ensure adequate funding of the licensing program are suitable for legislative policy consideration. In addition, LAO's suggestion for budget bill language related to an electronic filing program is appropriate for subcommittee discussion as a potential action item. LAO recommends the following budget bill language to address these issues:

> *By February 1, 2016, the State Board of Equalization (BOE), in consultation with the California Department of Justice (DOJ), shall submit a report to the Legislature describing options for reducing the administrative costs of BOE's and DOJ's cigarette and tobacco programs while maintaining administrative effectiveness. Each option should include a timeline for implementation and estimates of the effects of implementing that option on BOE's and DOJ's administrative costs At least one option must be designed to increase the rate of electronic filing of various forms related to these programs.*

Staff Recommendation: Information item. The subcommittee may consider additional direction to staff regarding the LAO recommendations.

8885 Commission on State Mandates

Issue 1: Mandates Proposed for Suspension (Governor's Budget Proposal)

Background: At its April 9, 2015 hearing, the subcommittee considered the funding and suspension of numerous local government mandates. Three Sudden Infant Death Syndrome (SIDS) mandates were held open for further consideration. Each of these mandates has been suspended for the last 12 years. Together, these mandates have an estimated annual cost of $1.3 million.

- SIDS: Training for Firefighters. New and veteran firefighters are required to complete a training course on SIDS. The statute further authorizes local agencies that provide the instruction and training to assess a fee sufficient to pay for training costs.

- SIDS: Autopsy Protocols. Counties are required to conduct autopsies within 24 hours on infants who die suddenly and unexpectedly and to use the autopsy protocol in accordance with the Government Code.

- SIDS: Contact by Local Health Officers. Local agencies are required to immediately contact and provide specified services to the parents/care providers of an infant presumed to have died of SIDS upon notification from the coroner.

In addition, the subcommittee held open any action on the Interagency Child Abuse and Neglect Investigation (ICAN) reports, which was also proposed for suspension in the Governor's budget. This mandate reimburses costs of investigations of suspected child abuse in order to determine whether a report of suspected child abuse is unfounded, inconclusive, or substantiated, for the purpose of forwarding those reports to Department of Justice. In addition, law enforcement agencies are eligible for reimbursement for the costs of notifying suspected abusers that they have been listed in the Child Abuse Central Index. The annual cost of the mandate is estimated to be $2.6 million; however, the cost for funding the mandate for 2015-16 would be $90.3 million, due largely to accumulation of prior year costs.

Staff Comments: The SIDs mandates have been identified in prior years as best practices or activities that should be standard activities for health and public safety personnel. The Administration has proposed a $4 million grant program for welfare and probation departments in counties that choose to participate in lieu of funding the ICAN report mandate. This proposal will be considered in Senate Budget Subcommittee No. 3. The LAO has reported on the ICAN mandate and has recommended the Legislature adopt the Governor's proposed suspension, consider augmenting the grant program to enhance the likelihood of participation and require local law enforcement ICAN-related activities to receive certain state funding allocations. The past costs attributable to the mandate are due largely to costs incurred prior to January 1, 2012, when AB 717 (Ammiano), Chapter 468, Statutes of 2011, went into effect; the bill significantly curtailed mandated activities associated with local law enforcement activities.

Staff Recommendation: Suspend the SIDs and ICAN mandates. Conform to action of Senate Budget Subcommittee No. 3 regarding the ICAN grant program.

Vote:

Issue 2: Mandates Newly Proposed for Suspension (Spring Finance Letter)

Background: In January 2015, the Commission on State mandates (COSM) adopted statewide cost estimates for two mandates: Medi-Cal Eligibility of Juvenile Offenders and State Authorized Risk Assessment Tool for Sex Offenders. The issuance of the COSM cost determination requires that mandates must either be funded or suspended in accordance with Article XIII B, Section 6 (b) (1) of the California Constitution.

- The Medi-Cal Eligibility of Juvenile Offenders mandate addresses activities of county juvenile detention facilities and county welfare departments to assist juveniles whose Medi-Cal coverage is terminated as a result of incarceration in a juvenile detention facility for 30 days or more to obtain Medi-Cal or other health coverage immediately upon release from custody. This activity was established in 2006. Absent suspension, the cost of funding this mandate in the budget year is $27,469, and $4,578 annually thereafter.

- The State Authorized Risk Assessment Tool for Sex Offenders addresses activities performed by counties and cities relating to the statutory requirement that registered sex offenders be subject to an assessment of the offender's risk of recidivism using the State Authorized Risk Assessment Tool for Sex Offenders, or SARATSO. This activity was legislated in 2007. Absent suspension, the cost of funding this mandate in the budget year is $245,080 and $40,847 annually thereafter.

Spring Finance Letter: The Governor has proposed the suspension of both the Medi-Cal Eligibility of Juvenile Offenders mandate and the State Authorized Risk Assessment Tool for Sex Offenders mandate. The Administration indicates the Medi-Cal Eligibility of Juvenile Offenders mandate suspension is appropriate, as the state already allocates hundreds of millions of dollars annually to counties to manage Medi-Cal eligibility. It indicates the State Authorized Risk Assessment Tool for Sex Offenders mandate suspension is appropriate, since training related to the use of risk assessment tools for sex offenders is part of best practices management strategy for public safety.

Staff Comments: This Medi-Cal Eligibility of Juvenile Offenders mandate requires county juvenile detention facilities to notify county welfare departments about the release of a ward so that eligibility for Medi-Cal can be determined. The cost is minor compared to the potential benefits to the individual and potential long-term state savings. LAO has indicated that funding this mandates helps facilitate better health outcomes by promoting continuity of care. The standardized tool mandated by the State Authorized Risk Assessment Tool for Sex Offenders legislation established the state's current process for evaluating sex offenders to determine whether they are sexually violent predators who are likely to repeat their crimes if released. Funding this mandate would mesh with the Administration's approach regarding funding mandates related to public safety.

Staff Recommendation: Reject the suspension of the Medi-Cal Eligibility of Juvenile Offenders and State Authorized Risk Assessment Tool for Sex Offenders mandates, and provide funding for these mandated activities.

Vote:

C.S. 6.10 Deferred Maintenance

Issue 1: Funding for Deferred Maintenance (Budget Bill Language)

Background: Budget Control Section 6.10 gives the Department of Finance the authority to allocate $125 million General Fund in the amounts identified below for deferred maintenance projects:

- University of California $25,000,000
- California State University 25,000,000
- Department of Parks and Recreation 20,000,000
- Department of Corrections and Rehabilitation 15,000,000
- Department of Food and Agriculture 9,000,000
- Department of State Hospitals 7,000,000
- Department of Developmental Services 7,000,000
- Department of General Services 5,000,000
- Office of Emergency Services 3,000,000
- State Special Schools 3,000,000
- Department of Forestry and Fire Protection 2,000,000
- California Military Department 2,000,000
- Department of Veterans' Affairs 2,000,000

Under the proposal, departments would provide DOF a list of deferred maintenance projects for which the funding would be allocated. The DOF would review and provide the approved list to the Chairperson of the Joint Legislative Budget Committee (JLBC) 30 days prior to allocating any funds. The amounts specified above would be available for encumbrance or expenditure until June 30, 2017. If a department made a change to the approved list after the funds have been allocated, DOF' s approval is required and the JLBC would be notified 30 days prior to the change being approved.

Staff Comments: This issue was heard March 26, and the subcommittee noted that the proposed process for the allocation of the $125 million (which in some cases could be for projects costing tens of millions of dollars) is not likely to provide for adequate Legislative oversight. The item was held open with direction provided to staff, DOF and LAO to draft budget bill language and supplemental report language that would provide for more Legislative oversight and participation in the selection process, including: an understanding of how each department prioritized projects; input on other projects that it considers a high priority; and, other potentially appropriate funding sources for deferred maintenance projects. The subcommittee might ask DOF regarding the status of the SRL, which should be reviewed by the subcommittee prior to its consideration.

Revised Language: The LAO has developed alternative budget bill language which attempts to address the subcommittee's concerns with the original proposal with respect to legislative input. In addition, supplemental report language is being prepared which specifies deferred maintenance projects that would be funded. The proposed revised budget bill language is presented below:

(a) Notwithstanding any other provision of law, the Director of the Department of Finance may allocate $125 million General Fund to the departments in the amounts identified below for deferred maintenance projects:
University of California 25,000,000
California State University 25,000,000
Department of Parks and Recreation 20,000,000
Department of Corrections and Rehabilitation 15,000,000
Department of Food and Agriculture 9,000,000
Department of State Hospitals 7,000,000
Department of Developmental Services 7,000,000
Department of General Services 5,000,000
Office of Emergency Services 3,000,000
State Special Schools 3,000,000
Department of Forestry and Fire Protection 2,000,000
California Military Department 2,000,000
Department of Veterans Affairs 2,000,000

(b) ~~Prior to any allocation of funds, the entities identified above shall provide to the Department of Finance a list of deferred maintenance projects that the funding shall be allocated for.~~ A department shall only expend the funding identified in subsection (a) on deferred maintenance projects included in the Supplemental Report of the 2015–16 Budget Package.

~~The Department of Finance shall review and provide the approved list to the Chairperson of the Joint Legislative Budget Committee 30 days prior to allocating any funds. The Department of Finance shall provide a schedule to the Controller providing for the allocation.~~

(c) A department may ~~An entity seeking to make~~ a change ~~to~~ the ~~approved~~ list included in the Supplemental Report of the 2015–16 Budget Package. ~~after the funds have been allocated~~ Prior to making a change to the list, a department shall obtain the approval of the Director of Finance and the Director of Finance shall notify the Chairperson of the Joint Legislative Budget Committee 30 days before the change is approved. The notification to the Joint Legislative Budget Committee shall identify the projects proposed to be removed and added, the cost of those projects, and the reasons for the proposed changes.

(d) Of the amount identified for the Department of Food and Agriculture, $7.0 million is for the Network of California Fairs.

(e) The amounts allocated pursuant to subdivision (a) shall be available for encumbrance or expenditure until June 30, 2017.

Staff Recommendation: Adopted proposed revised provisional budget bill language.

Vote:

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

ACTIONS

Agenda—Part A

Thursday, May 7, 2015
9:30 a.m. or Upon Adjournment of Session
Rose Ann Vuich Hearing Room 2040

Consultant: Mark Ibele

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Agenda Part B

Thursday, May 7, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

<u>**Item Number and Title**</u>

0690	Office of Emergency Services
2240	Department of Housing and Community Development
7502	Department of Technology
7760	Department of General Services
7870	Victims Compensation and Government Claims Board
8940	California Military Department
8955	California Department of Veterans Affairs

(See Table of Contents on page 2 for a More Specific Listing of Issues)

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

Department of Housing and Community Development (HCD)

Issue 1 – Funding for Housing Element Reviews

Governor's Budget Request: The Governor's budget includes a request for $871,000 General Fund for seven existing positions at HCD currently funded from Proposition 1C bond funds. The positions perform a variety of tasks including conducting housing element reviews and enforcement activities, as well as the implementation of AB 32 (Nunez/Pavley), Chapter 488, Statutes of 2006, and SB 375 (Steinberg), Chapter 728, Statutes of 2008, and the development of Sustainable Housing Outcomes.

Background: State law requires each city and county to adopt a general plan containing at least seven mandatory elements, including housing, which is the only component subject to detailed statutory requirements and a mandatory review by HCD. SB 375 amended the law so that local government housing elements were no longer updated over a staggered five-year schedule. Instead, the planning period for most local governments increased to eight years and the due date is 18 months from the date the Metropolitan Planning Organization updates and adopts its regional transportation Plan. This resulted in peaks and valleys in HCD's workload.

The department currently has 12 positions (of 21 total positions in the Housing Planning Division) that review local governments housing elements. At the end of the fiscal year, when five limited-term positions expire, seven positions that conduct housing element reviews will remain. These seven positions are currently funded from Proposition 1C bond funds (five positions from the Regional Planning, Housing, and Infill Incentive Account and two positions from the Housing Urban-Suburban-and-Rural Parks Account). The five positions that will expire currently receive funding from the Air Pollution Control Fund.

According to HCD, housing element workload has a statewide application and benefits and, as a result, has historically been funded by the General Fund. In 2011-12, all General Fund for housing element review workload was cut and the Legislature approved the use of Proposition 1C bond funds to temporarily fund this workload. The nexus for the use of bond funds to pay for these positions goes away when there are no more (or minimal) elements to review that would be tied to funding rounds of these programs.

Staff Comment: Staff has no concerns with this proposal.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Recycled Water Systems for Residential Structures

Governor's Budget Request: The Governor's budget requests funding from the Building Standards Administration Special Revolving Fund for one two-year limited term district representative II ($95,000) and $275,000 for a contract for a California Environmental Quality Act (CEQA) study to implement AB 2282 (Gatto), Chapter 606, Statutes of 2014.

Background: The state is committed to a 20 percent reduction in per capita water use by 2020 as required by SB 7 X7 (Steinberg), Chapter 4, Statutes of 2009 Seventh Extraordinary Session. AB 2282 provides for the development and adoption of mandatory building standards during the 2016 code adoption cycle for the installation of recycled water systems for newly constructed residential, commercial, and public buildings. As part of this law, HCD is required to conduct research, in consultation with the State Water Resource Control Board, the Department of Public Health, and other parties to develop and propose building standards for recycled water systems for adoption by the California Building Standards Commission (CBSC) in 2016. The State Housing Law Program prepares the adoption of National Model Codes with California-specific amendments on a triennial basis, as well as mid-cycle, and emergency code packages.

This proposal requests one staff person and funding for HCD to contract for a CEQA study. The development and installation of infrastructure for use of recycled water may include the use of new materials and water transportation methods that may pose environmental concerns and need to be evaluated through the CEQA process. The Department of General Services (DGS) is also requesting funds for a CEQA study.

Staff Comment: This item was first heard on March 26th. At that time, the action was to hold the item open and direct CBSC, HCD, and DGS, to discuss which entity would be the most appropriate to be the lead agency for a CEQA study and come back at the time of May Revision hearings with a request for funding for only one of the entities to conduct the study. The Administration has since come back and states that DGS will be the lead agency on the CEQA study and that the Administration will process a Control Section 1.50 next year to increase DGS reimbursement authority to receive funds from HCD for the study.

Staff Recommendation: Approved as budgeted, Department of Finance (DOF) will process a Control Section 1.50 to increase DGS reimbursement authority in order to receive the funds from HCD included in the BCP for the study.

Vote:

Issue 3 – California Public Utilities Commission (CPUC) Mobile Home Utility Conversion Program

Governor's Proposal. The Governor requests expenditure authority of $952,000 in 2015-16, $928,000 in 2016-17, and 464,000 in 2017-18 and eight permanent positions for a three-year pilot project.

Background. In February 2011, following a petition filed by the Western Manufactured Housing Communities Association (WMA), the CPUC opened a rulemaking proceeding to examine what could be done to encourage owners of mobilehome parks and manufactured housing communities (both referred herein as MHPs) to upgrade aging gas and electric distribution systems in an effort to enhance both public safety and service reliability for MHP residents.

On March 13, 2014, the CPUC issued a decision establishing a voluntary three-year pilot program authorizing each California investor-owned utility to convert 10 percent of master-metered gas and/or electric MHP spaces within its operating territory to direct utility service. Due to overlap in operating territories, the utilities have jointly worked to develop processes and procedures that will allow the implementation of the pilot program to be, generally, uniform and consistent throughout California.

The Mobilehome Park Utility Upgrade Program will begin January 1, 2015, and continue through to December 31, 2017. There was a 90-day open enrollment period, between January 1 and March 31, 2015, in which the CPUC's Safety and Enforcement Division accepted an initial application from MHP property owners interested in volunteering to participate in the program. The construction work related to upgrading the MHPs, requires building permits and associated inspections to ensure completed work meets code and is safe prior to moving over to the new system. The HCD serves as the building department for 80 percent of mobilehome parks and all mobile homes. As a result, HCD is requesting a staffing increase and related funding.

Staff Comments. This pilot project will help to address health and safety risks associated with aging gas and electric infrastructure in mobilehome parks. The request is for permanent staff for a program that ends December 31, 2017. It is reasonable that limited-term staff be used for a project that will only last three years. However, according to the DOF they are unable to request three-year limited term positions. Therefore, it is more reasonable that these positions be approved as two-year limited term, rather than permanent. In two years, the justification for permanent staff, based on initial results from the pilot project, can be revisited.

Staff Recommendation. Approve as budgeted; however, approve the eight positions as two-year limited term, rather than permanent.

Vote:

Department of Technology

Issue 1 – Gold Camp Data Center

Spring Finance Letter: The Department of Technology (CalTech) has requested to withdraw funding included in the Governor's budget for fiscal year 2015-16 totaling $206,000.

Background: The item is in reference to a capital outlay project located at Gold Camp Data Center. The $206,000 included in the Governor's budget represented funding to support preliminary plans for a new cooling tower and chiller at the Gold Camp Data Center. The need for the project was based on historical data usage. However, CalTech was able to refresh some of their older equipment with more energy efficient units and has lessened the need for the new cooling tower and chiller. Therefore, the requested resources will not be necessary for fiscal year 2015-16.

Staff Comment: Staff has no issues with this request.

Staff Recommendation: Approve spring finance letter requesting to eliminate item 7502-301-9730 from the Governor's budget.

Department of General Services

Issue 1 – Building Standards Commission

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS) California Building Standards Commission (commission) with a one-time augmentation of $305,000 (Building Standards Administration Revolving Fund) for fiscal year 2015-16, to carry out provisions associated with the passage of AB 2282 (Gatto), Chapter 606, Statutes of 2014.

Additionally, the Governor's budget includes a request to provide the commission an augmentation of $206,000 (Building Standards Administration Revolving Fund) and one two-year limited-term position beginning in fiscal year 2016-17, to address workload associated with the passage of AB 2282.

Background: Since the early 1980's, all building standards either adopted or proposed by state agencies are to be reviewed and approved by the commission before they are to go into effect. Additionally, all building standards were consolidated into a single code of regulations, Title 24, the California Building Standards Code. According to statute, the commission is required to update the California Building Standards Code in its entirety every three years; supplements are published on an annual basis. AB 2282 requires that the commission develop, and propose for adoption, mandatory building standards for recycled water systems during the 2016 intervening code adoption cycle for inclusion in the California Building Standards Code.

Staff Comment: This item was first heard on March 19th. At that time, the action was to hold the item open and direct CBSC, HCD, and DGS, to discuss which entity would be the most appropriate to be the lead agency for a CEQA study and come back at the time of May Revise hearings with a request for funding for only one of the entities to conduct the study. The Administration has since come back and states that DGS will be the lead agency on the CEQA study and that the Administration will process a Control Section 1.50 next year to increase DGS reimbursement authority to receive funds from HCD for the study.

Staff Recommendation: Approved as budgeted, DOF will process a Control Section 1.50 to increase DGS reimbursement authority in order to receive the funds from HCD included in the BCP for the study.

Vote:

California Department of Veterans Affairs

Issue 1 – Chilled Water Distribution System Renovation

Governor's Budget Proposal: The Governor's budget includes a request for the re-appropriation of $3.5 million ($1.7 million lease revenue bonds and $1.8 million federal trust fund), to renovate the chilled water distribution system located at Veterans Home California – Yountville (VHC- Yountville).

Background: The intent of the chilled water distribution system renovation is to address a number of system deficiencies, and to ensure that the Yountville home has the capacity to maintain a temperature within the Department of Public Health Service's standards. The Budget Act of 2011 provided CDVA with expenditure authority to address chilled water distribution system deficiencies at the VHC-Yountville facility. The total estimated project cost is $6.398 million and will be funded by the: 1) Veterans' Home Bond $497,000; 2) lease-revenue bonds $2.23 million; and, 3) Federal Trust Fund $3.66 million.

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

Staff Recommendation: Approve as budgeted.

Vote:

Issue 2 – Steam Distribution System Renovation

Governor's Budget Request: The Governor's budget includes a request for the re-appropriation of $3.38 million (lease revenue bonds) for the preliminary plans, working drawings, and the construction phase of the Veterans Home of California – Yountville (VHC-Yountville) steam distribution system renovation.

Background: The steam distribution system provides hot water to all 120 buildings located within the VHC-Yountville premise. It has been determined that the current steam lines have deteriorated beyond repair. Additionally, the steam lines are insulated with asbestos, which creates an unsafe working condition when repairs are needed on the current steam lines. Total project costs are anticipated to require $7.5 million, and will use a combination of both lease-revenue bonds and federal funds.

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

Staff Recommendation: Approve as budgeted.

Vote

Issue 3 – Igo Cemetery Water System Upgrade

Governor's Budget Request: The Governor's budget includes a request for $525,000 (General Fund) to construct a water pressure system at the Veterans Memorial Building – Igo, which is managed by the California Department of Veterans Affairs (CDVA).

Background: In 2010, CDVA entered into an agreement with the California Veterans Assistance Group for the purpose of building a veterans memorial building on the grounds of the Northern California Veterans Cemetery in Igo, which is located in Shasta County. According to terms in the lease agreement, a 2,200 square foot, faith-neutral veterans memorial building is to be donated to CDVA, upon completion. Construction of the memorial building was completed in 2011. Shortly thereafter, CDVA was notified by the Shasta County Fire Marshall that water system upgrades would be required in order to comply with state and local safety standards. CDVA has proposed to install underground piping that will connect to the city's water district and expand the capacity of the fire sprinklers to meet the minimum required coverage of 1,500 square feet.

Staff Comment: Staff does not have any concerns with this request.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 4 – Central Coast Veterans Cemetery Operations

Governor's Budget Request: The Governor's budget includes a request for $254,000 ($217,000 California Central Coast State Veterans' Cemetery at Fort Ord Operations Fund [Operations Fund], $37,000 Federal Trust Fund) and 2.6 positions for fiscal year 2015-16, and $452,000 ($17,000 Operations Fund, $435,000 Federal Trust Fund) and five positions ongoing to operate the California Central Coast Veterans Cemetery.

Background: AB 3035 (Laird), Chapter 291, Statutes of 2006, authorized the construction of a cemetery to be located at the former site of Fort Ord. The Central Coast Cemetery is designed to support the burial needs of approximately 177,000 veterans living within six surrounding counties; Alameda, Monterey, San Mateo, Santa Cruz, San Benito, and Santa Clara. Additionally, the Central Coast Cemetery includes 5,000 columbaria sites; an administration building with public information and restrooms; a maintenance yard and building; a committal shelter; and, a memorial area.

Staff Comment: Construction of the Central Coast Cemetery is scheduled to begin in January 2015, and is scheduled for completion in July 2016. The requested funds support partial operation costs, which include an administrator, one office technician, and three additional support staff. The Central Coast Cemetery is expected to be fully operational by fiscal year 2016-17.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 5 – Residential Care and Clinical Training

Governor's Budget Request: The Governor's budget includes a request for $3.599 million (General Fund) and 45 permanent positions to further support the care of veterans residing in the veterans homes operated by the California Department of Veterans Affairs (CDVA). Additionally, the Governor's budget includes a one-time request for $796,000 (General Fund) in order to train clinical staff. The total amount of support requested for fiscal year 2015-16 is $4.395 million.

Background: The California Department of Veterans Affairs (CDVA) has requested an additional 45 residential care unit leaders (RCULs) in order to comply with U.S. Department of Veterans Affairs care standards, which mandates that care be provided 24 hours a day, seven days a week. CDVA assessed a number of factors at each campus; including capacity of the facility, distance between buildings, and number of residents per building. From this, CDVA was able to determine that a total of 61 RCUL's were required. CDVA currently has sixteen RCUL's on staff, and would require an additional 45 to become compliant. The additional staff will be placed at Yountville (30), Barstow (9), and Chula Vista (6) homes within the CDVA veterans homes network. The requested staff is intended to ensure that 24 hour care can be provided to residents in the domiciliary care and the residential care units. The RCULs are responsible for assisting residents with daily living skills and ensuring that residents are provided with a clean and safe living environment. Many of the tasks performed by the RCULs were previously performed by member helpers, who were also residents that were tasked with additional duties.

In addition to the $4.599 million requested to provide additional staff to residents of the CDVA network of veterans homes, CDVA has requested that an additional $796,000 (General Fund) be provided to train clinical staff in accordance with updated standards per the International Classification of Disease (ICD-10). The training will be provided in a just-in-time fashion, beginning on July 1, 2015, and is intended to ensure that electronic health records and business processes are ready to go on October 1, 2015. The training will vary from free basic overview courses to more in-depth specialized long-term training, which can cost up to $2,000 per individual. CDVA has requested enough funding to cover an average of $500 dollars per individual.

Staff Comment: Staff has no issue with the requested resources related to the RCUL's. However, the subcommittee may want to determine what other state entities are seeking resources to train for compliance with ICD-10 during fiscal year 2015-16. If additional state entities are seeking resources to train staff, it may be worth considering if there are opportunities to partner with other state entities to coordinate staff-related training efforts.

Staff Recommendation: Approve as budgeted.

Vote:

Issue 6 – West Los Angeles Food Service

Governor's Budget Request: The Governor's budget includes a request to augment the California Department of Veterans Affairs (CDVA) budget by $1.608 million (General Fund) and 65.5 positions in fiscal year 2015-16, and $3.165 million (General Fund) and 106 positions, ongoing, in order to convert contracted food service operations at the Veterans Home – West Los Angeles (VHC- WLA) to civil service.

Background: The VHC-WLA campus was designed and constructed without a fully functioning kitchen. During the design phase of the VHC-WLA, an agreement between the U.S. Department of Veterans Affairs and CDVA was reached that would allow for the U.S Department of Veterans Affairs facility to provide food services to the residents of the VHC-WLA campus. The close proximity to the U.S. Department of Veterans Affairs facility made the arrangement economical for the operation of the VHC-WLA campus. In 2011, the U.S. Department of Veterans Affairs chose not to continue with the agreement and CDVA had to contract with a private food vendor in order to accommodate the residents of the facility. In accordance with Government Code §19130, the CDVA is now required to convert the personal service contracts to civil service positions.

Staff Comment: CDVA began the process of converting 5,000 square feet of storage space to a full-service kitchen in March 2013. The Budget Act of 2014 appropriated $770,000 (Lease Revenue Bond) in order to expedite the construction of the kitchen at the VHC-WLA facility. The kitchen is expected to be fully operational in the fall of 2015.

Staff Recommendation: Approve as budgeted.

Vote:

Issues Proposed for Discussion / Vote

0690 OFFICE OF EMERGENCY SERVICES

Issue 1 – Southern Region Emergency Operations Center

Spring Finance Letter: The Office of Emergency Services (OES) has submitted a spring finance letter requesting $613,000 (General Fund) to provide acquisition and preliminary plans authority for a capital outlay project that will build a new emergency operations center at the Joint Forces Training Base, Los Alamitos.

Background: Currently, the OES Southern Region Emergency Operations Center, which is located at the California Military Department's Joint Forces Training Base, Los Alamitos, is housed in two modular buildings that total 7,200 square feet. The modular buildings were designed and constructed with the intent of providing a temporary shelter for the Operations Center, and have exceeded their ten-year life expectancy. In 2005, the Department of General Services' (DGS) Real Estate Division performed a study to determine the amount of space that needed for a new facility. The study, which took into account a number of factors; including the need for space and infrastructure to house the State Warning Center function as an alternate location, adequate space for state, local, and federal entities to collocate in the event of a disaster, and offer a self-sufficient phone system that would be immune from repeated failures of the base telephone switch. The DGS study found that approximately 30,000 square feet of office space should be utilized for the operations center. In 2014 an independent architect verified the findings made by DGS in 2005.

The project would require a construction cost of approximately $22.6 million to build a facility with the requirements identified by OES. This includes $5.5 million for a server room, VOIP technology, Wi-Fi access, phone and radio capabilities, and furniture and office warehouse equipment. The total cost for this project, including the requested funds for preliminary plans, working drawings, and construction is $24.59 million. According to the project schedule included in the spring finance letter, the project is expected to be complete by January 1, 2019.

LAO Comment: The LAO found that the proposal merits consideration. However, the LAO has recommended modifying the proposal to add provisional language that would allow OES to use the proposed funding only if the negotiated lease allows for the project to be funded through lease-revenue bonds. Funding through lease-revenue bonds has the benefit of spreading out the substantial construction costs over the useful life of the project and will create significant short-term savings for the state. Assuming a 25-year repayment period, the annual debt service on the lease-revenue bonds would be about $1.7 million annually. In contrast, if the project proceeds as proposed, it would require $24 million in General Fund costs in 2016-17.

Staff Comment: According to the proposal, this project would be financed entirely with the General Fund. However, the DOF has informed staff that they are attempting to secure lease terms for the land, which would allow for the project to be funded with lease-revenue bonds. It is worth noting that the overall cost of utilizing lease-revenue for this project may cost more in the long run. Annual debt service associated with this project would cost approximately $1.7 million per year. When payments are made over a 25-year term, the total debt service-related costs associated with this project would amount to approximately $40 million.

As part of the spring finance letter, OES included a set of requirements that would need to be met in order to facilitate a fully functional operations center. However, the spring finance letter did not identify which requirements spelled out in the spring finance letter are not being met by the current facility. A better understanding of what requirements are currently not being met would benefit this subcommittee in determining which alternative solution best fits OES needs.

Staff Recommendation: Hold this item open.

Vote:

Issue 2 – Railroad Accident Prevention and Immediate Deployment Force (RAPID)

Governor's Budget Request: The Governor's budget includes a request via trailer bill to create the Regional Railroad Accident and Preparedness and Immediate Response Force in the Office of Emergency Services (OES).

Background: Oil production from the Bakken region of North Dakota, Montana, and Alberta, Canada has increased significantly in recent years. The remote nature of the region means that energy companies have become more reliant on moving the oil by rail to refineries throughout the country. The production of two types of hazardous materials, crude oil and ethanol, has seen rapid growth in the past few years. This increasing production has required a flexible mode of transport to match output, and is increasingly reliant on rail transport. In fact, railroads account for about 70 percent of all ethanol transport, according to the Association of American Railroads, and crude oil by rail is growing quickly, as pipelines become saturated and do not connect new oil boom regions (such as the Bakken in North Dakota and the Tar Sands in Canada) to major refining locations (such as California).

In 2011, California had the third highest amount of imported rail tons of ethanol in the country, with more than 45,000 carloads arriving in state. The same year, about 9,000 tank cars of crude oil were imported into California by rail, and this number is projected to increase to over 200,000 cars by rail by 2016, according to the CEC.

As a result of this increase in transport, there have been several fatal and devastating rail accidents involving large crude oil spills resulting in large fires and explosions in both the United States and Canada. One of the most serious of these recent accidents was the Lac-Mégantic derailment that occurred in the town of Lac-Mégantic in Canada on July 6, 2013. In this accident, a 74-car freight train carrying crude oil from the Bakken region derailed in the downtown area, killing 47 people and destroying more than 30 buildings when multiple tank cars exploded and burned. In addition, the Chaudière River was contaminated by 26,000 gallons of crude oil.

Staff Comment: This item was heard in this subcommittee on March 19th. At the time there were a number of questions related to the Administration's proposed trailer bill. While this subcommittee appreciates the need for an immediate response force designed to address increasing hazardous materials traveling through the state, there appears to be a significant number of questions that remain. Addressing the proposed fee structure, ensuring continued oversight of the program by the Legislature, and maximizing the use of the new response force are just a few of the larger questions that will need to be addressed. Discussions of this nature are more suitable in a policy committee. Furthermore, the U.S. Department of Transportation has recently announced that it has revised the safety standards guidelines for the rail industry. The new regulations include several components; new tank-car standards, updated braking protocols, and possibly further revisions to energy products transported by rail.

Staff Recommendation: Reject proposed trailer bill, direct to appropriate policy committee.

7502– DEPARTMENT OF TECHNOLOGY

Issue 1 – Statewide Project Management Office (PMO)

Governor's Budget Request: The California Department of Technology (CalTech) requests an augmentation of $1.499 million (Technology Services Revolving Fund) in fiscal year 2015-16, and 11.0 permanent positions, to develop a new project management framework. $1.067 million of the increase is proposed as a loan from the General Fund to the Technology Services Revolving Fund, and is to be repaid by June 30, 2021.

Background: Historically, the state has relied on a decentralized approach to project management, tasking individuals within a department to manage IT project implementation. Under the decentralized approach, project management staff is expected to learn project methodologies and create a team to support the project implementation process. This approach often relies heavily on vendor support to assist with the project implementation process.

One of the primary challenges of utilizing a decentralized project management approach is the lack of experienced project management staff at the department level. Many project managers are starting from scratch; they lack experienced team members, structure, and have a limited understanding of project methodologies. Lessons learned from one project to the next are infrequently shared, and training is applied at varying levels.

To address the problems inherent in a decentralized approach, CalTech proposed moving to a centralized approach through the creation of a statewide project management office. This office would be responsible for the management of an IT project from the beginning to final deployment. CalTech eventually intends to consolidate much of the state's project management effort to one centralized location, where information sharing is more feasible, training can be applied in a more uniform fashion, and the personnel utilized for project management are experienced professionals, capable of managing more complex projects. The Budget Act of 2014 included 2.0 positions and $208,000 (General Fund) to begin the process of creating a statewide project management office at CalTech.

The CalTech budget is structured so that departments pay for services they receive directly from CalTech and the General Fund pays for the "statewide" activities of CalTech. As CalTech primarily provides services, most of the department is funded through the Technology Services Revolving Fund, which collects fees paid by customer departments for services provided by CalTech. As noted earlier, the Legislature approved a General Fund appropriation that would allow CalTech to create the foundation of the Project Management Office (PMO). CalTech's proposal includes a loan of $1.067 million from the General Fund in fiscal year 2015-16, that will support 8.0 positions within the project standards and support unit. The General Fund loan will bridge start-up costs until all staff expenses can be recovered through PMO fees to customers. The General Fund loan will be repaid by building the cost of the loan into future PMO rates.

CalTech is in the process of developing rates that are intended to be competitive with private sector rates.

Staff Comment: This item was originally heard on April 16th. At that time, concerns related to a potential conflict between CalTech's oversight role and project management role were raised. According to CalTech staff, this proposal includes a "firewall" that would place these two functions in different units within CalTech. Each unit would have a deputy director who would report to the director.

Another concern raised at the initial hearing on this topic was that the high-level schedule provided by CalTech does not specify when reportable outcomes will be established. On April 21st, the Assembly Budget Subcommittee No. 4 heard this issue and chose to adopt Supplemental Reporting Language (SRL). The SRL adopted by the Assembly would provide greater detail on many of the issues raised by the LAO, and would afford the Legislature to revisit the progress of the PMO during the next budget cycle. The SRL, would require that CalTech provide quarterly updates on the status of the pilots and a report to the Legislature within six months of completing the pilots. The final report should include (1) challenges that the pilot projects experienced, (2) lessons learned from the pilots, and (3) what revisions will be made in light of the lessons learned.

Staff Recommendation: Approve spring finance letter that provides the Department of Technology with an augmentation of $1.499 million (Technology Services Revolving Fund) in fiscal year 2015-16, and 11.0 permanent positions, to develop a new project management framework. $1.067 million of the increase is proposed as a loan from the General Fund to the Technology Services Revolving Fund, and is to be repaid by June 30, 2021. Adopt SRL described in staff comment, conforming to Assembly action.

Vote:

7760 – DEPARTMENT OF GENERAL SERVICES

Issue 1 – Mercury Cleaners Site Remediation

Governor's Budget Request: The Governor's budget includes a request to provide the Department of General Services (DGS) with a one-time $9.3 million (General Fund) augmentation to continue remediation efforts associated with the Mercury Cleaners building site, a state-owned property located at 1419 16th St., Sacramento.

Background: A majority of the preliminary site investigation work for the Mercury Cleaners building site was completed in January and February 2014, and a Data Gap Completion Report was completed in May 2014, including findings, conclusions, and recommendations for additional site investigations, monitoring, and remediation work. The results indicate a significant level of contamination at the Mercury Cleaners building site.

The preliminary results of the report indicate a significant level of contamination in the Mercury Cleaners building site and confirms that releases of both tetrachlorethene or perchloroethene (PCE) and petroleum hydrocarbon based solvents (such as Stoddard Solvent) coincide with the locations of historic dry cleaning activities within the site building, thus strongly suggesting that the impacts to soil, soil vapor, groundwater, and indoor air quality at the Mercury Cleaners site are predominately the result of onsite releases. DGS received $3.7 million in one-time General Funding for 2014-15 for remediation of the Mercury Cleaners building site, including site investigation and assessment work.

To address the concern that it was unclear how much of the requested funding will be needed during 2015-16, staff has worked to draft budget bill language that provides DGS with the flexibility to address any issues at the Mercury Cleaners site and surrounding area, but also ensures that any unspent funding would revert back to the General Fund.

Proposed budget bill language: *Of the amount appropriated in this item, $7.6 million shall only be available for (1) the purchase of other structures near the Mercury Cleaners site, (2) demolition and abatement of these structures, and continued environmental remediation efforts on and off the Mercury Cleaners site related to the Mercury source contamination, (3) relocation of tenants, (4) administrative costs associated with these activities, and (5) abatement on the Mercury Cleaners site. Any unspent funds at the end of the 2015-16 fiscal year shall not be available to deposit into the Architectural Revolving Fund and shall revert to the General Fund.*

Staff Comment: This item was heard by this subcommittee on March 19th. At that time, staff noted that the work included in the description as part of the budget change proposal would likely not be completed by the end of fiscal year 2015-16. Staff believes the more prudent approach would be to provide funding for the project in a pay-as-you-go model, with which this budget bill language more closely aligns.

Staff Recommendation: Approve as budgeted and adopt placeholder budget bill language.

Vote:

7870 – VICTIMS COMPENSATION AND GOVERNMENT CLAIMS BOARD

Issue 1 – Government Claims Program

Governor's Budget Request: The Governor's budget includes a request to begin the process of transitioning the Government Claims Program (GCP) from the Victims Compensation and Government Claims Board (VCGCB) to the Department of General Services (DGS). The Governor's budget includes a request to reduce reimbursement authority of the VCGCB by $168,000 and 3.0 positions for fiscal year 2015-16 to begin the transition of the GCP to DGS.

Background: The Tort Claims Act of 1963 established the manner in which claims against the state are handled and what role the GCP plays administratively. In accordance with Government Code, those that wish to file a lawsuit against the state, or its employees, must first pursue an administrative remedy through the GCP. The GCP process provides the state an opportunity to investigate and possibly settle claims without incurring litigation expenses.

GCP processes two types of claims: (1) tort claims, which the state's liability is established in law, and (2) equity claims for which the claimants have no legal remedy, but principles of equity dictate that the state should provide compensation. Prior to fiscal year 2004-05, the GCP was supported by the General Fund, and was classified as a central service, which allowed for statewide prorate from various special funds to offset General Fund costs. The Budget Act of 2004 made changes to the funding model, authorizing the collection of a $25 claim filing fee and a surcharge of up to fifteen percent on approved claims. The funding model was adopted to reduce General Fund expenditures in the midst of a challenging fiscal environment and to require that the departments that most frequently used the GCP process shoulder the bulk of the costs.

The number of claims received by GCP has reduced significantly, and the current funding model no longer supports the total costs associated with the administration of the GCP. In fact, revenues have declined so significantly that the VCGCB sought deficiency funding that required General Fund support during fiscal year 2013-14 through a supplemental appropriations bill.

LAO Comment: The LAO, in its review of the state's victim programs, found that the state lacks a comprehensive strategy for assisting crime victims, primarily because the state lacks a lead agency that is responsible for coordinating the state's efforts to assist victims. Specifically, the LAO noted that (1) victim programs lack coordination, (2) the state is likely missing opportunities for certain federal grants, (3) many programs are small and appear duplicative, (4) narrowly targeted grant programs undermine prioritization, and (5) limiting victim advocates to victim witness assistance centers hinders access to the California Victim Compensation Program (CalVCP).

According to the LAO, the Administration's proposal represents a start, however, the LAO notes that there are some additional changes that should be made to align the state's victim programs to better assist crime victims. Most notably, the LAO recommends identifying one agency to develop a comprehensive strategy for assisting victims, and to serve as the lead for the state's victim programs. In the LAO report, they note that for fiscal year 2015-16 there are 47 programs managed by four different state entities (VCGCB, OES, Department of Justice, and California Department of Corrections and Rehabilitation) that support a variety of assistance programs for victims of crime. The majority of the programs identified by the LAO provide grants to local agencies and community-based organizations to provide assistance to victims of crime. The table below provides additional detail on the different victim assistance programs provided by the state:

State Victim Programs

1. **Victim Compensation and Government Claims Board**
   a. California victim compensation program (CalVCP).
   b. Trauma recovery center grants.
   c. Good Samaritan program.
   d. Missing children reward program.

2. **Governor's Office of Emergency Services**
   a. Victim witness assistance program
   b. 39 other grant programs.
   c. Victim-related task forces.

3. **California Department of Corrections and Rehabilitation**
   a. Restitution collection and notification.

4. **Department of Justice**
   a. Victim assistance and information services

Staff Comment: Under this proposal, the GCP transition to DGS is a multi-year process. Included in this proposal is a budget request to increase DGS service revolving fund authority by $638,000 for fiscal year 2015-16. During consideration of fiscal year 2016-17 the GCP will transition to DGS, including making applicable statutory changes, for fiscal year 2016-17. Upon completing the transition, the VCGCB, beginning in 2016-17, would primarily focus on the administration of victims programs. Staff concurs with the LAO that the state should utilize this transition as an opportunity to develop a more comprehensive strategy to address the state's efforts with crime victim assistance. Staff would recommend adopting this proposal with supplemental reporting language (SRL) to address the consolidation of the state victim assistance programs under one agency, which should provide for a more comprehensive victim assistance program.

Staff Recommendation: Approve as budgeted, adopt supplemental reporting language requiring that an evaluation of the state's victim services be conducted. The SRL should, at a minimum: (1) evaluate and recommend changes to the number, scope and priority of state victim programs, and (2) ensure the state receives all eligible federal funds for victim programs.

Vote:

8940– CALIFORNIA MILITARY DEPARTMENT

Issue 1 – Work for Warriors

Background: Each year, over 30,000 troops complete their military service and return to California. Between the often difficult transition to civilian life and the still-recovering economy, these new veterans are facing an uncertain economic future. Many Iraq and Afghanistan veterans leave the active-duty military only to find that their skills are not understood by civilian employers. As of March 2015, the unemployment rate of veterans under the age of 35 was nearly double the state's overall unemployment rate of 6.9 percent.

To address this, the state has access to a number of programs that specifically assist veterans' reentry into the job market. Through its workforce services branch, the Employment Development Department (EDD) receives federal funding from the U.S. Department of Labor via the Workforce Investment Act of 1998 (WIA), the Wagner-Peyser Act of 1993, and the Jobs for Veterans State Grant. While WIA funds and Wagner-Peyser funds do offer some additional accommodations, the Jobs for Veterans State Grant is designed to provide funding for specialized staff to assist veterans in finding work and conducting outreach to employers on behalf of veterans. The three programs are summarized below:

- **Wagner-Peyser Act of 1993** – Provides EDD staff with resources for employment services for employers and job seekers, including veterans. Services are provided at job centers locations throughout the state, annual funding for this program totals $80 million.

- **Workforce Investment Act of 1998 (WIA)** – Provides a variety of employment and training services with funding categorized for youth, adult, and dislocated worker. Funding is disbursed at the local level to 49 workforce development boards that offer these services at job centers located throughout the state. Annual program funding for WIA totals $380 million.

- **Jobs For Veterans State Grants** – This program was created to provide veterans who face barriers to reentry into the job market with employment opportunities. Funding supports approximately 200 EDD staff throughout the state that provide case management through the Disabled Veterans' Outreach Program and job development services through the Local Veterans' Employment Representatives (LVER). Staff members are located throughout the state. Annual funding for this program totals $19 million.

Many of the programs described above have failed to meet program goals. Unfortunately, the unemployment/underemployment rate of veterans within the 25-34 year age group remains higher than the national average; in fact, according to the U.S. Department of Labor, California is one of the lowest performing states in the nation. In October 2013, the Bureau of State Audits (BSA) reviewed EDD's efforts to assist veterans gain entry to the job market and found that there were a number of issues with EDD's performance. Particularly, the BSA found that the EDD was using data that may not validate their performance statistics, did not review data to ensure that sensitive information wasn't being used inappropriately, and was not meeting goals as prescribed by the U.S. Department of Labor.

In addition to the programs managed by EDD, there are a number of federal programs that are designed to assist veterans with reentry into the job market. The U.S. Department of Veterans Affairs provides veterans with educational opportunities through the Post 9/11 G.I. Bill and the Montgomery G.I. Bill. Both G.I. bills pay for education, training, apprenticeship, licensing and certification for veterans. The Department of Defense, in coordination with several other federal entities provides employment assistance to separating and retiring military personnel through a program called the Transitional Assistance Program (TAP). In addition to both programs described above, the Internal Revenue Service (IRS) has offered tax credits to employers who employ veterans. The size of the credit has been contingent on how long the veteran has been unemployed prior to being hired and whether the veteran has a service-connected disability.

There are other programs that are more directly controlled at the state level which benefit veterans seeking reentry to the job market. The California Military Department has created the Work for Warrior (WFW) program, which was established in 2012 pursuant an interagency agreement with the Assembly. Prior to its establishment, members of the California National Guard and Reserves suffered from high unemployment rates. In 2012, the unemployment rate for the California National Guard and Reserves was approximately 14 percent, significantly higher than the national unemployment rate and California's overall unemployment rate. In response to the higher than average unemployment rate among service members, the California Military Department partnered with hundreds of companies within the state to directly place service members and their spouses in 4,000 jobs throughout the state. At the time, the Military Department was able to survey the California National Guard to determine the unemployment rate; however, the pool of eligibility for the WFW program has expanded substantially and now includes member of the Reserves and members of the active duty who are separating from the military. The eligibility pool has increased from 28,000 to over 65,000. Other states (South Carolina, Florida, and Michigan) have developed a model similar to the WFW, and the program has received recognition from the National Guard Bureau as a successful model for other states to follow.

Staff Comment: Given that California has historically failed to meet veterans-related performance goals set forth by the U.S. Department of Labor, it may benefit the state, and EDD, to collaborate with the CMD to expand the WFW program. Current year funding for the WFW totals $670,000 and 5.0 PY's. However, as noted above the program was funded for fiscal year 2014-15 via an interagency agreement with the Assembly. The interagency agreement, and funds that support the program, will expire on July 1. To address funding for future years the Legislature may want to consider utilizing discretionary WIA funds. The discretionary portion of WIA funds can be allocated on an annual basis to support target populations. In the past, some discretionary funds have been directed to support veterans reemployment efforts, unfortunately there were limited reportable requirements to determine the effectiveness of that investment. Connecting the WFW program, which does have reportable outcomes, with the discretionary funding could boost California's overall performance measures. While this subcommittee does not have jurisdiction over the use of discretionary WIA funds, steps can be made to ensure continued funding of the WFW program. Staff would recommend increasing the reimbursment authority of the Military Department by $670,000 to ensure that if discretionary WIA funds are made available, the Military Department has the budgetary authority to utilize those funds.

Staff Recommendation: Increase California Military Department reimbursment authority by $670,000.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Thursday, April 23, 2015
9:30 a.m. or Upon Adjournment of Session
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

Agenda Part B

OUTCOMES

Item Number and Title

0650	Office of Planning and Research
1110/11111	Department of Consumer Affairs
7760	Department of General Services
8620	Fair Political Practices Commission

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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 916-324-9335. Requests should be made one week in advance whenever possible.

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Wednesday, May 20, 2015
10:00 a.m.
Rose Ann Vuich Hearing Room (2040)

Consultant: Mark Ibele

May Revision and Open Issues
Agenda—Part A

Vote-Only Calendar

Discussion / Vote Calendar

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.

Vote-Only Calendar

Control Section 12.00 State Appropriations Limit

1) **Revised State Appropriations Limit (Governor's Budget and May Revision).** The Administration requests that the budget bill be amended to reflect the updated change in the State Appropriations Limit (SAL). The revised limit of $94.042 billion is the result of applying the growth factor of 4.55 percent. The revised 2015-16 limit is $899 million above the $93.143 billion estimate in January.

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

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

   Vote:

Control Section 6.10 Deferred Maintenance

2) Funding for Deferred Maintenance (Budget Bill Language). Budget Control section 6.10 gives the Department of Finance the authority to allocate $125 million across a broad spectrum of departments. Revised budget bill language, providing for greater legislative input, was approved in Subcommittee No. 4 at its May 7 hearing. Subcommittee No. 1 has determined that the amount established for state special schools ($3.0 million) should fall within the Proposition 98 guarantee.

Staff Comment: Absorbing the deferred maintenance costs on the Proposition 98 side of the budget would free-up additional resources for addressing non-Proposition 98 obligations. The differed maintenance for state special school is anticipated to be addressed within the education trailer bill.

Staff Recommendation: Amend Control Section 6.10 approved on May 7 to exclude $3.0 million for state special schools, and reduce total amount in this provisional language to $122.0 million. The revised budget bill language, reflecting proposed Subcommittee No. 1 action, would be:

(a) Notwithstanding any other provision of law, the Director of the Department of Finance may allocate ~~$125~~ $122 million General Fund to the departments in the amounts identified below for deferred maintenance projects:
University of California 25,000,000
California State University 25,000,000
Department of Parks and Recreation 20,000,000
Department of Corrections and Rehabilitation 15,000,000
Department of Food and Agriculture 9,000,000
Department of State Hospitals 7,000,000
Department of Developmental Services 7,000,000
Department of General Services 5,000,000
Office of Emergency Services 3,000,000
~~State Special Schools 3,000,000~~
Department of Forestry and Fire Protection 2,000,000
California Military Department 2,000,000
Department of Veterans Affairs 2,000,000

(b) ~~Prior to any allocation of funds, the entities identified above shall provide to the Department of Finance a list of deferred maintenance projects that the funding shall be allocated for.~~ <u>A department shall only expend the funding identified in subsection (a) on deferred maintenance projects included in the Supplemental Report of the 2015–16 Budget Package.</u>

~~The Department of Finance shall review and provide the approved list to the Chairperson of the Joint Legislative Budget Committee 30 days prior to allocating any funds. The Department of Finance shall provide a schedule to the Controller providing for the allocation.~~

(c) <u>A department may</u> ~~An entity seeking to make~~ a change ~~to~~ the ~~approved~~ list <u>included in the Supplemental Report of the 2015–16 Budget Package.</u> ~~after the funds have been~~

~~allocated~~ Prior to making a change to the list, a department shall obtain the approval of the Director of Finance and the Director of Finance shall notify the Chairperson of the Joint Legislative Budget Committee 30 days before the change is approved. The notification to the Joint Legislative Budget Committee shall identify the projects proposed to be removed and added, the cost of those projects, and the reasons for the proposed changes.

(d) Of the amount identified for the Department of Food and Agriculture, $7.0 million is for the Network of California Fairs.

(e) The amounts allocated pursuant to subdivision (a) shall be available for encumbrance or expenditure until June 30, 2017.

Vote:

0860 Board of Equalization

3) **Cigarette Tax and Licensing Program (Budget Bill Language).** California imposes excise taxes on cigarettes and other tobacco products, such as cigars and chewing tobacco. Most revenue raised by the tax goes to special funds with a minor amount going to the state General Fund. The state also licenses sellers of tobacco products. The BOE administers the tax and licensing programs. Recently, concerns have been raised—largely by programs and beneficiaries that receive the tax revenues—regarding program costs. In particular, while licensing fees pay for some of the licensing program costs, most of the costs are borne by tax revenues—which results in a decrease in the amount benefiting the actual programs. Currently, tax revenues pay for about 80 percent of the licensing program costs. In response to concerns, the Legislature approved supplemental reporting language in 2014, requiring BOE to submit a report to the Legislature on the costs of the program and alternative funding approaches. The BOE's report on funding options for the licensing program describes eleven various options. In its review of the BOE report, the LAO observed and recommended: (1) excise tax revenues should be used for tax administration costs and not for licensing program costs; (2) amounts and frequency of payment for licensing fees should increase such that they are sufficient to pay licensing program costs. LAO also recommends that the Legislature adopt budget bill language that would require BOE and the Department of Justice to report on an approach to an electronic filing system.

Staff Comments: The support of the licensing program by tax revenues appears to result in subsidizing activities that—while related to the tax—are not directly related to its administration. Staff recommends the following budget bill language to address these issues:

> *By February 1, 2016, the California Department of Justice (DOJ) shall submit a report to the fiscal committees of the Legislature describing options for reducing the administrative costs of the State Board of Equalization's (BOE's) and DOJ's cigarette and tobacco programs while maintaining the effectiveness of these programs. Each option shall include a timeline for implementation. Each option shall also include estimates of the effects of implementing that option on BOE's and DOJ's administrative costs. At least one option shall be designed to increase the rate of electronic filing of various forms related to these programs. The BOE and other state agencies shall provide information requested by DOJ in connection with this reporting requirement.*

Staff Recommendation: Adopt proposed budget bill language.

Vote:

0950 State Treasurer's Office

4) **Strategic Information Technology Initiatives (Spring Finance Letter).** The State Treasurer's Office (STO) is improving the accessibility to services, data and information provided, as well as to improve and upgrade its information technology (IT) capabilities. The proposal will realign funding in accordance with benefits received and would be consistent with the Treasurer's strategic plan. The proposal from the STO, approved by the Administration, calls for upgrading and improving several components of the STO IT technical services. For the entire proposal, 11 new positions in three areas would be established, with additional required resources of $1.4 million (reimbursements and special funds). The positions are: Five additional positions for the Data and Government Transparency Unit, to redesign and expand the STO's public website and interfaces with various databases; three additional positions for the Project Management Office, to establish a permanent presence at the STO, in response to a request from the California Department of Technology (CalTech); three positions for Technical Support Services, to address additional workload from the prior Administration, and manage the conversion from obsolete and dated systems.

Staff Comments: This item was heard in subcommittee on April 23, 2015. The subcommittee approved the additional positions for the Project management Office and Technical Support Services (items 2 and 3, above), and held open the Data and Government Transparency Unit positions. Staff is in general agreement with LAO recommendation regarding the Data and Government Transparency Unit, in that this proposal could benefit from additional germination allowing for refinements and provide for an incremental approach. Some preliminary scoping of this area could be accomplished prior to the formulation of a follow-up proposal (presumably as part of the January 2016 budget), and thus, a limited amount of resources could be appropriate at this time.

Staff Recommendation: Staff recommends approving one initial position for Data and Government Transparency Unit. Staff also recommends rescinding prior approving Technical and Support Services positions and approving these as limited-term.

Vote:

0110 and 0120 State Legislature

5) **Legislative Budget (Constitutional Adjustment).** The Legislature's budget for 2015-16 was proposed in January to be $116.2 million for the Senate and $153.2 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 4.55 percent in the Governor's May Revision. Applying this to the legislative budget would result in funding of $121.536 million for the Senate and $160.139 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 and 0.48 percent in 2014-15. Legislative increases were forgone because of the state's budget constraints during the previous recession. The combined spending by the Senate and the Assembly is now well below the State Appropriations Limit. Funds from the Senate and Assembly appropriations are also used to fund the Legislative Analyst's Office.

   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 $12.3 million.

   Vote:

9210 Local Government Financing

6) **Nevada County Trial Costs (Governor's Budget).** The Governor's budget proposes to provide $393,000 to the Nevada County Public Defender's Office for extraordinary defense costs associated with State of California v. Lester et al proceedings, and budget bill language. The amount appropriated would be available through June 30, 2019, upon approval by the State Controller's Office. The state has in the past provided assistance to county for extraordinary expenses associated with homicide trial. In this case, there are exceptional expenses associated with the Public Defender's Office assigned to the case. The county is obligated to provide legal assistance to the defendants.

   Staff Comments: This item was heard in subcommittee on April 9, 2015, and held open, pending additional information on what constitutes authorized expenses as noted in the proposed budget bill language. The DOF has indicated that this is covered by Government Code section 15201.

   > *As used in this chapter, **"costs incurred by the county" means all costs, except normal salaries and expenses, incurred by the county in bringing to trial or trials, including the trial or trials** of, a person or persons for the offense of homicide, including costs, except normal salaries and expenses, incurred by the district attorney in investigation and prosecution, by the sheriff in investigation, **by the public defender or court-appointed attorney or attorneys in investigation and defense,** and all other costs, except normal salaries and expenses, incurred by the county in connection with bringing the person or persons to trial including the trial itself, which include extraordinary expenses for such services as witness fees and expenses, court-appointed expert witness fees and expenses, reporter fees, and costs in preparing transcripts. Trial costs shall also include all pre-trials, hearings, and post-conviction proceedings, if any.*

   Staff Recommendation: Approve as budgeted.

   Vote:

7) **Subventions to Amador, San Mateo and Alpine Counties (Governor's Budget and May Revision).** The Administration now proposes a General Fund subvention of $5.8 million to backfill Amador, San Mateo and Alpine counties due to circumstances that reduced property tax directed to those county governments, and cities within those counties, in 2012-13, and budget bill language. These circumstances also occurred in these counties in the prior year, and the state provided a subvention. The revenue losses will likely continue to some degree in the future, but the Administration indicates its current proposal is of a one-time nature. The estimated amounts are: $2.1 million to Amador, $3.5 million to San Mateo and $198,000 to Alpine.

Legislation enacted early in the Schwarzenegger Administration shifted local property tax from schools to cities and counties to accommodate two state fiscal initiatives—the Triple Flip and the Vehicle License Fee (VLF) Swap. Schools were then backfilled with state funds for each of these initiatives. Overall, the fiscal changes resulted in a large net revenue gain for cities and counties as the replacement revenue streams have grown faster than the relinquished revenue streams. However, unique circumstances reportedly reversed this outcome in 2010-11 for Amador County and in 2011-12 and 2012-13 for Alpine, Amador, and San Mateo counties. The backfill for the Triple Flip and the VLF Swap must originate from property taxes either shifted from the Education Revenue Augmentation Fund (ERAF) or from non-basic aid K-12 and community college districts (but not from so-called 'basic aid' schools). This funding mechanism stopped fully working for Amador County reportedly in 2010-11 due to all the schools in the county becoming basic aid schools. Basic aid schools receive sufficient local property tax to fully fund the per-student amounts required by the Proposition 98 guarantee, and therefore, the state's funding is minimal. Due to this basic aid situation, current law will not provide backfill for such schools for any property tax shifted to cities and counties. County auditors have reportedly reduced or discontinued the shift of property tax from schools to those cities and counties.

Staff Comments: This subcommittee heard this issue on April 9, and held it open, pending May Revision revenue data. The DOF provided a May Revision request that this item be eliminated (and have the appropriation included as part of a local government trailer bill), but this was subsequently determined to be an error. Thus, the revised revision of this request, as communicated by DOF staff, calls for $5.8 million, allocated to the three counties.

Staff Recommendation: Approve the Governor's budget request and budget bill language, as revised subsequent to the May Revision. Reject the May Revision finance letter.

Vote:

9620 Cash Management and Budgetary Loans

8) **Changes in Interest payments on Short-Term and Budgetary Borrowing (Governor's Budget and May Revision).** The Administration has requested this item be decreased by $5.0 million from $20.0 million to $15.0 million due to reduced internal cashflow borrowing needs. In addition, external borrowing costs are to be reduced from $20.0 million to $0.0 since no external borrowing will be required in the budget year. Finally, the revised budgetary loan repayment schedule is adopted and interest cost on budgetary borrowing should be increased by $20.1 million to reflect the revision to the budgetary loan repayment schedule.

   Staff Recommendation: Approve the May Revision request.

   Vote:

9625 Interest Payments to the Federal Government

9) **Reduction in Interest Payments to the Federal Government (May Revision).** The Administration has requested that this item be decreased by $7.0 million (from $10.0 million to $3.0 million) as a result of lower projected interest payments to the federal government. Interest rates used to calculate interest owed remain low.

   Staff Recommendation: Approve the May Revision request.

   Vote:

0000 Historic State Capitol Commission

10) **New Budget Item for Support of Capitol Maintenance (Legislative Proposal).** To provide a budget vehicle to allow for contributions to support the maintenance and upkeep to the Capitol building and surrounding property. The item would contain no appropriation at this time. Administration of the fund and custodial duties are to be determined through direction of regulation from Department of Finance.

Item	*Amount*
XXXX-001-0001 - For support of the Historic State Capitol Commission	
Schedule:	
(1) XX-Historic State Capitol Commission	*700,000*
(2) Reimbursements	*-700,000*
Provisions:	

1. Notwithstanding any other provision of law, all moneys that are received by the Historic State Capitol Commission as donations or financial contributions from any source, public or private, or as revenue from any concession operated in the State Capitol, pursuant to subdivision (f) of Section 9149.7 or Section 9149.12 of the Government Code, that have not been taken into consideration in the schedule of this item or are in excess of the amount so taken into consideration are to be credited to this item and are hereby appropriated in augmentation of this item for the same programs and purposes for which appropriations for this item have been made by this act.

Staff Recommendation: Approve the new budget item, with administration of the fund and custodial responsibilities to be determined through direction or regulation by Department of Finance.

Vote:

Discussion / Vote Calendar

0590 Governor's Office of Business and Economic Development

Issue 1: California Small Business Development Center (May Revision)

Governor's Proposal: The Governor's Office of Business and Economic Development (GO-Biz) has requested one time appropriation of $2.0 million (General Fund) as a partial match of federal funds to support the Small Business Development Center (SBDC) network.

Background: The SBDC provides training to small business owners, including in the areas of start-up assistance, planning for growth and expansion, technology and innovation, and access to capital. The funds will be used for competitive grants to the SBDC offices, and require quarterly reports on results. After receiving no funding from the General Fund from 2004 through 2010, the SBDC program received a one-time $6.0 million in 2011 and then $2.0 million in General Fund in 2014, (no General Fund was received in 2012 or 2013).

Staff Comments: The proposal will help with SBDC funding, but there should be additional efforts to stabilize support for the program, especially given the erratic nature of state support. In addition, the proposal will only allow for a partial draw on available federal funds, unless additional resources can be accessed. Up to 50 percent of the required match may be in-kind, as opposed to cash match. Thus, the SBDC program must generate an additional $4.4 million to maximizing the federal draw-down.

Staff Recommendation: Approve the May Revision request.

Vote:

0971 California Alternative Energy and Advanced Transportation Financing Authority

Issue 1: Extension of Renewable Resource Trust Fund Repayment Date (May Revision).

Governor's Proposal: The Administration has requested budget bill language that would allow for an extended repayment date for a loan to California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) from the Renewable Resource Truest Fund (RRTF). The loan repayment extension is currently due June 30, 2016 and the extension would provide for repayment in stages over three years with full repayment by June 30, 2019.

The proposed budget bill language would read:

> *Notwithstanding any other provision of law, including the scheduled repayment date of June 30, 2016, pursuant to Provision 2 of Item 0971-001-0528 of the Budget Act of 2013 (Chapter 20, Statutes of 2013), the $2,409,000 loan from the Renewable Resource Trust Fund to the California Alternative Energy and Advanced Transportation Authority Fund shall be repaid to the Renewable Resource Trust Fund as follows: $803,000 by June 30, 2017, $803,000 by June 30, 2018, with the remaining balance, including applicable interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer to the California Alternative Energy and Advanced Transportation Authority Fund, to be repaid by June 30, 2019. Any fee revenue received pursuant to the program established by Chapter 10 of the Statutes of 2010 may be used to support the program as long as this use does not interfere with the repayment of the loan, which is due not later than June 30, 2019.*

Background: CAEATFA received a $2.4 million loan from RRTF as part of the 2010 Budget Act. The purpose of the loan was to cover start-up costs of the sales and use tax exclusion program (STEP). The STEP was designed and anticipated to be self-sustaining by covering its expenses through application and administrative fees charged to applicants. CAEATFA has experienced erratic application volume and program activity for STEP, due to the economic recession, localized industry trends, and the (competing) sales and use tax exemption for manufacturers.

Staff Comments: The proposal provided no information on the effect of the loan extension on the condition or future viability of the RRTF.

Staff Recommendation: Reject the proposed loan repayment delay.

Vote:

0950 State Treasurer's Office

Issue 1: Debt Management System (May Revision)

Governor's Proposal: The Administration proposes to continue funding for the replacement of the State Treasurer's Office (STO) debt management system. The $1.4 million (reimbursements) requested consists of $302,000 for a project management support vendor, $200,000 for Department of Technology (CalTech) procurement assistance, $97,000 for the procurement assistance vendor, $140,000 for independent verification and validation services, $113,000 for CalTech project oversight, and $530,000 of continued funding for positions (data processing manager, senior programmer analyst, system software specialist, and treasury program manager. The STO has changed the procurement strategy for the DMS II Project from what was as previously submitted in SPR1, based on vendor feedback provided to the STO from the pre-solicitation RFP and resulting analysis. Subsequent to the submission of the May Revision request, staff was notified of requested change in the procurement strategy. In 2013, had STO determined that replacing the existing debt management system with a solution-based procurement using a systems integrator was in the State's best interest, due to available expertise staffing. However, STO subsequently determined based on potential vendor feedback learned it would be very difficult to completely satisfy business requirements at an acceptable cost and/or within a reasonable timeframe. Following more in depth vendor conversations, STO explored alternative procurement strategies and models and determined the debt management system replace could be better addressed by using the existing debt management system and expert-level technicians rather than STO staff. CalTech agreed with this decision. The STO's funding request of $1.4 million remains unchanged.

Background: The STO received funding for this project in 2013-14 and 2014-15. The new system is necessary for debt administration, including duties associated with trustee, registrar and paying agent responsibilities, payment of debt service, disclosure and analysis of debt issuances. Given the increased legal and financial complexities in the debt markets, the STO indicates a need for a new system to administer outstanding debt, track and pay debt service and fees on outstanding debt, and track and validate the issuance of new debt. The existing system dates to 2004.

Staff Comments: Staff has no concerns with the proposal based on the revised procurement approach, but the STO should be prepared to walk through the proposed revised procurement strategy at hearing.

Staff Recommendation: Approve the may Revision request with the revised procurement approach.

Vote:

0000 Redevelopment Agencies / Local Government

Issue 1: Redevelopment Agencies Dissolution and Local Government Issues Resolution (Trailer Bill Language)

Background: Ongoing workload related to the winding down of redevelopment agencies (RDAs) involves the generation, submittal, and review of Recognized Obligation Payment Schedules (ROPS). Every six months, operating under the supervision of a locally appointed oversight board, successor agencies must submit to the DOF their ROPS, which delineates their proposed payments during the upcoming payment cycle. The DOF reviews each ROPS to determine whether the identified payments are required by enforceable obligations, as defined by law. Once the DOF has completed its review, county auditors-controllers provide successor agencies with property tax allocations to pay the approved enforceable obligations. This process continues into the future until all the approved enforceable obligations have been paid.

Through this biannual process, DOF has reviewed the majority of all enforceable obligations listed for payment by successor agencies for compliance with the law. According to DOF, about 85 percent of all active successor agencies have complied with statutory audit findings and received a finding of completion, indicating compliance progress. As a result, DOF avers that oversight of the dissolution process has progressed to the point where legislative changes can be considered in order to add finality to the entire dissolution process and reduce the burden on all parties involved.

In addition to RDA wind-down issues, there are a number of ongoing situations related to the state/local fiscal relationship that have arisen over the years as unintended consequences of various actions. These situations involve newly incorporated cities, compensating local governments for various revenue losses, and cases of unintended miscalculations of amounts owed to schools.

Governor's Proposal: In what it terms an effort to "…minimize the potential erosion of property tax residuals being returned to the local affected taxing entities…clarify and refine various provisions in statute to eliminate ambiguity…(and) maintain the expeditious wind-down of RDA activities…" the Administration has proposed legislation that would include the following steps:

- Transition all successor agencies from a biannual ROPS process to an annual ROPS process beginning July 1, 2016, when the successor agencies transition to a countywide oversight board.

- Establish a "last and final" ROPS process beginning September 2015. The last and final ROPS will be available only to successor agencies that have a finding of completion, are in agreement with DOF on what items qualify for payment, and meet other specified conditions. If approved by DOF, the last and final ROPS would be binding on all parties and the successor agency will no longer submit a ROPS to DOF or the oversight board. The county auditor-controller would remit the authorized funds to the successor agency in accordance with the approved last and final ROPS until each remaining enforceable obligation has been fully paid.

- Clarify that former tax increment caps and RDA plan expirations do not apply for the purposes of paying approved enforceable obligations. This clarification would confirm that funding will continue to flow until all approved enforceable obligations have been paid.

- Specify that re-entered agreements that are not for the purpose of providing administrative support activities are not authorized or enforceable.

- Stipulate that litigation expenses associated with challenging dissolution determinations are not separate enforceable obligations, but rather are part of the administrative costs of the successor agency.

- Establish that contractual and statutory pass-through payments end upon termination of all of a successor agency's enforceable obligations.

- Indicate that DOF is exempt from the regulatory process and specify that county auditor‑controllers' offices shall serve as staff for countywide oversight boards.

May Revision Proposal: The May Revision includes substantial additional provisions to the proposal, including changes to the provisions listed above. The major new and altered components include:

- **Findings of Completion**. Allows successor agencies that enter into a written payment agreement with Department of Finance to remit their unencumbered RDA cash assets to the county auditor-controller to receive a finding of completion.

- **Stranded 2011 Bond Proceeds**. Provides that successor agencies with a finding of completion may expend a portion of these stranded proceeds—based on a 'tiered' expenditure structure—with the unused portions to be used to defease the outstanding bonds.

- **Property Tax "Override" Revenues**. Clarifies that any pension or State Water Project override revenues pledged to RDA debt service must be used for that purpose, with certain limitations.

- **Highway Infrastructure Improvements**. Allows agreements between the former RDA and its sponsoring entity that relate to state highway infrastructure improvements to be an enforceable obligation.

- **Litigation Expenses**. Clarifies that a sponsoring entity can loan money to a successor agency for litigation expenses associated with challenging dissolution decisions and those loaned amounts may be repaid as an enforceable obligation if the litigation is successful.

- **Reentered Agreements**. Clarifies, as a result of a final court decision, that reentered agreements entered into after the passage of AB 1484 (Committee on Budget), Chapter 26, Statutes of 2012, are unauthorized and unenforceable, unless they were for the purpose of providing administrative support activities.

The May Revision includes several proposals for local governments related primarily to long-running issues involving the state-local fiscal relationship. Specifically, the proposals include:

- **"Negative Bailout" Counties.** Ends negative bailout, which will provide approximately $6.9 million in annual relief to four counties. Negative bailout occurs if the health and welfare costs that the state assumed for a county exceed the additional property tax the county receives from the schools (pursuant to the post Proposition 13 property tax shift), reducing through statute the county's property tax revenue by the difference.

- **Newly Incorporated Cities.** Provides fiscal relief for specified cities in Riverside County incorporated after 2004. The cities—Jurupa Valley, Menife and Wildomar experienced fiscal stress due to lost revenue from the VLF swap, for which they were ineligible, and the loss of the enhanced VLF rate redirected in 2011 to fund public safety realignment.

- **San Benito County.** Allows the County of San Benito to participate in an Educational Revenue Augmentation Fund (ERAF) repayment program, for which they are currently ineligible, in order to pay amounts owed to the ERAF. The proposal results in the state forgiving approximately $3.4 million of the $4 million owed by the county.

- **Tax Equity Allocations (TEA).** Ends, over a five-year period, the requirement of four cities in Santa Clara County to reimburse the county for the loss of ERAF due to the TEA. TEA provide property tax to cities that levied little or no property tax prior to Proposition 13, by shifting property taxes from the county.

Legislative Analyst's Perspective. The Legislative Analyst's Office (LAO) indicates that the revised redevelopment proposal appears to reflect the feedback of local agencies and, therefore, seem to find a reasonable middle ground. Specifically, eliminating retroactive invalidation of certain reentered agreements and creating a mechanism for successor agencies to recover litigation costs from successful challenges to DOF's implementation of the dissolution statutes addresses concerns raised by local agencies throughout the budget process. In addition, the May Revision change related to property tax override revenues addresses an issue that local agencies have raised several times in recent years. DOF's proposed solution to this issue appears consistent with the goals of redevelopment dissolution, namely (1) ensuring former redevelopment obligations are honored and (2) returning property tax revenues to the entities that would have received them in the absence of redevelopment. Several proposed changes to redevelopment dissolution law would have the net effect of increasing General Fund costs by as much as several tens of millions of dollars annually.

With respect to the general local government provisions, the LAO notes that there are many real and perceived inequities in the way property taxes are divided among local governments and the May Revision proposes changes that would address a subset of local concerns with the property tax allocation system. In some cases, very similar issues exist in other counties that would not be addressed by the proposal, and addressing some issues but not others could create additional calls for General Fund spending in future years to fix other perceived inequities in the property tax system. Finally, LAO recommends weighs the newly incorporated cities' need for aid against other competing General Fund spending priorities, but indicates to the extent the Legislature wishes to provide assistance to the new cities, the Governor's approach seems like a reasonable starting point.

Staff Comments: The May Revision includes a number of additional proposals that would benefit cities and successor agencies to the dissolved RDAs. For a few cities, there remain questions, including the interest rate on loans to be repaid to sponsoring cities. The other local government-related issues represent a reasonable approach to long-festering issues. Overall, the proposal is a reasonable proposal and represents an attempt to move beyond the dissolution battles, and contains substantial benefits for local governments and the state.

Staff Recommendation: Approve placeholder trailer bill language.

Vote:

7730 Franchise Tax Board

Issue 1: Earned Income Tax Credit (Trailer Bill Language)

Governor's Proposal: The May Revision proposes the creation of a state Earned Income Tax Credit (EITC). This proposal, which adopts an option developed by the Legislative Analysts' Office (LAO), will provide a refundable tax credit for wage income and would focus on households with incomes less than $6,580 if there are no dependents and up to $13,870 if there are three or more dependents. The proposed state program dovetails with the existing federal EITC and would match 85 percent of the federal credits up to half of the federal phase-in range and then begin to taper off relative to these maximum wage amounts. The credit will be available beginning with tax returns filed for wages earned in 2015 and is expected to reduce revenues by $380 million annually beginning in 2015-16. It will benefit an estimated 825,000 families and 2 million individuals. The estimated average household benefit is $460 per year with a maximum credit for a household with three or more dependents of over $2,600.

Background: The federal EITC is the largest tax benefit for families with children and is the third largest social welfare program in the United Stated behind Medicaid and food stamps. The EITC was first enacted at the federal level in 1975 as a modest refundable credit of up to $400. The credit equals a percentage of earnings for an individual until the earnings reach a maximum amount (phase-in range). The credit then plateaus for additional levels of income (flat range) until reaching a specified income level, at which point the credit is gradually phased out (phase-out range). Because the EITC is targeted at lower-income households, it includes a phase-out as income levels rise. For 2015, the maximum federal credit for a single worker with no children is estimated to be $503 based on a 7.65-percent credit rate on earnings up to $6,580. The maximum credit for a family with three children is estimated to be $6,242 on a 45-percent credit rate on earnings up to $13,870.

Twenty-five states plus the District of Columbia currently have an EITC. The majority (21) provide a refundable credit—meaning that the credit is available as a payment to the taxpayer in the event that the tax liability is less than the credit amount. All states set their EITC as a percentage of the federal credit, and most states conform to the federal program in all other aspects such as eligibility requirements and income levels. California has never offered an EITC. In 2012, approximately 3.2 million Californians filed a federal tax return claiming this credit, for a participation rate of about 75 percent of those eligible.

Proposal Detail: The proposed state EITC is structured to complement the federal EITC and will provide a refundable tax credit for households with incomes less than $6,580 if there are no dependents or $13,870 if there are three or more dependents. The proposed state credit would match 85 percent of the federal credits up to half of the federal phase-in range and then begin to taper off relative to these maximum wage amounts. This targeted approach is designed allow a greater benefit per household, given the amount of available resources. The table below illustrates the interaction between the state and federal EITC and the total benefits estimated until the California EITC maximum is reached for two taxpayer classifications. Individuals earning more than the state credit maximums would continue to receive a federal EITC through the phase out range.

Proposed Earned Income tax Credit
Wage Income and Credit Amounts

	No Dependents				Three or More Dependents			
	Wage Income	Federal EITC	State EITC	Total EITC	Wage Income	Federal EITC	State EITC	Total EITC
Phase-In Range	$1,000	$77	$65	$142	$2,000	$900	$765	$1,665
	2,000	153	130	283	4,000	1,800	1,530	3,330
	3,000	230	195	425	6,000	2,700	2,295	4,995
Phase-Out Range	3,290	252	214	466	6,935	3,121	2,653	5,773
	4,500	344	135	480	10,000	4,500	1,480	5,980
	6,580	503	-	503	13,870	6,242	-	6,242

Legislative Analyst's Perspective: In its review, the LAO notes that while Governor's proposed state credit magnifies incentives to move from no work to part-time work; because the state credit has a relatively low earnings ceiling for eligibility, it would not increase incentives to move to full-time work, since a full-time worker in a minimum wage job would earn too much over a full year to qualify. However, the earnings level at which the proposed state credit completely phases out corresponds to the end of the phase-in range for the federal EITC. In this way, eligibility for the proposed state EITC would end at just the income at which the maximum federal EITC benefit is reached. LAO also notes several trade-offs in the Governor's approach including: targeting the benefit to very low income as opposed to a broader number of potential beneficiaries; reducing the potential for improper payments versus excluding earnings from self-employment; and, ensuring state fiscal flexibility (by yearly recalibration of the 85 percent) as opposed to more certainty for recipients.

Staff Comments: The federal EITC has long been regarded as an effective and efficient program to direct resources to low-income households while theoretically providing work incentives. State EITCs, including the one proposed by the Governor, may channel additional resources towards low-income families, but are likely to have only a marginal work incentive effect, due to the credit amount available. While the maximum credit under the Governor's proposal is around $2,600, DOF indicates that the mean credit is about $460. In discussions with staff, DOF indicated that the median—arguably a more suitable measure of central tendency of the credit—is "probably between $150 and $200." (The median is the midpoint at which 50 percent of households would receive more and 50 percent less than that amount.) The design of the state EITC dovetails with the design of the federal EITC, and should be measured against other alternative programs in terms of its impact on low–income households.

Questions:

Department of Finance / Franchise Tax Board

1. The EITC proposal is scored as a reduction in revenues, whereas most refundable credits require an appropriation. Can you reconcile these two aspects for purposes of the proposal?

2. How will the adjustment factor be determined? If the adjustment factor is reduced from the previous year in the annual budget act, would this constitute a tax increase?

3. Recognizing that the Administration indicates that there is no effect on the Proposition 98 guarantee in the budget year—since the implementation of the proposal would move the state from Test 2 to Test 3 (plus the supplemental payment)—are there circumstance win which Proposition 98 would be affected?

4. The mean amount of the credit is stated to be $460, but there has been an indication that the median credit—a more robust measure in a dispersed credit 'population'—is likely between $150 and $200. What impact is a credit of this magnitude likely to have as a work incentive?

Staff Recommendation: Hold open.

Vote:

Issue 2: Earned Income Tax Credit Implementation (May Revision)

May Revision Proposal: The Franchise Tax Board (FTB) would be responsible for administering the proposed EITC program. It requests $22.0 million (General Fund) and 98 position equivalents in 2015-16, and General Fund of $11.6 million and $10.1 million in 2016-17 and 2017-18 to implement the credit. This includes one-time contract funds ($12.9 million) to support system changes required to implement a refundable tax credit and a six-month delay associated with the Enterprise Data to Revenue project that is necessary to implement the EITC for the 2015 filing season. A total of 98 positions, including temporary help, and $22 million is needed in 2015-16, specifically: return processing (33 positions), tax payer advocacy/call center support (30 positions), fraud prevention (26 positions), and information technology/tax forms (9 positions) In addition, the budget proposes provisional language to specify the annual adjustment factor applied to the credit rate (85 percent for 2015) to allow the rate to be adjusted annually as part of the budget development process.

Background: General background regarding the EITC is provided in the Issue 1. Given the high levels of improper refund payments that have been experience by both the federal EITC and in other states, various options were considered to limit potential overpayments. First, the state EITC will generally follow the income levels and eligibility requirements of the federal EITC, but will be limited to wage income, excluding self-employment income. In addition, additional staff is proposed for the FTB to educate taxpayers and tax professionals, accelerate review of refund claims before issuance of payments, and modify the Enterprise Data to Revenue system to provide automated checks. These safeguards will prevent limited funds available for this program from being improperly paid to individuals.

Staff Recommendation: Hold open.

Vote:

Senate Budget and Fiscal Review— Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair

Senator Janet Nguyen
Senator Richard Pan

Wednesday, May 20, 2015
10:00 a.m.
Rose Ann Vuich Hearing Room (2040)

Consultant: Mark Ibele

May Revision and Open Issues
Agenda—Part A

Actions

Vote-Only Calendar

Approve all Vote-Only items 2-0.

Discussion / Vote Calendar

Approved May Revision 2-0.

Held Open.

Approved May Revision 2-0.

Adopted Placeholder Trailer Bill Language 2-0.

Held Open.

Held Open.

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Agenda Part B

Wednesday, May 20, 2015
10:00 AM
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

<u>Item Number and Title</u>

0650	Office of Planning and Research
0690	Office of Emergency Services
0840	State Controller's Office
0890	Secretary of State
1110/1111	Department of Consumer Affairs
2240	Department of Housing and Community Development
7502	Department of Technology
7760	Department of General Services
8260	California Arts Council
8940	California Military Department
8955	California Department of Veterans Affairs

(See Table of Contents on page 2 for a More Specific Listing of Issues)

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.

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS

Issues Proposed for Vote Only – Issue Descriptions

Office of Planning and Research

Issue 1 – Federal Grant Administration

Governor's May Revision Proposal: The Governor's May Revision includes a proposal to increase the Office of Planning and Research's (OPR) budget by $155,000 for fiscal year 2015-16.

Background: In March 2015, OPR signed a grant agreement with the Department of Defense (DOD), Office of Economic Adjustment, to support the Advanced Manufacturing Partnership of Southern California. The University of Southern California's Center for Economic Development is the lead sub-applicant for the program and will act as the manager of the local community planning and economic diversification efforts. The program is designed to provide aerospace and defense manufacturers with tools to become more competitive abroad.

Staff Comment: A Control Section 28.00 letter, which is a reporting requirement for the increase or decrease of federal funds, was submitted and approved for the current year. The current year increase totaled $77,369 in state operations, and $3.4 million in local assistance. Given the timing, it is most appropriate for the proposal to be considered through the budget process.

Staff Recommendation: Approve May Revision proposal.

Vote:

Issue 2 – Technical Adjustment Related to Affordable Housing and Sustainable Communities Program

Governor' May Revision Proposal: The Governor requests a technical adjustment to decrease the local assistance grant amount by $1.2 million such that both the state operations and local assistance funding taken together equal 20 percent of the Greenhouse Gas Reduction Fund (GGRF) proposed for expenditure for the Affordable Housing and Sustainable Communities (AHSC) program, as authorized by SB 862 (Committee on Budget and Fiscal Review), Chapter 36, Statues of 2014. This proposal includes provisional language to specify that the funds in this item shall count towards the share of annual proceeds continuously appropriated to the Strategic Growth Council.

Background: SB 862 requires SGC to develop and administer the AHSC program and beginning in 2015-16, continuously appropriates 20 percent of the annual proceeds of the GGRF to SGC for the program.

Staff Comment: The proposed change ensures that the total funds appropriated to OPR do not exceed the 20 percent specified in SB 862.

Staff Recommendation: Approve as proposed.

Vote:

Department of Consumer Affairs

Issue 1 – BreEZe Revised Costs

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for an augmentation of $1.195 million (special funds) to be provided to the Department of Consumer Affairs (DCA) Office of Information Services in order to fund the increased contract costs which were due to a two-month schedule delivery extension.

Background: For a number of reasons, the original scope and cost of the BreEZe project has been modified multiple times. The most recent revision was SPR 3.1, which increased the project cost to $96.1 million. According to SPR 3.1, the project was not moving in the timeframe that had been originally forecast, nor was it achieving the results that had been originally assumed. Due to the timing of the contract agreement, DCA was required to submit a notification to the Department of Finance (DOF), who submits a notification that they intend on approving the request to the Joint Legislative Budget Committee (JLBC) that DCA had entered into a contract that will either increase the cost by $5 million or twenty percent, whichever is less. SPR 3.1 proposed to increase project costs from the previously approved SPR 2 by $17.5 million, which clearly exceeded the notification threshold. Furthermore, the scope of the project was proposed to be reduced significantly; according to SPR 3.1, nineteen boards and bureaus originally planned to be a part of the BreEZe project are excluded from the implementation plan. In reviewing the request, the JLBC initially chose not to concur with the request for additional resources until further legislative review, in a more transparent setting, could occur. Following hearings of this subcommittee and a joint hearing of the Senate and Assembly Business and Professions Committee, the JLBC concurred with the DOF decision to approve SPR 3.1 primarily because no better option was available given the status of the project.

The JLBC letter duly noted that there might be some project delays due to not concurring with the request. Specifically, the running cost of the vendor ($1.3 million) and the costs associated with DCA staff that support the project ($400,000). In discussions with DCA, they stated that every effort would be made to reduce the cost to the greatest extent possible.

Staff Comment: The costs associated with this request will be applied to the boards and bureaus contained in Release 1 and Release 2, which is a reasonable approach. As noted in the JLBC letter, running costs of the vendor and costs associated with the DCA staff who support the project would need to be assumed due to necessary oversight that resulted in project delays.

Staff Recommendation: Approve May Revision proposal.

Department of Housing and Community Development

Issue 1 – Extension of Liquidation Period for BEGIN Program Funds

Governor's May Revision: Extend the liquidation period for appropriations from the Begin Equity and Growth in Neighborhoods (BEGIN) Program that have liquidation periods that expire June 30, 2015 or June 30, 2016 for two years. Provisional language is proposed to allow for this extension.

Background: The BEGIN program provides grants to cities and counties (grant recipients). The grant recipients then make deferred-payment, second mortgage loans to qualified buyers of new homes, in projects where the affordability has been enhanced by local regulatory incentives or barrier reductions. In certain cases, this can include mobile homes, provided they are on permanent foundations.

Staff Comment: The extension of the liquidation period for BEGIN funds would allow cities and counties additional time to use funds that have previously been awarded. There are nine active projects that have not fully liquidated their encumbrances. The loss of these funds would potentially result in the loss of some units of affordable housing.

Staff Recommendation: Adopt budget bill language to extend the liquidation period for the BEGIN program.

Vote:

Department of Technology

Issue 1 – Reestablishment of Two Vacant Positions

Governor's May Revision: The Governor's May Revision includes a request for a technical adjustment to reestablish to vacant positions that were inadvertently eliminated as part of the Governor's Budget. .

Background: Two positions that should have not been included on the vacant position report were inadvertently added, and subsequently deleted in error. The Department of Finance, in coordination with the Department of Technology, has requested that the 2.0 positions be reestablished.

Staff Comment: This request would only modify positional authority, not adjust the Department of Technology's budget.

Staff Recommendation: Approve May Revision proposal.

Vote:

Department of General Services

Issue 1 – Office of Public School Construction

Governor's May Revision: The Governor's May Revision includes a request for a technical adjustment to the Office of Public School Construction's (OPSC) budget that will align administrative resources with the expected workload for the School Facilities Program.

Background: As noted above, the requested reduction will align OPSC's resources with the expected workload. As available resources, which in this case are various bond funds, are exhausted, reductions to the program become necessary. The reductions to OPSC total $4.47 million and 37.0 personnel years.

Staff Comment: Staff does not have any concerns with this request.

Staff Recommendation: Approve May Revision proposal.

Vote:

California Military Department

Issue 1 – Increased Federal Trust Fund Authority

Background: On May 6, 2015, the Joint Legislative Budget Committee (JLBC) received two notifications for an increase in federal trust fund authority for the current fiscal year from the Military Department. Control Section 28.00, which governs the increase and decrease of federal funds, is a process that is typically utilized when an item could not be considered during the normal legislative budget process. The JLBC has notified the Department of Finance that the notifications would be rejected and, should be considered as part of Subcommittee No. 4's May revision hearing. The notifications totaled $9.85 million in increased federal trust fund authority. $3.0 million would be dedicated to maintenance and construction activities at Joint Forces Training Base, Los Alamitos, the San Bernardino Readiness Center, and the Ontario Armory. The remaining $6.85 million would be utilized to renovate buildings at the Sunburst Youth Challenge Academy, establish a third Youth Challenge program in Stockton, recruit, mentor and support minority mentors, and vocational education training programs.

Staff Comment: As noted in the JLBC response, the Administration had ample time to incorporate the requested federal trust fund authority into the legislative budget process. Staff has no concerns with the requested increase in federal trust fund authority.

Staff Recommendation: Approve increase in Military Department's federal trust fund authority by $9.85 million.

Vote:

California Department of Veterans Affairs

Issue 1 – Delays in Greater LA and Ventura County Veterans Home

Governor's May Revision Proposal: The Governor's May Revision includes a request for a one-time reduction of $10.415 million (General Fund) for fiscal year 2015-16.

Background: The requested reduction in resources is a reflection of the continued delayed opening of the skilled nursing facility located at Veterans Home of California (VHC) – West Los Angeles, and a proposed one year delay in the opening of the Community-Based Adult Services in VHC- Lancaster and VHC-Ventura. According to the California Department of Veterans Affairs (CDVA) the delayed opening of the skilled nursing facility at the VHC-West Los Angeles results in of $5.31 million, and the delayed opening of the Community-Based Adult Services in VHC-Lancaster and VHC-Ventura, will result in a reduction of $5.104 million, totaling $10.415 million.

Staff Comment: CDVA has noted that admissions to the West Los Angeles skilled nursing facility will begin in January 2016, and admissions to the community-based adult services will begin in July 2016.

Staff Recommendation: Approve May Revision proposal.

Vote:

Issues Proposed for Discussion / Vote

0650 OFFICE OF PLANNING AND RESEARCH

Issue 1 – Precision Medicine

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for trailer bill language that would make exclusions specifically for the purpose of developing and/or researching precision medicine.

Background: Most medical treatments have been designed for the "average patient." As a result of this "one-size-fits-all-approach," treatments can be very successful for some patients but not for others. This is changing with the emergence of precision medicine, an innovative approach to disease prevention and treatment that takes into account individual differences in people's genes, environments, and lifestyles. Precision medicine gives clinicians tools to better understand the complex mechanisms underlying a patient's health, disease, or condition, and to better predict which treatments will be most effective.

Advances in precision medicine have already led to powerful new discoveries and several new treatments that are tailored to specific characteristics of individuals, such as a person's genetic makeup, or the genetic profile of an individual's tumor. This is leading to a transformation in the way we can treat diseases, such as cancer. Patients with breast, lung, and colorectal cancers, as well as melanomas and leukemias, for instance, routinely undergo molecular testing as part of patient care, enabling physicians to select treatments that improve chances of survival and reduce exposure to adverse effects.

Staff Comment: The proposed trailer bill language would, until January 1, 2019, provide that an interagency agreement that is reached between the Office of Planning and Research and the University of California Regents or an auxiliary organization of the California State University, may include subcontracting that would otherwise be subject to limitation and bidding requirements that otherwise would have been a requirement in accordance with statute, specifically for the purpose of researching and/or developing precision medicine.

Staff Recommendation: Approve proposed trailer bill language.

Vote:

0690 OFFICE OF EMERGENCY SERVICES

Issue 1 – California Disaster Assistance Act

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for $22.2 million General Fund to support local jurisdictions utilizing the California Disaster Assistance Act (CDAA) program to respond and recover from the ongoing drought.

Background: The California Office of Emergency Services (OES) serves as the state agency responsible for coordination of disasters in support of local government. Additionally, OES is responsible for readiness efforts to respond and recover from natural and man-made disasters, and for assisting local governments in the emergency preparedness, response and recovery efforts. Given their similar roles, the state has tried to align OES functions as closely as possible to those of the Federal Emergency Management Agency (FEMA), which in the event of a federally-declared disaster, serves as the chief coordinating agency at the federal level. The alignment assists OES' efforts to serve as the "grantee" for federal disaster assistance, and serve as the central agency in the recovery process.

OES also has the authority to serve as the grantor of the CDAA program. The application process for the CDAA program requires that a local agency submit an application to OES within 60 days of the date of the local proclamation. Additionally, the applicant must have incurred a minimum aggregate total damage of $2,500 in order for costs to be eligible under CDAA.

The fiscal year 2014-15 budget provided the disaster assistance fund, which is the fund source for the CDAA, with approximately $39 million. The figure fluctuates, depending on the amount that local agencies are seeking for reimbursement each fiscal year. Essentially, the amount reflected in the budget represents work conducted by local agencies in prior years that are now seeking reimbursement. The disaster assistance fund is designed to provide eligible projects with a cost share of 25 percent. The state share for eligible projects may not exceed 75 percent, unless specified in statute. CDAA funding is not available to other state agencies and is only available to local (county and city) resources.

On January 17, 2014, Governor Brown proclaimed a drought state of emergency and, on September 19, 2014, proclaimed that the OES shall provide local government assistance as it deems appropriate for the purposes of providing temporary water supplies to households without water under the authority of the CDAA. Eligible costs include, but not limited to:

- Bottled and potable water for health and safety
- Public notification
- Desalination plants
- Above ground pipelines to convey water from one source to another
- Installation of facilities to chemically treat water from non-potable water sources
- Installation of piping and pumping salt water into the aquifer to prevent subsidence
- Deepening a well owned by a single applicant, which has run dry due to the drought
- Fund for extraordinary costs for the operation of local assistance centers
- Emergency operation centers extraordinary costs

Staff Comment: Staff does not have any concerns with this request.

Staff Recommendation: Approve May Revision proposal.

Vote:

Issue 2 – Drought Response Activities

Governor's Budget Request: The Governor's budget includes a request for $4.4 million General Fund to support OES efforts to provide local agencies with technical assistance and drought response and recovery related activities.

Background: In January 2014 OES activated its state and regional operations centers to assist local government agencies with local assistance centers. The state and regional operations offices facilitate assistance to local jurisdictions and local assistance centers that provide local communities with technical guidance and disaster recovery support. For example, in East Porterville, a community severely affected by the drought, OES helped coordinate the delivery of potable water for drinking and sanitation purposes.

OES has projected that the coordination efforts will require twenty-five staff working full-time to support OES drought response related activities. Many of the employees that work at OES are supported by federal funds, but the drought has not been declared a federal disaster. Therefore, the state is required to fund workload associated with drought response and recovery related activities at OES. In fiscal year 2013-14 the state provided OES with $1.8 million (General Fund) and the state provided OES with $4.4 million (General Fund) in fiscal year 2014-15.

Staff Comment: This item was originally heard on March 19th. At that time, the LAO had raised concerns that OES had not fully utilized the $4.4 million that was provided as part of the 2014-15 budget. Since then, OES, and the Department of Finance, have reassured subcommittee staff that they will likely spend down the remaining funds over the next few weeks on drought-related activities. Any unspent funds would revert to the General Fund.

Staff Recommendation: Approve as budgeted.

Vote:

0840 STATE CONTROLLER'S OFFICE

Issue 1 – 21st Century Project

Governor's Budget Request: The State Controller's Office (SCO) requests 8.0 one-year, limited-term positions and $12.544 million ($4.397 General Fund, $1.685 reimbursements, and $6.462 in special funds) in fiscal year 2015-16, to support on-going legal activities associated with the 21st Century Project (TFC). This request also includes trailer bill language that would extend the sunset date of the 21st Century Project until June 30, 2016.

Background: The SCO is responsible for disbursement of pay to the state's 275,000 employees. In 2004, the Department of Finance (DOF) approved the justification documents submitted by the SCO requesting an updated payroll system that would provide a greater level of integration known as the 21st Century Project. The SCO procured Commercial Off-the-Shelf (COTS) software in 2005 and intended on utilizing that COTS software to update the state's payroll system.

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

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

In June 2013, the SCO and SAP participated in contractual mediation. The mediation process did not provide an acceptable outcome and, on November 21, 2013, the SCO filed a lawsuit against SAP for breach of contract. According to SCO, the state has the potential to recoup 1.5 times the contract amount, or up to $150 million. Alternatively, SAP could be awarded $50 million. The Budget Act of 2014 provided the SCO with 5.0 positions and $6.529 million to support the legal efforts associated with the TFC.

Request Detail:
A more specific cost breakdown of the SCO's request for $12.544 million to support ongoing legal costs is provided below.

- $1.123 million for 8.0 one-year positions (5.0 continuing and 3.0 new). These positions will be responsible for pertinent document retrieval, developing a project history and timeline, and maintenance of the MyCalPays system in support of the legal team.

- $996,000 for the project management advisory contract. SCO has contracted with Flagship Advisors to provide two advisors who provide assistance with business processes, integration, coordination, configuration, customization, testing, training, installation, data conversion, and work force transition.

- $7.3 million for legal counsel to defend the state against claims made by SAP. This request may only reflect a portion of total legal costs, as there is provisional language in the budget and a budget control section that provide for additional funding for legal costs, if necessary.

- $1.075 million for costs associated with leasing a facility, of which $928,000 will be reimbursed to the SCO through sub-leasing to accommodate project staff and house documents related to the lawsuit.

- $2.05 million for software contracts and data center services that support the environment which are needed to support the lawsuit filed against SAP.

Proposed Trailer Bill Language - Government Code §12432 authorized the State Controller, beginning in FY 2006-07, to assess special funds within the state treasury for costs attributable to the replacement of the state payroll disbursement system, also known as the 21st Century Project. This code section also notes that costs assessed to the 21st Century Project will be evenly split between the General Fund and special funds within the state treasury.

This section was set to expire on June 30, 2011; however, AB 119 (Blumenfield), Chapter 31, Statutes of 2011, extended the original sunset date by three calendar years, moving it to June 30, 2014. The requested trailer bill language would once again extend the sunset date by one additional calendar year, until June 30, 2016.

Staff Comment: This item was originally heard by this subcommittee on April 16th. At that time, a request for an analysis to better understand the overall costs associated litigation was requested; the SCO has provided details related to that request. The information is provided below:

21st Century Project Litigation Costs

	Fiscal Year	Outside Legal Counsel	SCO Costs	Total
Actuals	2012-13	$1,470,000	$690,000	$2,160,000
Actuals	2013-14	$4,930,000	$1,217,000	$6,147,000
Projection	*2014-15*	*$10,750,000*	*$4,029,000*	*$14,779,000*
Projection	*2015-16*	*$7,600,000*	*$5,244,000*	*$12,844,000*
Projection	*2016-17*	*$762,000*	*TBD*	*$762,000*
Total		**$25,512,000**	**$11,180,000**	**$36,692,000**

As noted above, the proposed trailer bill will sunset on June 30, 2016. This proposal will continue to provide the Legislature with the opportunity for continued oversight of the 21st Century Project legal costs, and provide the Legislature an opportunity to make an assessment on the continued funding of the litigation costs on an annual basis. Approval for fiscal year 2015-16 should not be interpreted to mean that legal costs will be funded on an annual basis beyond fiscal year 2015-16

Staff Recommendation: Approve as budgeted, adopt proposed trailer bill.

Issue 2 – California Automated Travel Expense Reimbursement System (CalATERS) Replacement Study

Governor's May Revision Proposal: The Governor's May Revision includes a request for $492,000 ($199,000 General Fund, $150,000 Central Cost Recovery Fund, and $143,000 Reimbursements) and 3.0 positions for fiscal year 2015-16 to identify alternatives to the California Automated Travel Expense Reimbursement System (Cal ATERS), which will need to be replaced due to a lack of vendor support.

Background: The State Controller's Office (SCO) personnel and payroll services division is responsible for the operation and maintenance of the CalATERS, which allows state employees to electronically submit claims, and for those claims to follow an automated review, approval, and payment process. SCO has been utilizing Cal ATERS, which was designed by International Business Machines (IBM), for claims processing since 2000. To date, there are 93 agencies, with 138,893 individual customers, that utilize the CalATERS platform. In May 2014, IBM notified the SCO that it will discontinue support for the CalATERS platform, effective March 31, 2016, which coincides with the completion of the current contract. IBM has informed SCO that they could provide the state with an alternative solution, but that solution would come at an increased cost to the state. To address this, the SCO has identified the following four options:

- Replace the current system. The SCO has released an RFI to survey the information technology vendor community.

- Allow current vendor to create a duplicate of the current system at a cost 650 percent higher than the current contract. The state currently pays IBM $83,000 per year for maintenance costs, under this proposal the state would be required to pay IBM $572,000 for its current level of services.

- Outsource travel expense reimbursement to a third-party vendor.

- Discontinue services and revert to the pre-2000 process of utilizing a paper-centric reimbursement filing process.

Of the requested $492,000, $349,000 in General Fund/Central Service Cost Recovery Fund will fund 3.0 additional staff that will be responsible for the research and alternative analysis portion of this request. The remaining $143,000 in reimbursement will be utilized to maintain the current system. The additional $143,000 in reimbursement authority to maintain the system from April 1, 2016 to June 30, 2016 will result in an increase in the transaction fee from $4.00 to $4.31 for client departments.

Staff Comment: Given the limited alternatives that are currently available it would be appropriate to approve the requested resources in order for the SCO to better understand the capacity of the information technology vendor community's capacity to provide an alternative at a more reasonable rate.

Staff Recommendation: Approve May revision proposal.

Issue 3 – Unclaimed Property

Governor's May Revision Proposal: The Governor's May Revision includes a request for 4.0 permanent positions, and $581,000 (Unclaimed Property Fund) in fiscal year 2015-16 and $857,000 (Unclaimed Property Fund) in 2016-17 and ongoing, to enhance the State Controller's Office (SCO) online unclaimed property claim process.

Background: The SCO is responsible for the administration of the state's unclaimed property program, which is designed to reunite lost and/or abandoned property with its rightful owner. In accordance with the Unclaimed Property Law, banks, corporations, businesses financial institutions, and insurance companies (referred to as holders), are to transfer property considered abandoned by owners. When there has been no activity on an account for a specified period, usually three years, the holder is required by law to remit the property to the SCO. The Governor's budget proposed $39.2 million (Unclaimed Property Fund) for the administration of the SCO's unclaimed property program. The unclaimed property program has 273 permanent staff supporting a variety of functions that support the state's efforts to reunite property with its rightful owner. The SCO estimates that the state currently has over $7.6 billion of unclaimed property available to be claimed in accordance with the state's unclaimed property laws.

In January 2014, the SCO launched the eClaim filing system, which allows for an owner of unclaimed property to file electronically. To date, the system has resulted in an 85 percent increase in the number of properties returned to owners, with an estimated value of $10.6 million more than the prior year's return of unclaimed property. Due to the success of the program, the SCO raised the eClaim dollar threshold from $500 to $1,000. The requested resources will allow for the SCO increase the claimable threshold to $3,000 to further reduce the number of paper claims that would need to be processed. Additionally, the SCO has requested resources for 4.0 positions to perform online reviews of 85,000 claims that have been filed electronically that have the potential to be approved through the eClaim process. The SCO estimates that the back-end review is expected to reunite 38,000 pieces of property with their owner and will result in an additional $3.0 to $5.2 million returned to property owners.

LAO Comment: Earlier this year, the LAO reviewed the SCO's unclaimed property program and recommended, among other things, that the state place a greater emphasis on reuniting property with its rightful owner. One mechanism suggested by the LAO was to increase the eClaim claimable threshold. Additionally, the LAO noted that the burden placed on the rightful property owner is often onerous. Requiring additional documentation at the outset of the process may prove to be too time consuming, causing some property owners to abandon the process. The SCO's May Revision proposal is in response to that concern.

Staff Recommendation: Approve May revision proposal.

Vote:

Issue 4 – Other Postemployment Benefits (OPEB

Governor's May Revision Proposal: The Governor's May Revision includes a request to modify budget bill language in order to clarify the process related to the accounting and reporting standards for OPEB.

Background: The SCO has requested that Provision 7 of Item 0840-001-0001 be amended for clarification in reporting and accounting standards for OPEB. The proposed amendment is below:

> *"7. The <u>Controller shall obtain actuarial valuation services to comply with governmental accounting and reporting standards for other postemployment benefits (OPEB).</u> Controller's estimate of the state's liability and trust assets for other postemployment benefits prepared to comply with all Governmental Accounting Standards Board (GASB) reporting standards for other postemployment benefits, shall include, in<u>In</u> addition to all other items required under the accounting <u>and reporting standards, the report shall include</u> statements: (a) an identification and explanation of any significant differences in actuarial assumptions or methodology from any relevant similar types of assumptions or methodology used by the Public Employees' Retirement System to estimate state pension obligations, <u>and</u> (b) alternative calculations of the state's <u>OPEB</u> liability for other postemployment benefits using different long-term rates of investment return consistent with a hypothetical assumption that the state will begin to deposit 100 percent or a lesser percent, respectively, of its annual required contribution under GASB <u>governmental</u> reporting standards to a retiree health and dental benefits trust fund<u>.</u> and, (c) breakouts of the actuarial data including but not limited to liability and trust assets, unfunded liability, normal costs, implicit subsidy costs, and annual required contributions attributable to each of the state's collective bargaining units. <u>To avoid duplication of effort and promote efficiency and cost effectiveness, the Controller and the Department of Finance will coordinate in obtaining additional actuarial valuation services related to OPEB plan liabilities and assets attributable to each of the state's collective bargaining units or other state entities or groups.</u> This provision shall not obligate the state to change the practice of funding health and dental benefits for annuitants currently required under state law."*

Staff Comment: Staff does not have any issues with this proposal.

Staff Recommendation: Approve May revision proposal.

Vote:

0890 SECRETARY OF STATE

Issue 1 – Online Motor Voter Registration System

Governor's May Revision Proposal: The Governor's May Revision includes a proposal for $2.35 million (General Fund) to provide the Secretary of State (SOS), in coordination with the Department of Motor Vehicles (DMV) one-time funding to enhance the Online Motor Voter Registration System. Additionally, this proposal includes a request to require the SOS to reimburse the DMV in the amount of $1.25 for expenses related to the driver/identification card system upgrades in fiscal year 2015-16.

Background: The National Voter Registration Act (NVRA) requires that registering to vote be a simultaneous part of applying for or renewing a driver license. The Secretary of State (SOS) and Department of Motor Vehicles (DMV) can improve California's compliance with the NVRA by streamlining the process through the enhancement of existing systems and the scheduled refresh of equipment. This request will fund upgrades to SOS and DMV voter registration systems that electronically transmit voter registration information, captured on driver license/identification card applications, from the DMV to the SOS.

DMV field office equipment will be upgraded to allow the signature capture tablet connected to the camera station to prompt in-person applicants to provide voter-specific information. The current driver license/identification card (DL/ID) contract is in need of a refresh to both software/hardware. As part of the refresh, the signature capture tablets can be replaced with a larger tablet that will better enable applicants to provide voter registration-specific responses. Upon completion of the driver license signature and photo, the information will be processed and sent electronically to the SOS.

Additionally, this proposal will modify DMV's online driver license renewal process by using an SOS-provided application that will pre-populate DMV-related information to an online voter registration form. By enhancing the online driver license renewal process, applicants will be able to complete their driver license renewal and subsequently register to vote. The information that will be pre-populated will assist applicants in completing the voter registration process. Once the voter registration process is complete, the information will be submitted electronically to the SOS.

Staff Comment: The Secretary of State anticipates this project to be complete by June 30, 2016.

Staff Recommendation: Approve May revision proposal.

Vote:

1110/1111– DEPARTMENT OF CONSUMER AFFAIRS

Issue 1 – BreEZE

Spring Finance Letter: The Department of Consumer Affairs (DCA) has submitted a spring finance letter requesting $23.248 million (Special Funds) in fiscal year 2015-16, and $24.433 million (Special Funds) in fiscal year 2016-17, to support the continued implementation of the BreEZe information technology project. DCA has also requested an increase of 29.8 personnel years (PY's) for fiscal year 2015-16, and 34 PY's for fiscal year 2016-17, and ongoing.

Background: DCA is comprised of 37 regulatory boards, bureaus, committees, commissions, and programs, all of which regulate more than 100 businesses and 200 industries and professions. While these entities are responsible for the day-to-day regulatory activities related to their specific professions and do have some autonomy, DCA is responsible for establishing general administrative policies and provides administrative support, when needed. The DCA-regulated use of computer systems to conduct their day-to-day regulatory functions has created a large network of legacy computer systems, under the DCA umbrella, that aren't compatible with one another, and lacked some basic case management functionality that could assist staff with licensing and enforcement efforts.

Historically, the regulatory entities housed under DCA have utilized either one, or both, of the Applicant Tracking System (ATS) and Consumer Affairs System (CAS) to perform many of the day-to-day duties that they are required to perform. The ATS was created to track and monitor cashiering-related activities and accept license applications. The ATS was originally developed in the early 1990's, and has not been upgraded for over a decade. The CAS was designed to track license-related activities, such as complaints, investigations, and enforcement. According to the November 2009 Feasibility Study Report (FSR) the legacy computer systems have led to excessive turnaround times for licensing and enforcement-related activities, which is one of the primary objectives of the regulatory entities housed within DCA.

Modernization of the licensing and enforcement process had been attempted on a number of occasions prior to the BreEZe project; most recently with iLicensing, which was abandoned in 2009. DCA's interest in revisiting the concept of automating its licensing process can be attributed to the Consumer Protection Enforcement Initiative (CPEI), which DCA noted would enhance the enforcement capacity of the DCA's healing arts boards. In 2008, a series of investigations conducted by the Los Angeles Times found that the Board of Registered Nursing had been allowing nurses to continue to practice even though there were pending enforcement related activities, and that the enforcement backlog had grown to over three years. DCA responded by proposing the CPEI, which would overhaul the enforcement process. This new enforcement initiative was largely dependent on the implementation of BreEZe into the healing arts boards, and DCA has noted that the targeted turnaround time for enforcement related activities would be reduced from over three years, as noted by the investigation, to eighteen months.

The November 2009 Feasibility Study Report (FSR) proposed not just to transition the healing arts boards, but all 37 boards and bureaus, to the BreEZe platform. According to the FSR, the 37 boards and bureaus were scheduled for transition to BreEZe over five phases, which would be completed by fiscal year 2014-15. The FSR noted that DCA chose a modifiable commercial off-the-shelf (COTS) system that was to provide DCA organizations with applicant tracking, monitoring, licensing, enforcement, renewal, cashiering, and data management capabilities.

DCA envisioned the BreEZe system to be web-enabled, which would allow the public to file complaints and review licensee information through the Internet. The 2009 FSR projected that the BreEZe project would cost approximately $27.5 million. The procurement model proposed in the FSR included a two-stage procurement process to award up to $250,000 to multiple bid winners, which elongated the procurement timeline. Affording the vendors to familiarize themselves with the business processes of the DCA boards and bureaus by working alongside their state counterparts. The second stage would have involved the submission of final proposals that might more accurately reflect the business needs of DCA's boards and bureaus, followed by selection of a single vendor to complete the implementation of BreEZe.

After consulting with the (then) Technology Agency and the Department of General Services (DGS), DCA chose a slightly different procurement approach than what was proposed in the FSR. The modified approach eliminated the first stage of the bid process, and instead relied on "working sessions" to inform the selected vendor or vendor candidates on the business requirements of the DCA entities. Through this process, DCA selected Accenture as the vendor for BreEZe implementation, and submitted a Special Project Report (SPR) that reflected the costs associated with the selected bid. According to SPR 1, which was submitted June 22, 2011, costs for the BreEZe project had grown to $45.8 million, an $18 million increase. Additionally, according to SPR 1, DCA chose to accept the vendor's proposed timeline, which reduced the schedule to three releases, rather than the five that had been a part of the November 2009 FSR.

In July 2013, DCA submitted SPR 2, which increased the overall project cost to $77.9 million. The need for an amended project report was due to the system testing taking much longer than originally anticipated. According to SPR 1, system testing was anticipated to take approximately 30 business days, but instead took 138 business days initially. SPR 2 realigned the schedule to allow for a greater level of testing, which in turn increased the project's timeline by approximately two years, and increased cost by $50.4 million from the November 2009 FSR.

DCA was required to further adjust the cost and scope of the BreEZe project, first proposing SPR 3, which increased the cost by $118 million, and further revised the approach under SPR 3.1, which increased the project cost by $96.1 million. According to SPR 3.1, the project was not moving in the timeframe that had been originally forecast, nor was it achieving the results that had been originally assumed. In SPR 3.1, project staff proposed re-scoping the project due to significant cost increases and staffing needs. The revised SPR proposed Release Two, which consists of eight boards and bureaus, for March 2016. Nineteen regulatory entities, to be included in Release Three, will now be excluded from the current design contract. DCA has noted that after implementation of Release Two, it will reassess how best to approach the remaining nineteen entities no longer a part of the BreEZe system.

LAO Recommendation: Earlier this year, the LAO provided the Legislature with a recommendation on the spring finance letter. Specifically, the LAO recommended modifying the Governor's proposal to (1) approve the requested maintenance positions on a two-year limited term rather than permanent basis and (2) allocate the costs of the proposed maintenance positions as well as consulting and professional services, so they are not borne by Release 3 entities.

- The LAO has recommended two-year limited term positions because they found that it is likely that the level of workload will decrease over time. Maintenance demands should decrease as the number of BreEZe defects decline and maintenance activities can be focused on more ongoing routine maintenance activities. The LAO notes that limited-term positions are appropriate because there is likely to be a lower level of ongoing workload.

- The LAO has also recommended modifying the proposal to reallocate the proposed costs for the requested maintenance positions as well as consulting and professional services to the Release 1 and 2 entities that will benefit from these activities. They estimate that this will shift approximately $3.2 million in costs from Release 3 entities to Release 1 and 2 entities.

Staff Comment: This request includes a significant increase in permanent positions, totaling 34.0 by fiscal year 2016-17. DCA has noted that the requested positions will support the ongoing maintenance and operations associated with the regulatory entities included in Release One and Release Two, work that is currently being performed by 10.0 vendor staff. Staff does not concur with DCA that the entire workload associated with this request, will be ongoing. Furthermore, costs associated with the requested 34.0 positions will be distributed to every entity housed under DCA, including the nineteen regulatory entities that were intended to be included in Release Three and are now excluded from inclusion in the BreEZe project. To that end, staff would recommend slightly modifying LAO's recommendation to allow for the funding associated with the positions to be available for a limited-term rather than providing two-year limited-term positions. However, due to administrative limitations, DCA does not have the authority to create the positions, unless the authority is specified in statute or budget bill language. Staff would recommend adopting the following budget bill language to accommodate this proposal:

Add items 1110-405 and 1111-404

> *"For the release 1 and 2 boards (1110) and bureaus (1111) that were provided with an augmentation for BreEZe-related costs in the Budget Act of 2015, the Department of Consumer Affairs may administratively establish up to 34.0 positions to address maintenance demands stemming from the continued implementation of the BreEZe project. The 34.0 positions shall expire on June 30, 2017."*

Staff Recommendation: Approve spring finance letter with modified budget bill language that will distribute costs only to boards and bureaus that were a part of release 1 and release 2. Limit funding for requested positions to two years.

Vote:

Issue 2 – Controlled Substance Utilization Review and Evaluation System (CURES) Ongoing Funding

May Revision Proposal: The Governor's May Revision includes a proposal to provide the Department of Consumer Affairs (DCA) with a $1.112 million (Controlled Substance Utilization Review and Evaluation System Fund) appropriation for fiscal year 2015-16, and ongoing. The appropriation will be utilized to reimburse the Department of Justice (DOJ) for the ongoing maintenance and operation of the new CURES platform.

Background: DCA has contracted with DOJ on behalf of the Medical Board of California, the Dental Board of California, the California State Board of Pharmacy, the Veterinary Medical Board, the Board of Registered Nursing, the Physician Assistant Board, the Osteopathic Medical Board of California, the State Board of Optometry, the California Board of Podiatric Medicine, and the Naturopathic Medicine Committee to upgrade and maintain CURES for the purpose of regulating licensees.

The 2013 Budget Act appropriated a total of $3.941 million from the ten special funds that support the healing arts boards noted above. The funds were used to reimburse DOF for upgrades to CURES over two years. The upgrades allowed for integration with major health information systems to maximize physician and pharmacist participation, provided timely patient activity reports to prescribers and dispensers, and provided law enforcement agencies and DOJ with reporting and crime analytics.

SB 809 (DeSaulnier), Chapter 400, Statutes of 2013 created the CURES fund, with DCA acting as the administrator of the fund. Effective April 1, 2014, a fee of $6.00 has been assessed on each renewed licensee that has the capacity to prescribe or dispense controlled substances within DCA's healing arts boards and bureaus. DOJ has estimated that total costs associated with the maintenance of the upgraded CURES platform will not exceed $1.112 million. The requested appropriation against the CURES fund will facilitate the reimbursement.

Staff Comment: This proposal includes budget bill language that specifies the funding only be made available upon the Department of Technology's (CalTech) approval of DOJ's maintenance and operations plan. Staff does not have any issues with this proposal.

Staff Recommendation: Approve May Revision proposal, adopt provisional budget bill language that would specify the funding only be made available upon the Department of Technology's approval of DOJ's maintenance and operations plan.

Vote:

Issue 3 – Bureau for Private Postsecondary Education (BPPE)

May Revision Proposal: The Governor's May revision includes a proposal for a $1.03 million (Private Postsecondary Administration Fund) in fiscal year 2015-16 and $903,000 (Private Postsecondary Administration Fund) in fiscal year 2016-17 and ongoing to fund 10.0 permanent positions with the Bureau of Private Postsecondary Education (bureau) The bureau has requested that 17.0 existing three-year limited-term positions be converted to permanent status, which requires $628,000 in fiscal year 2016-17, and $1.845 million in 2017-18, and ongoing. Additionally, the bureau has requested provisional budget bill language that would provide the bureau with $1.0 million in 2015-16, $1.5 million in 2016-17, and $1.0 in 2017-18 to increase the bureau's overtime and temporary help blanket expenditure authority.

Background: AB 48 (Portantino), Chapter 310, Statutes of 2009, requires the bureau to provide oversight and regulation of California's private postsecondary educational institutions. This includes licensing institutions, conducting compliance inspections, and investigating and acting upon complaints received against private postsecondary educational institutions. Currently, the bureau regulates approximately 1,200 main locations, 300 branch locations, and 379 satellite locations.

In March 2014, an audit, conducted by the California State Auditor, found that there were significant backlogs of institution license applications and student complaints. Additionally, the audit found that the bureau had not been adequately inspecting institutions or enforcing compliance. As a result of the audit, the bureau hired a public human resources consulting firm to perform a baseline workload staffing assessment and to examine the bureau's current workflow process. The report was provided to the Legislature on March 13, 2015, and the requested resources reflect many of the recommendations provided in the report. The report provided extensive workload detail and data to justify providing additional resources to meet the bureau's statutory requirements. The bureau is currently required to report its licensing and enforcement statistics to the Department of Consumer Affairs on an annual basis, which allows the bureau to gauge effectiveness of the positions being requested.

Staff Comment: This subcommittee heard a request from the bureau on March 12th. At that hearing the subcommittee adopted a proposal to provide the bureau with resources for 10.0 permanent positions and 5.0 two-year limited-term positions, which reflected additional workload created by SB 1247 (Lieu), Chapter 840, Statutes of 2014. Staff has no issues with this request.

Staff Recommendation: Approve May Revision proposal.

Vote:

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1- Drought Relief—Relocation Assistance

Governor's May Revision Proposal: The Governor requests $6 million General Fund to work with impacted counties to provide assistance to households faced with uninhabitable housing caused by the state's persistent drought. Of this amount, HCD estimates that $2.1 million will be used for state staff and/or contractors and $3.8 million in local assistance to fund individuals moving costs and rental assistance. Trailer bill language and budget bill language are proposed to implement the program.

Background and Detail: The current drought is having a significant impact on the state's water supply and some households not served by a public water system face water shortages. For example, as reported by the Fresno Bee on March 10, 2015, an estimated 6,000 to 7,000 people live in East Porterville (Tulare County), a largely low-income rural residential area where an estimated 600 wells have gone dry. Furthermore, based on information from the Office of Planning and Research, as of mid-January 2015, there were an estimated 1,760 household water shortages in 36 counties. The majority of those households were in Tulare County. According to HCD, water tanks are being funded and connected to some of these homes so that people can remain in their homes. However, it is anticipated that this solution will not address the needs of all those impacted, especially renters living in single family homes or other housing situations.

This proposal is based on an initial estimate of 500 households being relocated. The funding requested for the proposal is based on covering the cost of a household's first and last month's rent and providing rental assistance because new rents may be greater than the previous cost of housing.

The trailer bill language (TBL) being proposed would establish the program and minimum eligibility requirements, and sunset the program by June 30, 2017. In addition, the TBL would allow families impacted by the drought that are rendered homeless, or at risk of becoming homeless, to rent from the Office of Migrant Services centers. In addition, provisional language would allow for the transfer of funds to administer this program.

There are numerous uncertainties about the drought situation and what housing options are available to those who are in relatively poor areas of the state that are being the hardest hit by the drought. As a result, this proposal provides flexibility to enable HCD to use the mix of state staff and contractors that might best address this problem. Actual costs will vary based on demand, the individual needs of households, rent costs of available housing, and the degree to which contractors are used to administer the program.

Staff Comments: This proposal may help to address the short-term housing needing of families that are being critically affected by the drought. However, staff is concerned about the lack of detail regarding how the program will be administered. It is uncertain exactly how this program will be designed to ensure that it meets the needs of these households and that funds are used as intended. Requiring HCD to develop program guidelines and submit them to the Legislature for review prior to the local assistance funds being available for expenditure would help to ensure program success.

Staff Questions for HCD:

1. It seems like the demand for this program may greatly exceed the available funding, what is the Administration's strategy for ensuring that those households most in need of this critical funding receive it?

2. Why are families in rental housing most likely to be in need of this type of financial assistance? Who would receive the financial assistance—the family or the owner of the new housing? How would the state ensure that these funds are spent by individuals on their housing needs?

3. Do all of the minimum requirements in the proposed trailer bill language have to be met for someone to receive relocation assistance?

4. The proposed administrative costs are high relative to other programs—35 percent compared to 10 percent—please explain why the administrative costs are expected to be so high.

Staff Recommendation: Approved as proposed and adopt provisional language that requires the submission of program guidelines to the Joint Legislative Budget Committee prior to the $3.8 million in local assistance funding being available for expenditure.

Vote:

7760 – DEPARTMENT OF GENERAL SERVICES

Issue 1 – Water Conservation at Statewide Facilities

Governor's May Revision Proposal: The Governor's May Revision includes a proposal to provide the Department of General Services (DGS) with a one-time $10 million (General Fund) augmentation in order to provide grants for water conservation projects at state-owned facilities.

Background: The Budget Act of 2014 provided DGS with $5.4 million in expenditure authority from the Service Revolving Fund to perform water conservation projects in state buildings that are managed by DGS. The rental rate charged to building tenants increased by $0.05 per square foot; a similar proposal will be considered as part of the Governor's May Revision for fiscal year 2015-16. However, DGS only manages a portion of the state's facilities. DGS, the Government Operations Agency, and the Office of Planning and Research will create a competitive grant program to distribute the requested resources. Examples of projects that would be considered include replacing or modifying toilets, faucets, and kitchen equipment with new water saving devices, removing grass lawns and replacing with artificial turf, installing weather-based irrigation controllers, and fixing leaking pipes or equipment. Given the compressed timeframe – DGS anticipates completing by June 2016 – projects would likely have to be shovel-ready in order to be considered.

Staff Comment: Staff concurs with the Administration that all of the state's facilities, not just those managed by DGS, should be performing water conservation projects during the state's severe drought. However, staff would note that the Capitol and its grounds, with nearly

1,000,000 visitors on an annual basis, has not been highlighted as a likely candidate for water conservation projects. Staff would recommend that the top priority should be to ensure that the capitol grounds can be modified to a drought-tolerant landscape rather than simply discontinuing to water the north, west, and south lawns, which is the current practice. Given the high level of foot traffic on the capitol grounds, staff is concerned that the state may be missing out on the opportunity to showcase a drought-tolerant landscape to many of the state's residents. This subcommittee may wish to seek a commitment from DGS that additional steps will be taken to ensure that a drought-tolerant landscape will considered amongst the many other projects that DGS will be considering.

Staff Recommendation: Approve May revision. Request that DGS coordinate with Capitol grounds staff to incorporate a drought-tolerant landscape into the project portfolio.

Vote:

Issue 2 – Water Conservation/Drought Response

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

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

Staff Comment: Staff has no concerns with this request.

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

Vote:

Issue 3 – State Property Inventory

Governor's Budget Request: The Governor's budget includes proposed trailer bill language, to require agricultural district associations to report their real property information to the Department of General Services.

Background: Within DGS, the Real Estate Services Division is responsible for managing statewide real estate functions for the state. The Real Estate Services Division is comprised of five branches: Asset Management, Business Operations, Policy and Planning, Building and Property Management, Professional Services, and Project Management. The Asset Management branch often serves as the first point of contact for agencies or departments seeking new services. One of the primary functions of the Asset Management branch is to assess proposed projects and determine whether or not they are consistent with regional facility plans. Additionally, the branch is responsible for making tenant/property improvements to underutilized state-owned properties.

In accordance with statute, state agencies, departments, boards and commissions, are required to submit their property holdings to DGS on an annual basis. The Surplus Property Inventory (SPI) serves as the state's main record keeping system for tracking statewide surplus assets. The SPI contains information related to the state's real property assets, including land, structures, improvements and leased space, as well as state-owned leased space to other tenants.

AB 2490 (Eggman), Chapter 342, Statutes of 2014, realigned certain responsibilities associated with district agricultural associations. Including the requirement that district agricultural associations annually report property holdings to DGS. The requested language would reinsert the requirement that agricultural associations report their land holdings to DGS.

Staff Comment: This issue was first heard by this subcommittee on March 19th. At that time, the subcommittee learned that, after the Legislature has deemed certain property surplus, the Legislature plays a limited role in the disposition of surplus property. A prime example of this is the Lanterman Developmental Center land transfer, which is also being discussed by Subcommittee No. 3 and Subcommittee No. 2.

In Subcommittee No. 3, staff has learned that the Lanterman Developmental Center (LDC), which is comprised of over 300 acres, located its last resident back to the community in December 2014. Subsequent to its closure, the Administration has proposed transferring the LDC property to the California State University (CSU) system on July 1, 2015. Subcommittee No. 3 held this item open the first time it was heard on May 7th, and have since recommended that Subcommittee No. 4 adopt trailer bill language that would require a minimum of 20 percent of any housing developed by the CSU or one of its affiliates, auxiliaries, or other party through transfer, lease or sale, shall be available and affordable to individuals with developmental disabilities served by a regional center pursuant to WIC 4500 et al. The requirement stems from a report issued by the state Health and Human Services Agency, which included a recommendation that the state *"should enter into public/private partnerships to provide integrated community services on existing State lands, where appropriate."*

As noted earlier, Subcommittee No. 2 has considered a proposal related to the closure of LDC as well. Subcommittee No. 2 rejected the Administration's proposal to consolidate the Air Resources Board (ARB) motor vehicle and engine emission testing and research facility. Subcommittee No. 2 found the proposal to be lacking in alternatives, and raised concern with the determination process utilized by the Department of Finance (DOF) and DGS. Staff understands that revisions have been made that will place a greater emphasis on programmatic efficiencies, but the bigger picture is that the state is now in possession of a large parcel of land that could serve to benefit a number of programs within the state, and, the Legislature, which provides direct representation to the affected communities, has had little to no input.

Under current statute, how this space will be utilized is a decision that will be made by the Administration. As noted earlier, members of the Legislature, who directly represent the communities where these large state-owned property dispositions occur, have few mechanisms to provide input. To address this, staff would recommend adopting placeholder trailer bill language that will provide for greater legislative input on parcels that exceed a certain size or value. As evidenced above, Subcommittee No. 3 identified a recommendation that would provide significant public benefit, but may not have been incorporated into the Administration's land use plan.

Staff Recommendation: Approve proposed trailer bill language with modifications to address the suggestion raised by Subcommittee No. 3 that would require a minimum of 20 percent of any housing developed by the CSU or one of its affiliates, auxiliaries, or other party through transfer, lease or sale, shall be available and affordable to individuals with developmental disabilities served by a regional center pursuant to WIC 4500 et al, and incorporate language that would provide the Legislature with greater input on parcels that exceed a certain size or value.

Vote:

8260 – CALIFORNIA ARTS COUNCIL

Issue 1 – Increased funding for local assistance

Governor's Budget Request: The Governor's May Revision includes a proposal to provide the California Arts Council (CAC) with a General Fund augmentation totaling $5.0 million in fiscal year 2015-16, and ongoing.

Background: In 1975, the California Arts Council was created and signed into law by Governor Jerry Brown. The largest General Fund allocation included in the California Arts Commission's budget occurred in 2000-01, at a level of $32 million. During the fiscal crisis of 2003-04, the California Arts Council lost 94 percent of its funding, which resulted in cuts to arts council programs and staff. Over the past decade, the General Fund allocation to the Arts Council has hovered at about $1 million.

In 2003-04 the California Arts Council's core programs were eliminated and a limited number of grants were targeted to select organizations serving K-12 school children, seniors, at-risk youth, multicultural communities and local arts agencies. Since then, the California Arts Council has re-established several of its core efforts including support for local art agencies (State-Local Partnership) and Artists in Schools, and has designed other programs to serve rural and inner city communities, and statewide service networks. These grant-making efforts are supported with revenues from the Sale of the Arts License Plate and Federal funds received from the National Endowment for the Arts.

On July 15, 2013, the CAC received $2 million in savings from the State Assembly operating budget. With the one-time support, the Council was able to fund 34 grant projects and two major arts education initiatives, reaching 43 counties across California.

On June 20, 2014, the Governor signed a state budget that includes a one-time $5 million increase in General Fund support for the California Arts Council. This is the first time in over ten years the arts have seen an increase of General Fund support, after the support for the Council was cut by 94 percent in 2003.

Staff Comment: Staff has no concerns with this request. The subcommittee may want to consider appropriating additional funds to support the Arts Council. Staff would recommend appropriating an additional $5 million in General Fund to support the Arts Council.

Staff Recommendation: Adopt May Revision proposal. Appropriate, on additional $5 million, ongoing, to the Arts Council.

Vote:

8940– CALIFORNIA MILITARY DEPARTMENT

Issue 1 – Sustainable Armory Renovation Program

Governor's May Revision Proposal: The Governor's May revision includes a request for $3.645 million (General Fund) in order to complete preliminary plans, working drawings, and construction for three armory renovation projects. This proposal also includes provisional language that would allow for the appropriations to be available for encumbrance until June 30, 2018.

Background: Over 75 percent of the state's 115 armories are over 50 years old, structurally deficient, and do not meet current access, training, or equipment requirements. The requested resources will provide funding to renovate three armories located in California:

- **Bakersfield Armory** – The California Military Department is requesting $911,000 (General Fund), which will be matched with $911,000 in federal trust fund, for a total of $1.822 million. The scope of the renovation project will include HVAC, electrical energy upgrades, plumbing upgrades, lead and asbestos abatement, energy efficient window installation, paint, kitchen upgrades, and regulatory upgrades to kitchen and latrine areas. The Bakersfield armory is located in Kern County, and was built in 1953.

- **San Bernardino Armory –** The California Military Department is requesting $1.64 million (General Fund) and $1.64 million in federal trust fund authority, for a total of $3.28 million. The requested resources will fund the renovation of the San Bernardino armory's HVAC, electrical energy upgrades, rewiring, plumbing upgrades, lead and asbestos abatement, reroof, painting, kitchen equipment, and regulatory upgrades to the kitchen, latrines, and vault area. This facility was originally constructed in 1969, is located in San Bernardino County. Many of the required upgrades are due to vandalism, which destroyed the plumbing, roofing, electrical and HVAC components of the building.

- **Ontario Armory** – The California Military Department is requesting $1.094 million (General Fund) and $1.094 million in federal trust fund authority, for a total of $2.188 million. The requested resources will provide resources for the preliminary plans, working drawings, and construction phase of the armory renovation. The scope of the renovation will include HVAC, electrical energy upgrades, rewiring, plumbing upgrades, lead and asbestos abatement, energy efficient window replacement, reroof, painting, kitchen equipment installation, and required regulatory upgrades to the kitchen and latrine areas. The Ontario armory, which was constructed in 1950, is located in San

Bernardino County. The facility was chosen due to the high number of guard members that live and work in the surrounding area.

Staff Comment: All three projects are expected to be complete by September 1, 2017. Staff has no issues with this request.

Staff Recommendation: Approve May revision request.

Vote:

Issue 2 – San Diego Readiness Center Renovation

Governor's May Revision Proposal: The Governor's May Revision includes a request for $856,000 (General Fund) and $856,000 in matching federal trust funds, totaling $1.712 million in order to renovate the California Military Department's San Diego Readiness Center.

Background: The San Diego Readiness Center, which was constructed in 1955, is one of the largest National Guard training sites in Southern California. The current facility is not Americans With Disabilities Act (ADA) compliant, and does not meet Department of Defense (DOD) anti-terrorism/force protection standards. Additionally, the facility lacks the space required to properly store or maintain modern military equipment. The proposal would renovate the facility to meet ADA building codes and meet the minimum anti-terrorism/force protection standards for an existing structure.

Staff Comment: Overall costs associated with this project are expected to total $11.554 million, and the project is expected to be complete by June 1, 2019.

Staff Recommendation: Approve May revision request.

Vote:

Issue 3 – Provisional Loan Language

Governor's May Revision Proposal: The Governor's May Revision includes a request for provisional budget bill language that will authorize the Director of Finance to loan up to $30 million from the General Fund to the California Military Department for cash flow purposes.

Background: Due to changes in the federal government's accounting system, advance payments are no longer an option for operating costs, which include salaries and services provided by vendors to the California National Guard and Air National Guard. Historically, the Military Department has been able to mitigate cash flow issues, which arise during the second half of the fiscal year, by receiving federal reimbursements. The Department of Finance, in coordination with the Military Department, has proposed including provisional language that would:

1) Meet the cash flow needs resulting from the delay in receiving reimbursements.

2) Be considered short-term and shall be repaid by the Military Department by October 31 in the fiscal year following that in which the loan was authorized.
3) Interest charges may be waived.
4) May only be approved in writing and submitted to the Joint Legislative Budget Committee for notification 30 days prior to the effective date of the approval.

Staff Comment: Similar provisional language has been provided to several other state agencies. Staff does not have any concerns or issues with the proposed language.

Staff Recommendation: Approve May revision request.

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Addendum to Part B

Wednesday, May 20, 2015
10:00 AM
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Farra Bracht

Department of Housing and Community Development

Issue 1 – Farmworker Housing

Background: The Office of Migrant Services (OMS) provides safe, decent and affordable seasonal rental housing and support services for migrant farmworker families during the peak harvest season. Counties, housing authorities and grower associations typically provide land for migrant centers as an in-kind contribution. HCD owns the structures and currently there are 23 of these centers statewide. Child day care and after-school support services are typically available. Tenants are charged a subsidized, affordable daily rent. HCD contracts annually with local operating agencies and provides grants for OMS center operation, paid from the State General Fund and from OMS rental income. Occupancy is normally limited to 6 months per year.

In addition, some counties operate farm worker housing centers. For example, Napa County operates three centers which provide 180 clean and safe beds for unaccompanied workers employed by Napa County's wine industry. The operating budget for the three centers is $1,253,787 and is funded by income from rental fees ($542,904) and an assessment on growers within a district ($452,000) of $10.00 per acre as established in state legislation. Contributions from the county, local funds, and private donations make up the balance of the funding. Currently there is an operational shortfall of $225,000.

Staff Questions:

1. Are you aware of other counties that operate farm worker housing centers?

2. Is state OMS funding limited to state-owned facilities and/or facilities that provide family housing? Would non-state-owned facilities be eligible for state OMS funding? Is this in statute or is this an internal HCD policy?

Staff Comment: Napa County currently does not receive any Office of Migrant Services funding from HCD. A general fund augmentation of $225,000 would help to address the operational shortfall of their three farm worker centers and ensure the ongoing viability of this housing partnership and the farm labor supply in Napa County.

Staff Recommendation:

Vote:

Senate Budget and Fiscal Review—Mark Leno, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Richard Roth, Chair
Senator Richard Pan
Senator Janet Nguyen

Agenda Part B

Wednesday, May 20, 2015
10:00 AM
State Capitol - Rose Ann Vuich Hearing Room 2040

Consultant: Brady Van Engelen

OUTCOMES

Item Number and Title

0650	Office of Planning and Research
0690	Office of Emergency Services
0840	State Controller's Office
0890	Secretary of State
1110/1111	Department of Consumer Affairs
2240	Department of Housing and Community Development
7502	Department of Technology
7760	Department of General Services
8260	California Arts Council
8940	California Military Department
8955	California Department of Veterans Affairs

(See Table of Contents on page 2 for a More Specific Listing of Issues)

AGENDA – VOTE ONLY ITEMS

AGENDA – DISCUSSION / VOTE ITEMS