Senate Budget and Fiscal Review—Nancy Skinner, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Sydney Kamlager, Chair
Senator Anna Caballero
Senator Jim Nielsen
Senator Richard D. Roth

Wednesday, May 4th, 2022
9:00 a.m.
1021 O Street - Room 2100

Consultant: Elisa Wynne

Votes:
Issues 1, 2, 3, and 8: 3-1(Nielsen)
Issues 4, 5, 6, 7, 9, 10, 11: 4-0

Vote Only Issues

Issues for Discussion

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

ITEMS FOR VOTE ONLY

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 1: Hope Act: California Electronic Cigarette Excise Tax

Request. The Governor's budget requests $1.4 million E-Cig Fund for 5.5 positions and 9,253.5 for 3.5 positions and 15,253 hours in 2024-25 for mandated workload associated with SB 395, the Healthy Outcomes and Prevention Education (HOPE) Act. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

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

Issue 2: Human Resources Staffing

Budget. The Governor's budget includes $110,000 (General Fund) in 2022-23 and ongoing to support one new permanent position to allow the Human Resources Unit to provide administrative support for Department's growing and new programs. This item was previously heard in subcommittee #4 on February 9, 2022.

Staff Recommendation. Approve as budgeted.

7730 FRANCHISE TAX BOARD

Issue 3: Enterprise Data to Revenue Project 2

Budget. The Governor's budget requests $151.1 million General Fund and 17.0 permanent positions, 23.5 full time equivalent limited-term positions, and 21.0 permanent-intermittent positions to begin second-year implementation of the Enterprise Data to Revenue (EDR2) project, which is the second phase of the Tax System Modernization (TSM) plan at the Franchise Tax Board. The resources received from this proposal will allow FTB to continue supporting the optimization of business processes throughout the EDR2 life cycle. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

Issue 4: Section 41 Workload

Budget. The Governor's budget requests $657,000 General Fund and 4 permanent positions in 2022-23; $610,000 General Fund in 2023-24; $760,000 General Fund and one permanent position in 2024-25; and $749,000 General Fund in 2025-26 and ongoing for the Franchise Tax Board. This will allow the Economical and Statistical Research Bureau (ESRB) to manage the increasing workload due to the volume of bills with a Revenue and Taxation Code (R&TC) Section 41 reporting requirement. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0860 BOARD OF EQUALIZATION

7330 FRANCHISE TAX BOARD

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION

Issue 5: Removal of Provision 1 – Position Control

Request. The Governor's budget includes the elimination of provisional language from the budget act items from the Board of Equalization, the Franchise Tax Board, and the Department of Tax and Fee Administration that required notification to the Joint Legislative Budget Committee if specified positions were redirected from their intended purposes. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Reject proposal. Staff continues to feel there is merit in keeping Provision 1 in place.

0959 CALIFORNIA DEBT LIMIT ALLOCATION COMMITTEE

Issue 6: Bond Allocation Program Workload

Request. The Governor's budget requests $1,036,000 for six permanent positions: 5 AGPAs and 1 SSM I Specialist for FY 2022-23 and ongoing to accommodate workload for the California Debt Limit Allocation Committee (CDLAC) and its support areas. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 7: Development and Compliance Sections Workload Increase

Request. The Governor's budget requests an increase for the California Tax Credit Allocation Committee (CTCAC) of $1,423,000 for fiscal year 2022-23 and ongoing to hire eight new staff members; six Associate Governmental Program Analyst (AGPA) positions, one Research Data Specialist I (RDS) position, and one Staff Services Manager (SSM I) (Supervisor) position to accommodate workload increases. This item was previously heard in subcommittee #4 on February 2, 2022.

Staff Recommendation. Approve as budgeted.

0971 California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA)

Issue 8: CA Hub for Energy Efficiency Financing Pilot Programs Administration

Budget Request. The California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA) requests additional reimbursement and expenditure authority in the amount of $27.4 million for FY 2022-23 and available through FY 2026-27 to (1) continue to appropriately carry out its functions as the administrator of the California Hub for Energy Efficiency Financing (CHEEF) programs on behalf of the California Public Utilities Commission (CPUC), and (2) allow for the incorporation of non-ratepayer funds to expand the reach of the programs. To support the continued administration, scaling and expansion of the CHEEF programs, CAEATFA requests authority to hire five (5) new permanent staff positions: One (1) Staff Services Manager I, three (3) Associate Governmental Program Analysts (AGPAs), and one (1) Office Technician (OT).

Background:

The CHEEF financing pilot programs were established to "test new and innovative strategies to help leverage ratepayer and private financing to assist in achieving energy efficiency goals. The CHEEF programs focus on attracting and leveraging private capital, given the challenge in meeting the State’s energy efficiency goals using traditional approaches of IOU rebates and incentives. The CHEEF creates a centralized platform serving as an open-market infrastructure to encourage additional private capital investment for energy efficiency and demand response measures. To the extent the funding source allows, the CHEEF programs support the state’s decarbonization goals by facilitating the adoption of heat pump technology for air and water heating in existing buildings, while also lowering costs and expanding access to capital for Californians.

The CHEEF programs are currently supported with investor-owned utility (IOU) ratepayer funds that are approved and authorized by the CPUC. This request aligns CAEATFA's reimbursement and expenditure authority with the CPUC’s August 5, 2021 Decision 20-08-022, which grants up to $75.2 million in additional ratepayer funding to support the CHEEF programs through FY 2026-27 and beyond, and allows for the incorporation of non-ratepayer funds. To support the expansion of the CHEEF to non-IOU customers or for energy saving projects not related to an IOU fuel, CAEATFA is pursuing other sources of funds

Over the five-year period, CAEATFA will continue transitioning the residential program from a “pilot” to a full “program;” improve operations for programs to support scale; create a seamless statewide program to support customer investments for decarbonization; attract new and different types of private capital; and integrate with other programs, platforms and efforts.

Staff Recommendation. Approve as budgeted

Issue 9: Expanded Staff Resources for Administration of the Sales Tax Exclusion Program

Budget Request. The California Alternative Energy & Advanced Transportation Financing Authority (CAEATFA) requests limited-term expenditure authority of $315,000 to support two positions (a Staff Services Manager I - Specialist (SSM1) and Office Technician (OT)) beginning in fiscal year (FY) 2022-23 to continue the administration of the Sales Tax Exclusion (STE) program.

Background: The Sales Tax Exclusion (STE) Program is intended to promote the creation of California-based manufacturing, California-based jobs, advanced manufacturing, the reduction of greenhouse gases, or reductions in air and water pollution or energy consumption. The STE attracts and retains companies and economic activities in California that might otherwise locate or relocate to other states.

In 2010, the Sales and Use Tax Exclusion Program was established and authorized CAEATFA to grant a sales and use tax exclusion to eligible businesses that purchase equipment to design, produce, manufacture, or assemble Advanced Transportation Technologies or Alternative Source products, components, or systems until January 1, 2021. Future legislation expanded the STE Program to include Advanced Manufacturers and projects that process or utilize Recycled feedstock. The program was extended to January 1, 2026 and the criteria by which CAEATFA must evaluate applications was expanded to include the extent to which the project will result in the loss of permanent, full-time jobs in California, including the average and minimum wage for each classification of full-time employees proposed to be hired or not retained.

According to the BCP, the continued expansion of the program has led to a doubling of the applications received and processed, as well as of the compliance workload. As the program's eligibility pathways have expanded, the number and types of applications have correspondingly increased. Programmatic changes have also increased workload over the past few years and the due to the competitive nature of the Program, CAEATFA has established a competitive process for determining the order of review of applications, which requires an initial review of all applications received.

Given the current Program authorization until January 1, 2026, there remain at least four more years of workload growth, which cannot be timely and effectively executed by the existing number of staff.

Staff Recommendation. Approve April Finance Letter.

8885 COMMISSION ON STATE MANDATES

Issue 10: Election Mandates

Budget Request. The Governor's finance letter requests an increase of $5.791 million (one-time) and $5.943 million ongoing General Fund to reimburse cities and counties for the workload costs associated with complying with Elections Code Section 3010.

Background: Election Code Section 3010 requires local election official to provide pre-paid postage on identification envelopes delivered to voters with their vote-by-mail ballots for specified elections. The Commission on State Mandates found Elections Code Section 3010, as amended by Chapter 120, Statutes of 2018 (AB 216), imposes a reimbursable state-mandated program.

Staff Recommendation. Approve Spring Finance Letter.

9201 LOCAL GOVERNMENT FINANCING

Issue 11: Wildfire Property Tax Backfill

Budget Request. The Governor's finance letter requests an increase of $3,783,000 General Fund on a one-time basis to backfill Plumas County and El Dorado County for estimated 2021-22 and 2022-23 property tax revenue losses incurred as a result of the 2021 wildfires.

To receive funds appropriated in this item, each county shall submit to the Department of Finance a countywide claim detailing the losses incurred by the county and the cities and special districts located therein due to property damage caused by the wildfires in 2021. DOF will review and forward claims to the State Controller's Office.

Staff Recommendation. Staff notes this proposal is consistent with similar wildfire-related backfills in past budgets. Approve Spring Finance Letter.

ISSUES FOR DISCUSSION

0984 CALSAVERS RETIREMENT SAVERS BOARD

Issue 12: Fullscale Implementation of the Calsavers Retirement Savings Program.

Budget Request. The Governor's budget includes a General Fund loan of $6 million from 2022-23 through approximately 2024-25 to provide resources for the Board and the CalSavers Retirement Savings Program to continue to operate, including funding for existing staff, employer compliance enforcement services through the Franchise Tax Board (FTB), external consultants, and marketing, administrative, and overhead costs.

Background: The CalSavers Retirement Savings Program (CalSavers or Program) is overseen by the CalSavers Retirement Savings Board (Board) and provides a retirement savings program for private-sector workers who lack access to an employer-sponsored retirement savings plan.

Employers that do not offer a qualified retirement plan, and have at least five employees are required to facilitate CalSavers for their employees by specified deadlines or face penalties for noncompliance. The Program is voluntary for employees, but is operated on an automatic enrollment opt-out basis. Chapter 734, Statutes of 2012 (SB 1234) and Chapter 737, Statutes of 2012 (SB 923) established the Board for evaluating the financial and legal feasibility of the Program. The Board retained Overture Financial LLC (Overture) to complete a Market Analysis and Feasibility Study, and submitted a final report to the Legislature in March 2016, paving the way for legislative approval in September 2016.

Loan Funding and Revenue. This proposal requests an additional $6 million in loan funding beyond the initial $16,900,000 that has been drawn to-date (as shown in the table below).

Loan History

Transfer Date	Loan Amount	Repayment Due
11/22/16	$1,900,000	6/30/2024
09/06/17	$804,000	6/30/2024
06/04/18	$14,196,000	6/30/2024
TOTAL	**$16,900,000**	

Approximately $8 million of loan funding has been spent through June 30, 2021, with approximately $9 million fund balance remaining at the beginning of 2021-22. Expenditures are expected to be just under $2.6 million in 2021-22 and $5.1 million in 2022-23. Based on projected revenue, the Board is expected to ask for a postponement of the loan repayment date beyond June 30, 2024 in the future, in addition to new loan funding to support the ongoing rollout and scaling-up of the Program through this BCP.

CalSavers is also requesting Budget Bill language to allow for reassessment in the future should Wave 3 registration numbers meet the projection, and CalSavers and Finance determine that additional staff are needed at that time. CalSavers may need up to three additional full-time equivalent positions based on Wave 3 projections. Due to the structure and mechanics of the Program, Program growth is driven largely by employer deadlines. Employees may not enroll and begin saving until their employer has (1) registered, (2) uploaded their roster thereby enabling the Program to conduct the enrollment period, and (3) started facilitating payroll deductions and remitting contributions to the Program. Since more than 90 percent of employer volume is subject to the third and final compliance deadline on June 30, 2022, dramatic growth of employer onboarding activity, employee enrollment activity, funded accounts, and assets is expected in the summer and fall of 2022, along with increased needs for customer service, outreach, and education.

Staff Recommendation. Hold Open.

0840 California State Controller's Office

Issue 13: Unclaimed Property Management System Replacement

Budget Request. The State Controller's Office (SCO) requests $323,000 in 2022-23, $1,183,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, and $1,724,000 in 2026-27 and ongoing from the Unclaimed Property Fund (UPF) to support the replacement of the current Unclaimed Property System (UPS2000) with a new unclaimed property management system (UPMS) and significantly decrease the risk of system failure.

Background:

In 2008, the Unclaimed Property Division (UPD) implemented the UPS2000 as the system to manage the unclaimed property the state receives from businesses, safeguards for owners, and returns to claimants. The UPS2000 and its related programs and websites are critical to UPD operations; they record all of the unclaimed property received by the state including details of when the property was reported and by which business, who the owner or owners are, when they were last in contact with the business, and how they are related to the property. UPS2000 records property types and values, claims made against each property and whether they have been paid, denied, or are still outstanding. The system is the data hub for all unclaimed property that is listed on the Controller's website, where owners and heirs can initiate their claims. Further, the version of UPS2000 used by UPD and its related systems are unique to California due to the two-report process outlined in the Unclaimed Property Law (UPL) (Code of Civil Procedure [CCP] Section 1500 et. seq.)

The UPS2000, and by extension the Controller's unclaimed property program, are at risk of failure due to the system's outdated, static platform and the service provider's inability to commit ongoing development resources. UPS2000 is 13 years old and is obsolete. The outdated system architecture does not allow UPD to keep pace with current advancements in technology from the past 10 years. The system structure of UPS2000 has a unique, one-off functionality that prevents the development of modern solutions.

The requested funding would allow for replacement of the system and provide for the following:

- **Reduce risk of critical system failure, increase confidence, stability, and longevity in the UPMS and ongoing program activity.** This request would allow for a cloud-based UPMS software service, which reduces dependency on architectural platforms because the components are supported across different environments that can be integrated and updated.
- **Increase holder compliance and remittance of unclaimed property.** With the online reporting feature of the new UPMS, holders will be able to submit a report online and the system will identify any errors and notify the holders in real time, allowing holders to make corrections immediately without staff involvement.
- **Reduce processing times for holder reports and claims from owners and increase reunited property.** The new UPMS and its ability to receive and house documents related to unclaimed property reports and claims will result in increased processing efficiencies.
- **Increase efficiencies in workflow processes across the Division.** The new UPMS will automate many manual processes including the processing of unclaimed property reports, recording and reconciling stock properties with broker statements, recording of mail and

email correspondence with holders and owners, and the managing, assigning, and tracking of staff workload.
- **Improve financial integrity and accountability**. The new UPMS will not only automatically reconcile remitted securities with brokerage statements but will also automatically post receipts for transactions.
- **Increase user experience in claiming and reporting property**. The new UPMS will provide holders and claimants the ability to submit required forms and documents electronically rather than through paper, email, or physical media, thereby making it easier for holders to comply with mandated responsibilities, and for owners to claim property.
- **Implement an automated fraud prevention system.** The new UPMS, will analyze claimant data and digital trails via external data sources to identify bad actors and fraudulent activity.

The SCO provides the following outline for project planning and implementation:

Consulting and Professional Services: External – $135,000 in 2022-23, and $90,000 in 2023-24 for independent verification and validation services for project and implementation plans. $208,000 in 2023-24 to support vendor costs for claim scanning workload.

Office Equipment – $3,000 in 2023-24 for two small volume document scanners to digitize incoming claims.

Information Technology –$188,000 in 2022-23 and $563,000 in 2023-24 for the procurement and implementation of a new unclaimed property management system, and $319,000 in 2023-24, $1,647,000 in 2024-25, $1,685,000 in 2025-26, $1,724,000 in 2026-27 and ongoing for continued support of the new system.

Implementation Plan:

October 2021 to January 2022: Complete Stages 1 and 2 of the Project Approval Lifetime (PAL) process by identifying the problem, conducting market research, determining solution alternatives, and determining mid-level requirements.

February 2022 to December 2022: Complete Stage 3 of the PAL process by developing business requirements, developing solicitation, and planning implementation.

January 2023 to February 2023: Complete Stage 4 of the PAL process and procure new unclaimed property management system.

March 2023 to April 2024: Migrate data and implement new system, procure document scanners and imaging vendor contract, and scan document inventory.

May 2024: Go live with new system.

Suggested Questions:

- Is the project on track with the implementation timeline provided in the BCP, with the SCO completing Stage 3 of the PAL process by December of 2022?

- How will the new system change the Unclaimed Property process for consumers, businesses, and the SCO?

Staff Recommendation. Hold Open.

Issue 14: California State Employees Telework and Healthcare Stipends

Budget Request. The State Controller's Office (SCO) requests $495,000 [$297,000 General Fund (GF); $198,000 Central Service Cost Recovery Fund (CSCRF)] in 2022-23 and $194,000 [$116,000 GF; $78,000 CSCRF] in 2023- 24 and ongoing to support the disbursement of the California State Employees Telework and Improving Affordability and Access to Healthcare stipends.

Background:

Telework Stipend. During the COVID-19 global pandemic, the Administration directed all non-essential telework eligible staff to transition to telework as a protective measure to limit the spread of the virus. The state deployed an emergency telework program (ETP) based on guidance from the California Department of Human Resources (CalHR) in order to reduce the number of employees at state buildings. Since the initial ETP, the state conducted multiple studies related to staff telework eligibility, and benefits and savings attributed to teleworking such as reduced vehicle expenses, time saved due to decreased commute times, and other pertinent sources of information. In 2021-22, the state began implementing a mostly permanent teleworking workforce, with an additional requirement that every state department incorporate telecommuting as a work option.

CalHR informed state departments and SCO of agreements reached with specified bargaining units (BUs) for a telework stipend and the requirements departments must meet to ensure timely payment of the stipend upon full ratification. SCO anticipates the statewide telework stipend upon ratification and legislative approval, will be retroactive to October 1, 2021. As of March 2022, six BUs have negotiated consistent telework stipend side letters. All active state employees who have a telework agreement on file and meet criteria to telework shall receive either a $25 (if office-centered employee) or $50 (if remote centered employee) stipend for each eligible pay period. Based on the initial analysis of the telework stipend and the known population of state employees eligible to receive these payments, SCO anticipates issuing 200,000 direct deposit payments and 32,000 printed warrants in 2021-22 (1 retroactive payment and 3 payments for April, May and June) and 600,000 direct deposit payments and 96,000 printed warrants beginning in 2022-23.

Affordability and Access to Healthcare Pay Differential. In 2019, CalHR and SEIU Local 1000 ratified an MOU providing a healthcare stipend. Under this MOU, SEIU Local 1000 represented employees eligible to be enrolled in a CalPERS health plan receive a monthly cash payment of $260. This payment will be provided for 36 months commencing with the July 1, 2020 pay period, expiring the June 30, 2023 pay period. This letter was revised, effective, July 1, 2022, and provides that anyone enrolled in state sponsored health benefits will still be eligible to receive the $260 cash payment; anyone not enrolled in state sponsored health benefits will not be eligible to receive the $260. This population may be eligible to enroll in a flex cash program during a special open enrollment period. Further, Excluded and Exempt employees aligned with SEIU BUs are also receiving this monthly additional cash payment.

In 2020-21, SCO issued a monthly average of more than 109,000 new healthcare payments. While the update to the side letter will reduce the number of monthly payments related to the Healthcare payments for the final year of the program, SCO will continue to incur increased costs and therefore requires additional funding to process and disburse these payments.

The SCO notes that it does not have the resources to absorb increased costs related to the telework stipend and healthcare payments. Based on initial estimates, these workloads will result in SCO issuing an additional 1,786,000 (696,000 telework stipend and 1,090,000 healthcare payments) in 2022-23; and 696,000 telework stipend payments in 2023-24 ongoing. The estimated costs for this workload was calculated based on current eligible and actual telework percentages from DGS Telework Dashboard statistics as of February 2022. Proposed funding would cover direct deposit electronic funds transfer service fees, operating expenses, as well as printing and postage costs associated with printing and mailing warrants.

Staff Recommendation. Hold Open.

0509 Governor's Office of Business and Economic Development (GO-Biz) - IBank

0974 California Pollution Control Financing Authority

Issue 15: State Small Business Credit Initiative Update – Information Only

The IBank and the California Pollution Control Financing Authority will provide an update on the federal State Small Business Credit Initiative 2.0. According to the IBank and the California Pollution Control Financing Authority:

The American Rescue Plan Act of 2021 included $10 billion for the reauthorization of the State Small Business Credit Initiative (SSBCI 2.0). SSBCI was originally created through federal legislation, the Small Business Jobs Act of 2010 (SSBCI 1.0).

In 2010, SSBCI was funded with $1.5 billion to strengthen state programs that support financing of small businesses. California received $168 million of the $1.5 billion and the Infrastructure and Economic Development Bank (IBank) and the California Pollution Control Financing Authority (CPCFA) – an agency housed within the State Treasurer's Office (STO) split the funding equally between the two agencies. The allocation was utilized to assist small businesses gain access to capital and create jobs in California. More than 10,000 eligible small businesses in California received SSBCI fund support, which created or saved more than 90,000 jobs.

The $10 billion from the American Rescue Plan Act of 2021 was appropriated as follows:

- $5 billion available to states to be distributed by formula based on 2020 unemployment numbers (prorated funds)
- $1.5 billion for socially and economically disadvantaged businesses based on population residing in CDFI Investment Areas (SEDI funds)
- $1 billion incentive program to encourage investment in socially and economically disadvantaged businesses, to be allocated based on performance in tranches two and/or three (SEDI performance funds)
- $500 million for very small businesses (funds for small businesses with under 10 employees)
- $500 million for technical assistance such as legal, accounting, and financial advisory services for small businesses (technical assistance funds)
- $500 million for tribal governments (tribal funds)
- $1 billion to be retained by the U.S. Treasury for operations and to fill out other allocations as needed.

In November 2021, the U.S. Treasury released a state-by-state allocation of the $10 billion appropriated, except the technical assistance funds, and California was allocated $1.182 billion. California's allocations are as follows: $829 million pro-rated funds, $66 million very small businesses funds, $187 million SEDI funds, and $100 million SEDI performance funds, which will be received in three separate tranches as funds are utilized. The SEDI performance funds will be provided to states in tranches two and three and additional funds ($100 million nationally per tranche) may be available based on performance reaching the socially and economically disadvantaged individuals.

The technical assistance funds will be distributed in a separate application process, which is due March 31, 2022. CalOSBA and/or STO may be best positioned to apply for those funds. The tribal funds are being provided directly to the tribes that choose to participate.

Updated Funding: taff notes that in conversations with IBank, they are anticipating funding amounts for the program may be subject to further change. Congress has proposed cutting $2.3 billion from SSBCI 2.0: Reducing the main credit support allocation by $2.1 billion ($6.3 billion to $4.2 billion, effectively eliminating the third tranche and maybe some of the second) and reducing the technical assistance funds from $500 million to $300 million. This may lead to reductions and adjustments in the use of the funds as described below:

IBank and CPCFA have been meeting bi-weekly to prepare to put the new funding to work. The initial priority is to determine how much both IBank's and CPCFA's existing small business credit enhancement programs (Small Business Loan Guarantee Program, California Capital Access Program [CalCAP] for Small Business, and Collateral Support Program) need and can be utilized by California's small businesses. SSBCI 1.0 authorized two other programs (Venture Capital and Loan Participation) that California did not use the first time around. Both programs are currently under consideration for SSBCI 2.0 funds.

IBank and CPCFA have also been meeting with stakeholders to see what other needs may be addressed with the SSBCI funds. IBank and CPCFA have also participated in and requested feedback from many other events where SSBCI was publicized. IBank and CPCFA have each established dedicated SSBCI webpages and email addresses to keep the public informed and receive questions and comments. From the feedback received so far, some of the themes that have emerged are:

- Better target underserved markets
- Provide further enhancements to encourage growth in underserved markets.
- Increase loan capital for Community Development Financial Institutions (CDFIs)
- Increase capacity and reduce administrative burden of our existing programs (e.g., increase guarantee cap for the Small Business Loan Guarantee Program, remove recapture rules and increase the matching contributions for CalCAP loans)
- Provide less cashflow-intensive capital options for small business, like equity or revenue-based financing

To receive SSBCI funds, a state match is not required. However, there must be at least a dollar-for-dollar match from the private sector and there is a cumulative leverage requirement of 10-to-1 between all SSBCI programs (i.e., $10 private sector: $1 SSBCI) over the life of the program, which is the same as the original program. That will be achieved by creating additional financing programs that generate private sector participation.

The programs that IBank and the CPCFA are intending to fund are as follows:

Small Business Loan Guarantee Program. The Small Business Loan Guarantee program was established in 1968 and was a recipient of SSBCI 1.0 funds. The program increases access to capital for small businesses by providing guarantees (effectively insurance) to bank loans in cases where banks might not otherwise make a loan, or only at a higher interest rate.

California Capital Access Program for Small Business. The California Capital Access Program (CalCAP) for Small Business was established by legislation enacted in AB 253 (Chapter 1163, Statutes of 1994) and was created to be administered by CPCFA. CalCAP assists small businesses in obtaining loans through participating financial institutions (lenders). CalCAP is a loan loss reserve program that may provide up to 100% reimbursement on losses as a result of qualifying loan defaults. While each lender is entirely liable for its loan losses, those losses can be reimbursed from each lender's loan loss reserve account. The loss reserve accounts are built through fees paid by the borrower and lender and contributions made by CPCFA.

California Collateral Support Program. The CalCAP Collateral Support Program (CalCAP CSP) is a credit enhancement program that pledges cash to cover the collateral shortfall of loans of $50,000 or more made by participating lending institutions. CalCAP CSP was designed to enable financing that might otherwise not occur due to a collateral shortfall for small businesses in California.

Venture Capital. With this new authorization of SSBCI, California plans to establish a Venture Capital program focused on:

1. Supporting demographically underrepresented venture capital managers
2. Investing in underrepresented and underserved entrepreneurs and business owners
3. Investing in geographic areas that are socio-economically disadvantaged or that receive very limited venture capital funding
4. Seeking to promote climate equity and climate justice

LAO Comments:

In their handout, the LAO notes the following key issues to consider:

Improving Access to Credit for Businesses That Would Otherwise Have Difficulty Could Conflict With Leverage Goals. Small business lending programs to specifically aid businesses that have difficulty borrowing money without insurance or public guarantees often have leverage ratios that are below the 10:1 goal of the SSBCI program. As the real or perceived risk of a borrower increases, the amount that must be obligated by the public agency increases. For example, the state COVID-19 disaster relief loan program requires SBFC to encumber $1 for every $2 loaned. The SSBCI programs may need to allocate funding to programs that have both high and low leverage ratios. However, programs with high leverage ratios may in some instances benefit businesses that might not require aid.

Expending Funding Quickly Could Conflict With Both SEDI and Leverage Goals. Programs with a relatively high leverage ratio, like CalCAP, may expend funds more slowly because, for a given amount of private investment, programs with a high leverage ratio require less public funding than programs with a low leverage ratio. Funds could be more quickly expended if they are used to support larger loans or venture capital investments. However, these types of programs may not serve SEDI-owned businesses as well as other programs. To meet the federal government's expectations that the state expends 80 percent of the first tranche of SSBCI funding as quickly as possible, the state may want to consider ways to expand support for both large and small loans simultaneously.

Consider Tolerance for Risk. The default rates in the existing state programs have historically been somewhat lower than for the SBA loan programs. However, as the influx of SSBCI funding will require these programs to expand, they likely will support lending to higher-risk borrowers who may default on their loans at higher rates. The Legislature will need to consider its tolerance for higher default rates. Ultimately, to the extent the expansion focuses on improving access to credit for borrowers who otherwise would have difficulty qualifying for a loan, somewhat higher default rates are likely unavoidable.

Legislative Oversight. The state lending assistance programs will be subject to U.S. Treasury oversight through 2030. The Legislature may want to consider how its oversight and policy guidance of these programs relates to federal oversight during that time. In addition, the Legislature may also want to look ahead to 2030 and how funds that are made available following the repayment of loans are redeployed and what level of ongoing General Fund support, if any, would be required.

Staff Recommendation. Information Only

0950 State Treasurers Office

Issue 16: Banking Operations Item Processing Software Upgrade

Budget Request: The State Treasurer's Office (STO) requests expenditure authority, and corresponding funding, for one-time costs of $625,000 to upgrade its check processing software; and ongoing costs of $217,000 for increased annual support costs for this software. On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management without interruption.

Background:

On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management, specifically item processing, for the State of California without interruption. On December 31, 2022, the software used by the STO will reach end of life; and accordingly, the vendor will end its support. Thus, it is critical that the STO upgrades to the current, supportable version to ensure that it can continue to perform its responsibilities of cash management without interruption.

The cost of this software upgrade and ongoing maintenance would be appropriately funded through the following sources: CTSMD manages the cash flow of all state funds, forecasts cash balances, revenue, expenditures, and the amounts available for daily investments, ensures accurate and timely agency deposits, administers and executes the wire transfer of funds, reconciles State accounts with depository banks and redeems all state items submitted by presenting banks for payments. CTSMD is also responsible for executing the clearance and income collection for state investments (excluding PERS and STRS) and securities pledged to the state, the clearance and settlement of securities pledged to the state for the Time, Demand, and other state agency programs, and for the safekeeping of securities and other personal property owned by or pledged to the state. CTSMD consists of the Division Administration, Securities and Banking Services, and Banking Operations. As part of Banking Operations, the Item Processing Section (IPS) is responsible for redeeming all items presented by banks for payment (about 94,000 items daily), for handling forgeries, and managing Stop Payments.

The STO performed analysis and conducted research to determine the best way to respond to the end-of-life for its item processing system software. As a part of that analysis, the STO released a Request for Information (RFI) in 2021. Two software solution providers responded to the RFI. One respondent provides the product that the STO is now using. The other respondent offered a competing product. Implementing the first respondent's offering would involve an upgrade of the software product that is now in use by the STO. Implementing the second respondent's offering would involve a project to migrate the functionally from the current software solution to a new one. It would also require the STO to reengineer any business process that are dependent upon the present software solution. According to the RFI responses, the first vendor would charge the STO $625,000 to upgrade the current version of the STO's existing package. The provider of the other solution estimated that it would charge the STO a $1.1 million startup cost. Although the estimated migration cost is already almost twice that of the cost to maintain the current vendor, that number does not include additional project costs that the STO would expend in migrating to the new product.

Staff Recommendation: Hold Open

Issue 17: Pooled Money Investment Account (PMIA) Operations

Budget Request: Through a spring finance letter, the STO requests one Associate Treasury Program Officer to support the workload associated with the increase in the amount of securities held in the PMIA. Funding would be $136,500 (Surplus Money Investment Fund) and $19,500 (General Fund).

Background: The Investment Division invests temporarily idle funds of the PMIA as part of the Centralized Treasury System. The PMIA is made up of commingled monies from the General Fund, Surplus Money Investment Fund (SMIF), and the Local Agency Investment Fund (LAIF). SMIF represents the available cash from state agencies that do not have investment authority of their own and from those that have independent investment authority but choose to participate in the program. As of June 30, 2021, there were more than a thousand special funds and accounts participating in SMIF with an available resource balance of $85.5 billion. LAIF was established to provide California cities, counties, and special districts with an investment alternative.

As of June 30, 2021, the LAIF balance was $37.1 billion with over 2,378 participating agencies. The PMIA also manages the Time Deposit Program (TDP) which provides money to community financial institutions at competitive rates. Eligible institutions are commercial banks, savings banks, and credit unions that are federally insured and licensed to accept time deposits in California. The TDP allows institutions that receive time deposit funds to use the money to expand economic opportunity and create jobs in their communities. As of June 30, 2021, there were 147 time deposits totaling $3.9 billion in 59 institutions.

The goal of the Investment Division is to prudently manage and safely invest the State's idle or surplus monies to maximize the earnings and to meet the cash flow needs of the State. There is a high degree of visibility and sensitivity regarding the investment of public funds and the subsequent outcome of these investments. As of June 30, 2021, the PMIA totaled $193.3 billion with daily investment activity for the month averaging $3.584 billion.

Workload History

Workload Measure	6/30/2017	6/30/2018	6/30/2019	6/30/2020	6/30/2021	% Increase (6/30/2017-6/30/2021)
Portfolio (PMIA) Balance	$77.6 billion	$88.8 billion	$105.7 billion	$101.0 billion	$193.3 billion	**149.25%**
	FY 2016/17	**FY 2017/18**	**FY 2018/19**	**FY 2019/20**	**FY 2020/21**	**(FY 2016/17 – 2020/21)**
Number of Security Transactions	7,321	8,201	8,364	8,687	10,653	**45.51%**

The PMIA currently consists of five positions: Treasury Program Manager II, Treasury Program Manager I, Associate Treasury Program Officer, Staff Services Analyst, and an Office Technician (OT).

Staff Recommendation: Hold Open

7730 FRANCHISE TAX BOARD

Issue 18: Legal Workload Growth

Budget. The Franchise Tax Board (FTB) requests $4.64 million (General Fund) for 16 permanent positions, 10 position upgrades, and unfunded needs for staff salaries in 2022-23; $4.49 million in 2023-24 and ongoing to address increased volume and complexity in tax appeal, protest, and litigation workloads.

Background:

FTB's Legal Division is organized into four Subject Matter Bureaus: General Tax and Administration, Technical Resources, Multistate and Business Entity, and Litigation and Settlement. The Legal Division represents FTB in appeals before the Office of Tax Appeals (OTA) and administers FTB's Docketed Protest program. Taxpayers have statutory rights to file protests of proposed assessments issued by FTB's Audit Division and to file appeals of disputed determinations of taxes to the OTA. Appeals and protests are mandatory workloads for the Legal Division. Increased Workloads. Since OTA's inception, FTB has received a more than 50 percent increase in the number of income tax appeals; this increase is expected to continue. In January of 2021, FTB, at OTA's request, adopted a new procedure simplifying the filing of an appeal that has also increased FTB's workloads resulting in insufficient staffing levels to manage the appeals inventory. To address the work associated with the increase in appeals in OTA, FTB requests:

Tax Administration and Procedure Bureau:

- Assistant Chief Counsel -One permanent position
- Tax Counsel IV - Two permanent position
- Tax Counsel III - Three permanent positions
- Tax Counsel -Three permanent positions
- Legal Analyst - One permanent position

General Tax Bureau:

- Tax Counsel III – Two permanent position

Enhanced Complexity. There is increasing complexity in matters pending before the OTA and matters in docketed protest. Additionally, novel constitutional arguments and class action lawsuits brought against the FTB in California Superior Court, Federal Court, and other-state courts, have caused additional complexities. As a result, the Legal Division needs higher level attorney positions to preserve taxpayers' rights to a timely appeal and to address developing and complex issues with appropriately experienced staff. FTB would note the following technical issues showing increased complexity:

Multistate Tax Bureau:

- Tax Counsel IV – One upgraded position
- Tax Counsel III – One upgraded position

Business Entity Tax Bureau:

- Tax Council IV – One upgraded position Litigation Bureau
- Tax Counsel IV – One upgraded position General Tax Bureau
- Tax Counsel IV – One upgraded position
- Tax Counsel III – One upgraded position

Technical Resources Bureau:

- Tax Counsel IV – One upgraded position

Tax Administration and Procedure Bureau:

- Tax Counsel IV – One upgraded position
- Tax Counsel III – Two upgraded positions

Insufficient Salary Funding. FTB’s legal division is predominantly composed of staff who have a number of years of state service and are paid at the highest salary level for their classification. Over the last several years, to balance salary costs with the budget, the division has kept vacancies open longer than the three month hiring period to ensure all salaries for existing staff are covered within the existing budget. FTB reviewed the salaries paid to legal staff and compared this to the budgeted funds to cover these salaries. FTB found these positions are funded at first or mid step, but many of the staff in the positions are paid at the top step creating an ongoing unsustainable funding gap.

Staff Comments: The staffing request appears reasonable given the increased workload and need for additional position funding for higher steps.

Staff Recommendation: Hold Open.

Issue 19: Volunteer Income Tax Assistance Program

Budget Request. FTB requests a one-time augmentation of $1,217,000 million (General Fund) in 2022-23 to extend five limited term positions set to expire on June 30, 2022 and allow reimbursement of costs incurred by the Department of Community Services Development (CSD) for administering the California Earned Income Tax Credit (CalEITC) grants. The resources will allow FTB to administer the Voluntary Income Tax Assistance (VITA) program at expanded levels in order to support the 2022-23 grant funding appropriated to increase free tax preparation, and to expand marketing and outreach of CalEITC, the Young Child Tax Credit, and Individual Taxpayer Identification Number (ITIN) tax status eligibility.

Background:

The VITA volunteer program provides free assistance to individuals who need help in completing federal and state income tax returns. Since 2018-19, one-time grant funds have been appropriated to support the efforts of community-based organizations and nonprofits to maximize program participation for both the federal EITC and CalEITC claims. The grant funding also seeks to expand free tax preparation sites and services throughout California. As a result, FTB has enhanced the VITA program to support the additional volunteers and VITA sites funded by the grants. FTB has entered into an Interagency Agreement (IA) with the Department of Community Services and Development (CSD) to issue and manage the grants awarded to various nonprofit and community based organizations. The IA includes fees for administering the grants and FTB is responsible for reimbursing CSD for these costs. In 2021-22, FTB received funding for both of these costs – staff resources, and funding to cover administrative costs for CSD. In other years, FTB was able to redirect some resources to cover these costs but FTB is unable to continuing absorbing these costs without impacting other workloads.

The proposed budget for 2022-23 includes $10,000,000 in one time funds for grants to support CalEITC for education and outreach, free tax preparation services, and ITIN assistance. The extension of these five limited term positions and the funding to cover CSD’s administrative costs will allow FTB to continue to support sites through additional trainings and technical support, consistent with the intent of the grant.

Suggested Questions:

- Does the January budget and this April letter include all funding needed for FTB to implement their workload related to EITC and YCTC changes?

Staff Recommendation: Hold Open

VARIOUS DEPARTMENTS

Issue 20: Putting Wealth to Work Tax Proposals – Information Only

Proposal:

The Senate Democrats "Putting Wealth to Work" Plan includes the following priority proposals related to tax programs, including:

- Updating the Earned Income Tax Credit Program (EITC) to provide a minimum credit of $255 per eligible individual taxpayer, estimated at $400 million ongoing General Fund and beginning in 2024, restrict the application of the state's debt intercept program to EITC recipients.

- Build upon the Governor's January proposals and provide an additional $20 million (for a total of $30 million ongoing) to increase CalEITC Outreach and Education, provide year round funding to support free tax preparation services and Volunteer Income Tax Assistance (VITA) program, and related administrative support.

- The plan also includes proposals to phase in expansions of the Young Child Tax Credit (YCTC) and the Renter's Tax Credit, increasing benefits to those eligible for these existing credits. Staff notes that the cost and phase-in period would be dependent on the structure of the final budget agreement.

- Amend the Governor's proposal to provide tax payment flexibility to low and moderate income taxpayers during COVID to ensure relief is available for those who are working with the FTB to settle debt or work out payment plans for late taxes during the COVID pandemic period, and to create an ongoing first-time abatement program for personal income tax filers.

Background:

EITC Changes:

The California EITC is a state personal income tax provision that benefits individuals and families who earn less than $30,000. The amount of the credit depends on taxpayers "earned income" (which primarily includes wages and self-employment income), filing status, and the number of qualifying dependent children.

According to the California Budget & Policy Center, about half of workers without children in the home receive a CalEITC of less than $100 with a minimum credit of $1, and the majority of these workers are excluded from the federal EITC. More than 100,000 families with children also receive a CalEITC of less than $100.

Establishing a minimum credit of at least $255 would provide a more meaningful credit to families and ensure workers without children receive a more equitable credit ($255 is the maximum credit for workers without dependents in tax year 2021, but only a small number of these workers will qualify for a credit this large.) A more significant credit could encourage more people to file their taxes, boosting CalEITC take up overall, regardless of how they prepare their taxes. It would also support outreach and enrollment efforts from community-based organizations and reduce the administrative burden in calculating the credit to allow for greater innovation in simplifying the filing process.

EITC Outreach and Free Tax Preparation

Currently, the EITC Outreach program funds grantees who provide Volunteer Income Tax Assistance (VITA) for only seven months out of the year. This creates major funding and programmatic challenges for the community based organizations (CBOs) who do this work, many of whom do not have gap funding available to keep staff and maintain service levels for low-income tax filers.

Providing year-round services matches the IRS cycle for federal VITA grants and will ensure trusted messengers at the local level are engaging in education and providing resources whenever they are needed. An annual grant cycle would also allow CBOs more time to better strategize around the upcoming tax season, properly recruit and retain volunteers, use data mindfully, retain year-round staff and maintain their connection to the community.

Young Child Tax Credit.

The California YCTC provides a refundable young child tax credit not to exceed $1,000 per qualified taxpayer per taxable year. The Senate's proposal would increase the amount of the renter's credit over time to $1,500 per qualified taxpayer per taxable year.

Renter's Credit.

The state's Personal Income Tax law allows eligible taxpayers who rent their principal residence to claim the Renter's Tax Credit on their Personal Income Tax Return. Specifically, because renters do not directly benefit from property tax reductions, the Legislature enacted the credit to provide a direct benefit to renters.

State law requires an annual inflation adjustment of the credit's AGI limitations, but does not annually increase the credit amount for inflation, which has remained at its current amount since 1979. The credit is nonrefundable, which means that the credit can reduce a taxpayer's tax liability to zero, but it cannot result in a refund.

For the 2021 taxable year, the credit is equal to:

- $60 for filers that are single or married filing separately with an adjusted gross income (AGI) of $43,533 or less; and
- $120 for filers that are married filing jointly, head of household, or a qualified widow(er) with an AGI of $87,066 or less.

The Senate's proposal would increase the amount of the renter's credit over time to $1,000 for spouses filing joint returns, head of household, and surviving spouse filers, and to $500 for all other tax filers, increase the amount of the renter's credit annually for inflation, and make the credit refundable.

Tax Payment Relief.

The Governor's budget provides additional flexibility for certain taxpayers in meeting tax obligations, specifically, for tax years 2019, 2020, and 2021, families with less than $150,000 in adjusted gross income ($75,000 for individuals) will be given until September 30, 2023 to pay any personal income tax liability for those years and will be relieved of any penalties and interest related to delayed filing or delayed payment. Participating taxpayers would be allowed to make installment payments. Late penalties and interest would again apply to outstanding amounts, if any, at the end of the program. The Subcommittee heard this proposal on February 2, 2022, however trailer bill language was not available at that time.

The Senate's proposal would amend the Governor's proposal to allow the FTB flexibility to provide relief through the collections process for low and moderate income tax filers who can demonstrate they were negatively impacted by COVID. In addition, an ongoing first time abatement program would be established for personal income taxpayers that pay their taxes late. Eligible taxpayers (those who have previously paid on time or are in a payment program) would receive a one-time abatement of the timeliness penalties.

Staff Recommendation: Information Only

Issue 21: Putting Wealth to Work – Supporting Children in Foster Care and Those Impacted by COVID.

Proposal:

The Senate Democrats "Putting Wealth to Work" Plan includes the following priority proposal to support children in long-term foster care and those who lost parents or caregivers due to COVID:

The HOPE Account Program would be established in and administered by the State Treasurer, to provide eligible children with a state funded trust account.

The program would provide a deposit into the trust account of $4,000 for children under 10 years of age and $8,000 for children 10 years of age or older.

The bill defines "eligible children" as a minor resident of California who is under the age of 18 and meets one either of the following:

- Their parent or guardian died and the cause of death for the parent or guardian is listed as COVID-19 on their death certificate or they die as a consequence of having long-term COVID-19 and the minor's family household income (considering the income prior to death of the parent) is at or below the income that would make the child eligible for Medi-Cal benefits or the state medium income for the previous year, whichever is more.

- Has been adjudged a dependent child of the juvenile court, pursuant to existing law under Welfare and Institutions Code, who has:
    - Been subject to a foster care order and;
    - has been in foster care for at least 12 months;
    - that the court has determined is not likely to be able to return to the home of their parent or legal guardian, and;
    - that the court has made an order for adoption, tribal customary adoption, legal guardianship, placement with a fit and willing relative, or another planned permanent living arrangement.

A HOPE Account Program enrollee would be able to withdraw or transfer funds from their HOPE trust account on or after their 18th birthday, or for non-minor dependents, on and after their 21st birthday or upon exit from foster care if prior to 21 years of age.

Staff Comments: This proposal would be a start to providing an opportunity for low-income children, with limited family support to achieve some additional financial stability as they age into adulthood. While the program could be expanded to a larger pool of low-income children in future years, the proposal is to take the first step focusing on children in the foster system and low-income children impacted by the loss of a parent due to the COVID-19 pandemic.

Staff Recommendation: Information Only

0509 Governor's Office of Business and Economic Development (GO-Biz)

Issue 22: Local Government Budget Sustainability Fund

Budget. The Governor's budget provides statutory changes to establish the Local Government Budget Sustainability Fund to provide short-term grants to local entities facing significant challenges to their near-term sustainability, but demonstrate a clear commitment to advancing a more climate-resilient local economy. This request also includes $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 to support this program.

Background. According to the BCP, the overall policy goal for the Local Government Budget Sustainability Fund is to support targeted local county governments facing future and current threats to the sustainability of their local revenues and services, while empowering these counties to pursue economic diversification initiatives and projects that will provide long-term stability. These grants will inject funds into county-led projects that are aimed at process improvement, economic diversification, climate technologies, economic development, job mobility, and job creation. As these economies grapple with the impacts of COVID-19 and climate change, these grants will offer flexibility to the qualified counties enabling investment in opportunities for future economic resilience, without the need to reduce necessary allocations for vital services.

GO-Biz requests statutory changes to establish the Local Government Budget Sustainability Fund to provide grants to counties that both are facing sustainability challenges and are committed and willing to advancing a more climate-resilient local economy. GO-Biz also requests $100 million General Fund in 2023-24, $100 million in 2024-25, and $250 million in 2025-26 for this program. Counties will be selected based on Designated Geographic Areas (DGA) inclusive of High Poverty and High Unemployment counties from January 2022 California Competes Tax Credit list of High-Poverty and High Unemployment Areas listing and all subsequent changes to the DGAs under future CalCompetes application periods until funds have been exhausted.

This proposal was previously heard in subcommittee on February 9, 2022, however Trailer Bill Language for this proposal was not released until February 24, 2022. The trailer bill describes the grant as intended in the following way:

"This article is intended to focus on providing short-term support for county government services in areas of the state facing high unemployment or high poverty that demonstrate a commitment to advancing a more climate-resilient local economy and pursuing economic diversification initiatives and projects that will provide long-term budget stability. *Funds provided under this article are intended to enable county governments to pursue a range of projects that have the potential to diversify their industry presence and create high road jobs, while allowing for the unmitigated continuation of constituent services*."

The program would provide grants on a rolling basis to local entities. Go-Biz shall develop, in consultation with other state agencies and departments, as it sees fit, criteria for the selection of grant recipients, which shall include, but not be limited to, all of the following:

- Applicants shall be limited to county governments in high unemployment or high poverty areas. For purposes of this grant program, high unemployment and high poverty areas are defined as geographic areas with a poverty rate or geographic rate that is 150 percent of the California statewide poverty rate, per the most recently updated data available from the United States Census Bureau's American Community Survey 5-Year Estimates on or after January 1, 2022.

- Applicants shall explain current challenges to local revenue sustainability with the next four years, and specifically challenges that pose a risk to the ability of applicants to continue existing government services.

- Applicants shall explain how funding secured from this program will be used to support its ability to pursue projects that would advance one of the following three categories:

    - Process Improvement Projects

    - Economic Diversification and Stability Projects

    - Workforce Development Projects

Go-Biz shall report to the Legislature on an annual basis on the dollar amounts and number of grants provided to each local entity.

The office shall evaluate and prioritize grants, to the extent permissible under state and federal equal protection laws, in accordance with the following criteria:

- Assessment of proposal details
- Assessment of coalition-building capacity
- Other qualitative and quantitative measures determined by the specific project or grant application utilizing these funds for required match funding.

Eligible uses for grant funds shall include, but are not limited to:

- Staffing requirements, position classifications, and wages
- Projects Costs
- Match Funding

Legislative Analyst's Comments:

The 2021-22 Budget Act included $600 million one-time American Recovery Plan (ARP) Act fiscal relief funds to start a Community Economic Resilience Fund (CERF), a new grant program for regions to develop and implement regional plans to diversify their economies and develop sustainable industries, including zero-emission vehicle infrastructure, climate resilience, transit systems, biomass projects, offshore wind, and oil well capping and remediation. As of early February 2022, the Governor's Office of Planning and Research, the California Labor Workforce Development Agency, and GO-Biz still are developing the CERF. Proposed budget bill language in Control Section 11.96 would change the funding source for the CERF from federal ARP fiscal relief funds to General Fund.

The LAO notes that the Administration is still developing its statewide economic recovery and economic diversification framework, the Just Transition Roadmap, and the CERF. Once the Administration has more clearly articulated its economic recovery and economic diversification objectives, it may be able to better answer the following questions:

- Would the Local Government Budget Sustainability Fund Complement Other State Economic Development Initiatives? The proposal lacks many key details, such as what projects would be eligible and the award criteria. We cannot evaluate the merits of this proposal until we better understand the objectives of the CERF in the context of the statewide Just Transition framework.
- What Amount of Funding Is Appropriate and Necessary? The proposal does not provide a justification for the amount requested. The CERF was funded at $600 million. The proposed Local Government Budget Sustainability Fund, which is intended to fill gaps in the CERF, is a relatively large amount of money. With more information about the scope of the Administration's statewide economic diversification objectives, the Legislature will be able to better assess whether a total of $600 million, $1.05 billion, or some other amount is most appropriate.

Staff Comments:

Staff is concerned that the proposal provides broad discretion to Go-Biz to set project criteria and funding amount and the Legislature does not have a clear understanding of how projects would actually be selected, funded, and provided oversight. Staff is also concerned that the proposal does not seem to have a clear path to meeting the intent noted; while funds for projects may be needed, it is unclear that investment towards future economic improvements protect constituent services in the short term. Finally, Staff notes that funds are not appropriated until 2023-24, and given the need for additional clarity on the proposal, the Legislature may wish to ask for an updated proposal to be instead submitted in the next budget cycle.

Suggested Questions:

- Specifically, how does this proposal complement the CERF program?
- How did the Administration determine the amount of funding needed for this proposal? Why is the funding split - $100 m for the first two years and $250 million the last year?
- How much in grant funding would each local entity likely receive?
- How does the grant provide for the immediate needs of local governments in stabilizing revenue for local constituent services as noted in the intent language?
- What feedback has the Administration received from local government entities that may be eligible for these funds?
- Why did the Administration provide Go-Biz with broad discretion in setting grant criteria and funding amounts?
- What accountability measures are in place to ensure funds are used appropriately and projects are meeting their objectives?

Staff Recommendation: Hold Open

Issue 23: Combatting Organized Retail Theft

Budget Request. The Governor's budget requests $20 million one-time General Fund in 2022-23 for GO-Biz to develop and distribute grants to small businesses that have been the victim of retail theft or that have suffered damage caused during retail theft incidents. The $20 million is part of a larger request on combating organized retail theft. This Subcommittee will focus on the GO-Biz funding. This proposal was heard on February 9, 2022, however at that time trailer bill language describing the program was not available. Trailer bill language was released on April 25, 2022 on the Department of Finance Website.

The Trailer Bill provides the following details on the proposal:

To be eligible for the program, a small business must be:

1) A small business as defined:

a. A sole proprietor, independent contractor, 1099 employee, C-corporation, S-corporation, cooperative, limited liability company, partnership, or limited partnership, with an annual gross revenue of no greater than five million dollars ($5,000,000), but greater than five thousand dollars ($5,000), in their most recent taxable year

b. A registered 501(c)(3), 501(c)(6), or 501(c)(19) nonprofit entity with an annual gross revenue of no greater than five million dollars ($5,000,000), but greater than five thousand dollars ($5,000), in their most recent taxable year.

2) Experienced retail theft at their commercial property on or after January 1, 2022

3) Is currently active or operating or has a plan to reopen when repairs have been made to the applicant's business

4) Provide documents including business permit, state tax return, copy of filing with Secretary of State

5) Acceptable form of government-issued photo identification.

Defines retail theft to mean a crime or crimes in California that meets the following:

1) Robbery, as defined in Section 211 of the Penal Code
2) Arson, as defined in Section 451 of the Penal Code.
3) Burglary, as defined in Penal Code Section 459.
4) Shoplifting, as defined in Section 459.5 of the Penal Code.
5) Larceny, as defined in Section 484 of the Penal Code.
6) Grand theft, as defined in Section 487 of the Penal Code.
7) Petty theft, as defined in Section 488 of the Penal Code.
8) Vandalism, as defined in Section 594 of the Penal Code.
9) Trespassing, as defined in Section 602 of the Penal Code .

Provides that the retail theft was reported to law enforcement agency that accepted the report and either the law enforcement agency concluded the business was a victim of retail theft or an insurance claim concluded the business was a victim of retail theft. Results in cumulative physical losses of over $5,000. These losses would not include those covered by insurance.

Grants will be awarded on a first come, first serve basis as follows:

1) $5,000 for applicants with an annual gross revenue greater than $5,000 and up to $100,000 in their most recent taxable year

2) $15,000 for applicants with an annual gross revenue greater than $100,000 and up to $1,000,000 in their most recent taxable year.

3) $25,000 for applicants with an annual gross revenue greater than $1,000,000 and up to $5,000,000.

Of the total fifteen percent would be used for Administrative costs. According to CalOSBA and GoBiz, this allocation allows for three percent for staffing within the state agency, and the remaining twelve percent to contract with a vendor to do the complex work of verifying documentation as noted above.

Staff Comments:

Funding under this program would likely reach only a fraction of businesses, and the proposal is broad in its definition of business and does not limit the applicants to retail businesses, which in January appeared to be the focus of the proposal. In addition, the first-come, first serve nature of the grants may result in less of the funds reaching smaller, or less established businesses who may need the additional funding the most. Staff has concerns that this proposal raises a variety of questions that may need additional review on a very short time frame given the delay in receipt of proposal details. Staff also notes that CalOSBA would be seeking to contract out this program to a third party vendor. Staff notes that with the administrative costs, there would be $17 million available for grants.

Given that the grants are not tied specifically to damages and that this one time program would not necessarily result in an equitable distribution of funds, staff notes that the Legislature may wish to consider providing funds to one of the existing small business grant programs established for pandemic relief and provide for an additional round of grants or an increased allocation to current grantees.

Suggested Questions:

- What data does the Administration have on the need for these grants? How many businesses are anticipated being served with the $17 million? What is the Administration's plan if the program is oversubscribed?

- How does this plan ensure that the small businesses with the greatest need for funds will receive fair access given the first-come first-serve nature of the grants and the paperwork required?

- Why is fifteen percent needed for Administrative costs?

- Why did the Administration design the program to provide grants based on gross revenues rather than actual damages related to incidents? Does this mean that a smaller business with greater damages could receive less than a larger business with small damages?

Staff Recommendation. Hold Open