Senate Budget and Fiscal Review

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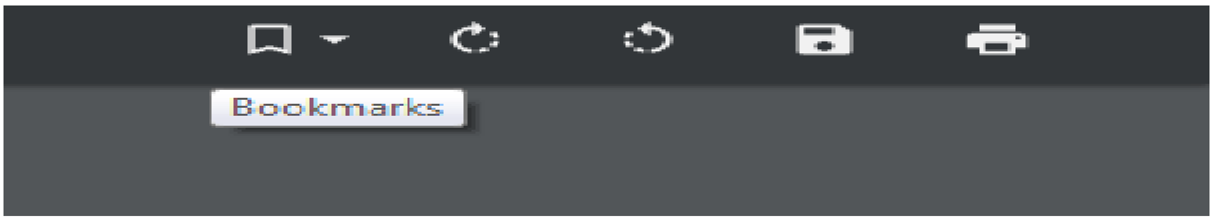

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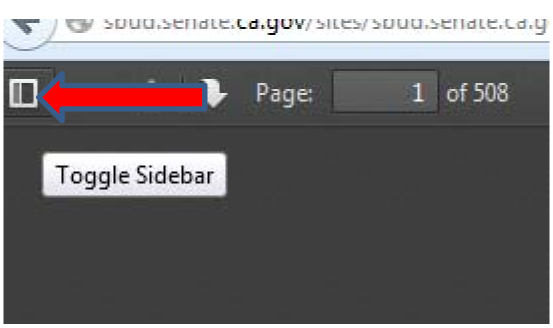

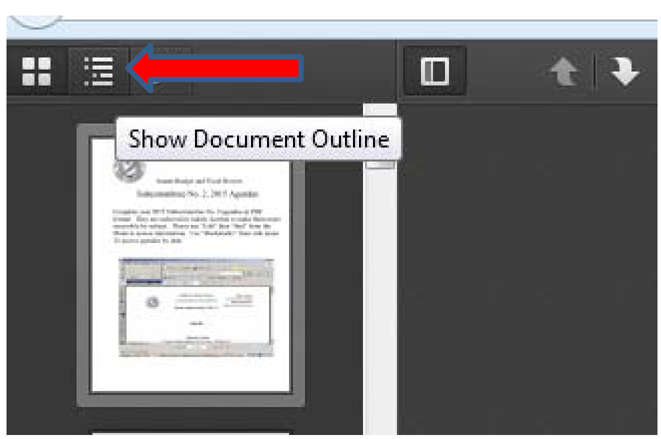

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday, March 5, 2020
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2040

Consultants: James Hacker and Meron Tesfaye

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION

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ISSUES PROPOSED FOR VOTE-ONLY

0650 Office of Planning and Research (OPR)

Issue 1: Greenhouse Gas Reduction Fund Technical Adjustments

The budget includes an extension and re-appropriation of funds received from the Greenhouse Gas Reduction Fund (GGRF) for the Transformative Climate Communities (TCC) Program and the Climate Change Research (CCR) Program.

The Legislature appropriated $10 million in GGRF funds to the Strategic Growth Council (SGC) in the Budget Act of 2017 of which $9.5 million was allocated for local assistance to TCC Round 2 grantees. Currently, the liquidation deadline for this appropriation is June 20, 2026. In the Budget Act of 2018, the Legislature appropriated an additional $40 million, of which $38 million was allocated for local assistance to TCC Round 2 grantees. Currently the liquidation deadline for this appropriation is June 30, 2022, earlier than the 2026 deadline for the other appropriations. Reappropriating these funds would allow OPR to complete the 7-year grant agreements typical in TCC projects.

In the 2018-19 budget, the Strategic Growth Council was allocated $18 million in California Climate Investments Program funds to administer a second round of grant awards to support the California Climate Change Technology and Solutions Initiative. Currently, the grants from the 2017 appropriation are scheduled to end in FY 2020-21, while the grants from the 2018 appropriation are scheduled to end in FY 2021-22. Given the technical nature of the grants, OPR believes that some, if not all of the grantees will need to ask for extensions to their projects. CCR program staff would like to proactively extend the liquidation periods for both the 2017 and 2018 CCR appropriations.

Issue 2: California Transportation Plan Assessment (AB 285)

The budget includes limited term funding for 1.0 position and $349,000 (including $150,000 in one time contract funding in 2020-21 and then $199,000 thereafter) from the General Fund in 2020-21 through 2022-23 to meet the statutory requirements set forth in AB 285 (Friedman), Chapter 605, Statutes of 2019.

AB 285 directs the SGC to submit a report to the Legislature by January 31, 2022 that assesses 1) how the California Transportation Plan and other transportation planning efforts influence the configuration of a statewide, multimodal transportation system, and 2) how the state’s transportation and housing grant program could be better aligned and coordinated. The limited-term resources will allow OPR to complete the report required by AB 285.

1700 DEPARTMENT OF FAIR EMPLOYMENT AND HOUSING (DFEH)

Issue 3: Protection against "Source of Income" Housing Discrimination (SB 329)

The budget requests $528,000 in General Funds in 2020-21 and ongoing and four positions for the implementation of the recently expanded definition of "source of income," a category in California's Fair Employment and Housing Act (FEHA) that protects against housing income discrimination enacted via SB 329 (Mitchell), Chapter 600, Statutes of 2019. The bill removed the exception in FEHA that previously allowed landlords to turn away otherwise qualified tenants for relying on public assistance to help them pay their rent. Consequently, SB 329 creates a new class of housing discrimination complaints that DFEH would be required to litigate, mediate or resolve. Using similar source-of-income housing discrimination jurisdictions and related complaints from many other states as an estimate, DFEH is requesting funding to respond to the incoming new class of complaints.

Issue 4: Extending Filing Deadline for Employment Discrimination (AB 9)

The budget requests $315,000 in General Funds in 2020-21 and ongoing and 3.0 positions in for DFEH to handle additional employment discrimination, harassment or retaliation complaints pursuant to AB 9 (Reyes), Chapter 709, Statues of 2019, which extends complaint filing deadline from one year to three years from last date of harm. Prior to AB 9, complaint filed indicating a last date of harm greater than one year was considered untimely and turned away. With the newly extended deadline, complaints previously deemed untimely and additional new complaints from complainants who didn't file a complaint due to the one year limitation will be considered. Using prior year in-house data of rejected untimely complaints, DFEH makes a conservative estimate that their complaint intake workload would increase by a minimum of 5.5 percent. Funding is required to cover necessary expenditure associated tracking cases, managing documentation, and staff necessary for handling increased number of calls and complaints to fully enact AB 9.

Staff Recommendation: Approve Vote Only Items as Budgeted.

ISSUES PROPOSED FOR DISCUSSION

0650 OFFICE OF PLANNING AND RESEARCH

The Office of Planning and Research (OPR) assists the Governor and the Administration in planning, research, policy development, and legislative analyses. OPR formulates long-range state goals and policies to address land use, climate change, population growth and distribution, urban expansion, infrastructure development, groundwater sustainability and drought response, and resource protection. OPR maintains and updates the General Plan Guidelines, the California Environmental Quality Act (CEQA) Guidelines, and operates the CEQA Clearinghouse. OPR also houses and supports the Strategic Growth Council (SGC).

Budget Overview: The Governor's budget proposes $660 million and 82.4 positions to support OPR in the budget year, as shown in the figure below. This is an increase of 13 positions but roughly the same level of expenditures.

3-YEAR EXPENDITURES AND POSITIONS †

		Positions			Expenditures		
		2018-19	2019-20	2020-21	2018-19*	2019-20*	2020-21*
0360	State Planning & Policy Development	12.2	21.5	22.5	$13,691	$78,077	$48,396
0365	California Volunteers	21.3	24.8	35.3	72,523	68,250	50,576
0370	Strategic Growth Council	14.0	23.1	24.6	619,957	514,111	561,640
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**47.5**	**69.4**	**82.4**	**$706,171**	**$660,438**	**$660,612**

FUNDING		2018-19*	2019-20*	2020-21*
0001	General Fund	$43,293	$100,716	$34,651
0890	Federal Trust Fund	41,659	43,839	52,784
0995	Reimbursements	803	2,256	4,274
3228	Greenhouse Gas Reduction Fund	619,799	513,080	568,074
9740	Central Service Cost Recovery Fund	617	547	829
TOTALS, EXPENDITURES, ALL FUNDS		**$706,171**	**$660,438**	**$660,612**

† Fiscal year 2018-19 budget display reflects the best available information for use in decision-making for this department and/or these fund(s). Additional review and reconciliation of 2018-19 ending fund balances will occur in the spring to evaluate if a budget adjustment is required.

Issue 5: California Volunteers Infrastructure Strategy

Governor's Budget. The budget includes 10.0 positions and $1,742,000 General Fund in FY 2020-21 and 12.0 positions and $1,689,000 General Fund in FY 2021-22 and ongoing to support California Volunteers' multifaceted investment in the service and civic engagement fabric of California.

Background. Authorized through the federal Serve America Act (2009) and Executive Order S-24-06, California Volunteers is the State Service Commission for California. The Administration has set a target of 10,000 AmeriCorps volunteers in the state. The 2019-20 budget included $20 million in one-time funds, available over two years, from the General Fund to support the expansion of AmeriCorps. In addition, this funding supported a state funded increase in the educational award provided to certain new and existing members from $6,095 (FY 2019 rate) to $10,000.

OPR has indicated that California Volunteers issued the first round of grants in the fall of 2019 to twelve new programs supporting 360 new members. These new programs are focused on building service initiatives in underserved communities in the central valley region.

Staff Comment. According to the Corporation for National and Community Service (CNCS), the federal entity that funds AmeriCorps, California ranks 47th in volunteer rate (CNCS, Volunteer Report). In 2018, the volunteer rate in California was 25.4%. This is compared to the number one ranking state, Utah, where there is a 51% volunteer rate.

OPR has indicated that this proposal serves two purposes: expanding the program support infrastructure necessary to expand to the 10,000 volunteer target, and providing resources to do volunteer outreach to recruit participating programs and individual volunteers. While there is merit in pursuing the 10,000 volunteer target, and therefore in establishing the programmatic infrastructure to achieve it, the Administration anticipates that additional state funds would be needed to work towards the goal of 10,000 service members and continue to build the service and volunteerism infrastructure for AmeriCorps. As the Administration noted in the 2020-21 Governor's Budget Summary, OPR is continuing to work on the expansion of AmeriCorps, with an updated budget request likely forthcoming in the spring. As such, it is appropriate to withhold action on this item until the full resource requirement is known.

Staff Recommendation. Hold Open.

Issue 6: Cap and Trade Expenditure Plan: Climate Resilience Research, Regional Collaboration, and Implementation

Governor's Budget. The budget includes $25 million annually for five years of proposed ongoing funding from the Greenhouse Gas Reduction Fund (GGRF) for OPR, the California Natural Resources Agency (CNRA), and the California Energy Commission (CEC) to support four complimentary climate adaptation and resilience programs.

Background. Since 2006, at the direction of Executive Order S-3-05, the state has undertaken four comprehensive climate change assessments, designed to assess the impacts and risks from climate change and identify potential solutions to inform policy actions. Each of the four assessments has focused on a specific area of inquiry and has been linked to specific policy drivers, and in some instances, to specific policy outcomes. The Fifth Assessment is scheduled to begin in the 2020-21 budget year.

AB 109 (Ting), Chapter 249, Statues of 2017, created a climate change research program within the Strategic Growth Council (SGC). The Climate Change Research Program (CCR) advances the SGC's vision to support healthy, vibrant, and resilient communities by investing in actionable, partnership-based research to inform climate actions that directly benefit California communities. The SGC is authorized to issue CCR grants pursuant to the Budget Act of 2019. There are two staff positions at SGC implementing and managing the CCR Program. SGC will administer $4.7 million from the 2019-20 Budget in 2020.

SB 246 (Wieckowski), Chapter 606, Statutes of 2015, established the Integrated Climate Adaptation and Resiliency Program (ICARP) in 2017. The program's charge is to coordinate regional and local efforts with state climate adaptation strategies in support of local implementation. Per the enabling legislation, the program currently has two components: the State Adaptation Clearinghouse, a centralized source of information and resources to assist decision makers at the state, regional, and local levels when planning for and implementing climate adaptation efforts, and the Technical Advisory Council (TAC) supports OPR in facilitating coordination among state, regional, and local agency adaptation efforts.

SB 1072 (Leyva), Chapter 377, Statutes of 2018, established the SGC Regional Climate Collaboratives (RCC) program, which support under-resourced communities to develop networks of partners to advance climate adaptation and resilience while prioritizing work in disadvantaged and vulnerable communities. SB 1072 required SGC to 1) develop technical assistance guidelines by July 1, 2020, and 2) establish a Regional Climate Collaborative Program to assist under-resourced communities to access statewide public and other grant moneys. SGC received three limited-term positions in the 2019-20 budget to develop the technical assistance guidelines required by SB 1072.

Staff Comment. The 2020-21 funding requested here is divided between the four programs described above as follows:

- Fifth Climate Assessment: $7.6 million
    - Core Technical Reports (California Natural Resources Agency): $6 million
    - Administration and Research Outreach (OPR / SGC): $600,000
    - Tribal Outreach (CEC): $1 million

- Climate Change Research Program: $5 million
    - SGC Staffing: $540,000
    - Research Grants and Core Technical Reports Fifth Assessment: $4.45 million

- ICARP (SB 246): $7.4 million
    - ICARP Strategy Development: $1.3 million
    - ICARP Monitoring, Evaluation, and Decision-Support Tools: $1 million
    - Regional Resilience Coordinators: $5 million
    - Climate Working Group; $100,000

- SB 1072: $5 million
    - Regional Climate Collaborative Grants: $5 million

The five year funding for these programs under this proposal is outlined below.

Governor's New Climate Change Research and Technical Assistance Proposals

(In Millions)

Category	Department	2020-21	2021-22	2022-23	2023-24	2024-25	Totals
SB 1072[a] implementation	SGC	$5.0	$8.0	$6.0	$8.0	$8.0	**$35.0**
Expand ICARP activities	OPR	7.4	6.8	6.5	6.7	6.7	**34.0**
5th climate change assessment	OPR, SGC, CNRA, CEC	7.6	3.2	11.7	3.3	3.3	**29.2**
Climate Change Research program	SGC	5.0	7.0	0.8	7.0	7.0	**26.8**
Totals		**$25.0**	**$25.0**	**$25.0**	**$25.0**	**$25.0**	**$125.0**

[a]Chapter 377 of 2018 (SB 1072, Leyva).

SGC = Strategic Growth Council; ICARP = Integrated Climate Adaptation and Resilience Program; OPR = Governor's Office of Planning and Research; CNRA = California Natural Resources Agency; and CEC = California Energy Commission.

Source: LAO

The ICARP program has been well-received at the local level, and expanding the services the program offers has merit. Additionally, the Legislature funded the development of the Regional Climate Collaborative grant program in the 2019-20 budget with the understanding that OPR would fund the grants in the out years.

There is merit in funding the Fifth Climate Assessment and SGC CCR, as they have provided valuable information for policy makers in the past. However, it is unclear why the requested level of funding for these programs is the appropriate level. Additionally, any decision regarding these programs should be made in the context of the larger GGRF budget.

LAO Comments

Proposals Represent Significant Expansion of State's Climate-Related Research and Technical Assistance Efforts. Providing an additional $25 million in ongoing funding for climate adaptation research and technical assistance activities would be a significant increase compared to existing funding and state-level efforts. As noted above, the state currently supports only two staff to work on the relatively narrowly scoped ICARP program, has not appropriated significant funding from the state budget for previous climate assessments, and has provided just limited-term funding for climate change research at SGC.

Proposals Focus on Important State-Level Activities. Given the significant challenges that the impacts of climate change pose for California, we believe the Governor's focus on increasing the state's adaptation efforts has merit. While much of the work to prepare for the effects of climate change needs to happen at the local level, it is appropriate for the state to help support those efforts. The state can take advantage of its economies of scale and provide guidance to help ensure that local governments' adaptation efforts are both cost-effective and consistent. As such, we find that the types of activities the Governor includes in his proposals—conducting and disseminating research, developing tools that can be widely used, clarifying statewide priorities and setting measurable objectives, and assisting vulnerable and under-resourced communities—are worthwhile areas on which to focus state-level efforts.

Proposals Are Not Only Approach for Expanding State Climate Adaptation Activities. While the types of state-level activities the Governor proposes are reasonable, his package of proposals is not the only way the state can effectively respond to climate change. The Governor's proposed funding increase provides an important opportunity for the state—and the Legislature—to set an agenda for how it wants to enhance and expand California's state-level climate adaptation efforts in the coming years. Specifically, the proposed augmentation creates a decision-making juncture around (1) what climate adaptation research and technical assistance activities the state wants to undertake, (2) how much the state wants to spend on those activities, and (3) which state-level entities should undertake them. The Governor's proposal represents one approach to answering these questions, but an alternative package with a somewhat different design could also be reasonable and help achieve key statewide climate adaptation objectives.

For example, the Legislature could develop a package that places a comparatively lesser focus on research—given all of the climate research being conducted by other state departments and universities—and greater emphasis on providing technical assistance and support to local stakeholders. In conducting research for our recent report, *Preparing for Rising Seas: How the State Can Help Support Local Coastal Adaptation Efforts*, interviewees repeatedly cited a lack of—and desire for—a state-level entity upon which they might be able to call for advice, technical assistance, comparison data, and real-world examples to help inform their adaptation decisions. The Governor's proposal to fund regional climate coordinators through ICARP could help address this need, but so too would establishing a state-funded center of climate expertise upon which local stakeholders could rely for support.

Additionally, the Governor's proposed funding level of $25 million does not represent a "right" number for state-level climate research and technical assistance efforts—the Legislature could provide a greater or lesser amount of funding depending on what is needed to support the activities it deems to be priorities. Moreover, the Governor assigns most of his proposed climate response activities to OPR and SGC. While these offices have been involved in the state's nascent adaptation efforts, so too have

CNRA and several of its departments. The Legislature could consider a different governance structure around which to organize augmented climate adaptation technical assistance and research efforts. For example, it could follow a more centralized approach—such as by tasking most responsibilities to one department—or a more decentralized approach—such as by assigning discrete initiatives and funding to a wider array of state departments.

Lack of Statutory Framework for New Policy Initiatives Limits Legislative Direction and Oversight. The Governor does not propose statutory language to implement any of the components of this new $25 million GGRF proposal. While the Legislature frequently grants the administration broad authority to implement programs through budget appropriations, such an approach does not provide the same level of legislative input and oversight as legislation. Clarifying program goals and design components in statute provides more specific direction to the administration about how the program should be implemented in a way that reflects legislative priorities. Moreover, such statutory guidance gives the Legislature—and the public—a legal framework for holding the administration accountable in following those directions.

The Governor's various proposals would represent a significant expansion of the state's climate adaptation efforts and would make several new or previously limited-term activities into ongoing state programs. Given the Legislature's considerable interest in responding to climate change—and its previous involvement in setting goals for climate mitigation efforts—it may not want to cede full discretion to the administration by establishing these efforts only through the budget without accompanying statute to guide their implementation. We believe a greater emphasis on climate adaptation in state policy warrants a more explicit role for the Legislature.

For example, the Governor's proposal to expand ICARP activities without a statutory framework would mean that this program would have some of its activities explicitly directed by statute, and other activities—with significantly greater levels of associated funding—guided primarily by OPR's discretion. A more consistent approach would be to define all of the program's funded responsibilities in statute. The Legislature could also adopt statute that helps to direct those activities, such as by specifying the types or categories of adaptation goals on which ICARP should focus when developing the proposed resilience metrics. Similarly, it might want to specify areas of focus for climate research, including the *Fifth California Climate Change Assessment*, to help guide future state actions. This could include specifying that the research identify the state's highest climate vulnerabilities and the best approaches to prioritize and "buy down" that risk.

Multiple Research Initiatives Might Make Strategic Coordination Difficult. The Governor's proposal includes funding for three separate climate change research programs—(1) the *Fifth California Climate Change Assessment*, for which four separate state entities would contract for original research on a number of topics; (2) the SGC Climate Change Research program, intended to fund original research projects that address climate knowledge gaps and have a particular focus on vulnerable communities; and (3) a new science advisory workgroup that would synthesize existing climate research to help guide decisions by the state and the ICARP Technical Advisory Council. These proposals are in addition to ongoing climate-related research related to the energy sector at CEC, as well as other existing state-level climate research managed by state departments such as the Delta Stewardship Council, Ocean Protection Council, and DWR. Moreover, many academic institutions around the state—including the UC system, Stanford, and the University of Southern California—are also making climate change a central focus of their research. As noted above, we believe conducting scientific research to inform adaptation decisions at both the state and local levels is both an appropriate and worthwhile activity for the state to take on. Because of their scale, state-level efforts often are more cost-effective than individual jurisdictions attempting to conduct their own research, and can help ensure that adaptation efforts undertaken across the state are informed by data that is consistent. However, the multiple initiatives and departments associated with the Governor's proposal could make it difficult to ensure that state funding for research is used in the most effective and strategic manner. Careful coordination would be necessary to ensure these numerous research efforts are complementary and not duplicative, each initiative and managing department has a specific and distinct focus, and the selected research topics are broadly beneficial and applicable for informing state and local adaptation decisions.

Staff Recommendation. Hold Open.

Issue 7: Legislative and Legal Staff Increase

Governor's Budget. The budget includes $357,000 from the General Fund in 2020-21 and ongoing to establish 2.0 positions to support OPR's growing amount of legal and legislative work.

Background. There are a number of statutory obligations and budget programs at OPR that require legal review and attention. The core OPR budget programs include Planning and Policy, Strategic Growth Council (SGC), and California Volunteers. In addition in recent years, multiple new statutory obligations and funding programs have been added to OPR, including the Integrated Climate Adaptation and Resiliency Program (2015), Federal Grants Administrator (2016), Precision Medicine (2016), the Online Learning Lab (2018), Commission on Catastrophic Wildfire Cost and Recovery (2018), Cradle-to-Career (2019), the Higher Education Innovation program (2019), as well as additional funding to California Volunteers for Emergency Preparedness Grants and new and expanded grant programs at SGC.

Staff Comment. OPR has indicated that the staffing for the legal and legislative work has not kept pace with the significant growth at OPR and its various statutory obligations and budget programs over the past few years. Specifically, OPR has seen an increase in the number of grant programs that require contract development and execution (which requires legal workload), as well as an increase in PRA requests and litigation.

Additionally, OPR has indicated that they anticipate that there may be statutory changes to CEQA that would require OPR to propose parallel regulatory changes to CEQA's implementing guidelines, known as the CEQA Guidelines. The most recent proposed update included changes to approximately 30 different sections of the CEQA Guidelines and took five years to complete the pre-rulemaking and rulemaking processes. This process required 0.5-0.75 FTE of attorney time.

Since 2013, the number of proposed bills expressly naming OPR or SGC has steadily increased. In the 2013-2014 legislative session, 28 bills directed OPR or SGC to take on new responsibilities, alter aspects of existing programs, or assist other agencies with their programs. This increased to 30 bills in the 2015-2016 legislative session, and 34 bills in the 2017-2018 session. In the first half of the 2019-2020 session, there are currently 38 pending bills that directly affect OPR and SGC.

Currently, OPR is trying to meet the required legal and legislative workload by shifting program work between existing attorneys. It is reasonable to believe that additional resources would allow OPR to more efficiently meet these workload requirements. However, given the uncertainty around some of the workload estimates, the appropriate level of resources is unclear.

Staff Recommendation. Hold Open.

1700 Department of Fair Employment and Housing (DFEH)

The Department of Fair Employment and Housing (DFEH) is the main agency tasked with protecting Californians from hate violence, human trafficking and unlawful discrimination in employment, housing and public accommodations. DFEH receives, investigates, conciliates, mediates, and prosecutes complaints of alleged violations of the Fair Employment and Housing Act (FEHA), Unruh Civil Rights Act, Disabled Persons Act, Ralph Civil Rights Act, the California Trafficking Victims Protection Act, and Government Code Section 11135, prohibiting discrimination in all state-funded activities and programs. DFEH also houses the Fair Employment and Housing Council, which is a seven-member body appointed by the Governor, that researches, drafts and promulgates regulations interpreting civil right laws enforced by the Department.

Budget Overview: The Governor's 2020-21 budget proposes an overall funding of $40.6 million for DFEH. This is an overall increase of $6.9 million in funding and 43.7 in staff position allocations from baseline appropriations. This reflects an overall 17 percent funding increase and a 22 percent staffing increase for DFEH.

Operations Expenditure

Code	Program	Actual 2018-19*	Estimated 2019-20*	Proposed 2020-21*
1490	Administration of Civil Rights Law	$32,093	$36,196	$39,895
1495	Fair Employment and Housing Council	$10	$10	$222
1500	Department of Justice Legal Services	$185	$415	$429
Total Expenditures (All Programs)		$32,288	$36,621	$40,546

Staffing Expenditure

Code	Program	Actual 2018-19*	Estimated 2019-20*	Proposed 2020-21*
1490	Administration of Civil Rights Law	215.7	195.5	238.2
1495	Fair Employment and Housing Council	-	-	1.0
1500	Department of Justice Legal Services	-	-	-
Total Positions (All Programs)		215.7	195.5	239.2

Expenditure by Fund

Fund Code	Fund	Actual 2018-19*	Estimated 2019-20*	Proposed 2020-21*
0001	General Fund	$26,921	$30,609	$34,275
0890	Federal Trust Fund	$5,105	$5,750	$5,735
3246	Fair Employment and Housing Enforcement and Litigation Fund	$262	$262	$536
Total Expenditures (All Funds)		$32,288	$36,621	$40,546

*Dollars are in thousands

Issue 8: Addressing Increased Enforcement and Administrative Workload

Governor's Budget. This budget proposal seeks to increase DFEH expenditure by $6.1 million in 2020-21, $6.4 million ongoing and by 36.7 positions to support increase in volume of civil rights complaints. This is a 17 percent funding increase and a 19 percent staffing increase from last fiscal year allocations.

Background. California DFEH received 28,633 complaint intake forms in 2019 from a range of areas including employment, housing, civil rights violation and, human trafficking. Half of those complaints, had grounds for immediate right to sue while more than a quarter resulted in filed cases where cases were investigated and ultimately resulted in mediation, settlement, litigation, high priority systemic cases or other resolutions. For the last five years, DFEH has seen a continuous rise in the volume of complaints. The last two years respectively reported 18 and 28 percent more complaints relative to 2016-17, which marks the last administrative workload staffing increase. The department attributes this rise to increased outreach and education efforts, increased statutory jurisdiction, complainants and advocates preference to pursue cases in California, changing social norms, and heightened media attention and public awareness. Recently, DFEH has restructured its screening process to an early stage in an effort to prioritize meritorious cases and perform strategic investigations and prosecutions to deter future discrimination and harm. Consequently, DFEH staff with legal and civil rights expertise are utilized early in the process to identify and track cases with strong evidence and potential for systemic litigation. With the increased volume, DFEH has been experiencing strains like an 11-month backlog in the Appeals Unit, 50-minute average call wait times in the Communications Center, and multiple un-litigated systemic cases.

Staff Comment. Proposed DFEH allocation of funds is going towards:

- $4.8 million in General Funds to expand DFEH state positions by 36.7 new full-time slots including single staff for FEH Council workload.
- $713,000 in General Funds for operational expenses including case management tracking licenses and long-term expert witness retainer agreements. Combined with the staffing request above, this reflects an overall increase of 19 percent in staffing and 16 percent in overall operations expenditure.
- $274,000 increase from currently appropriated of $262,000 (totaling $536,000) for attorney fees and litigation related expenses from the FEH Litigation Fund.
- $9,000 in General Funds to increase the Fair Employment and Housing (FEH) Council activities baseline funding of $ 10,000. FEH Council has been holding more public meetings which has resulted in high operations and unanticipated expenditure.
- $250,000 in General Funds to fund expansion of the Elk Grove Office, and lease new space in Riverside. DFEH has five offices across the state, however, the highest volume of complaints received originate in Southern California, which is served largely by the Los Angeles office.

While request for increased administrative and enforcement resources given the increase in workload is merited, the funding request reflects a potentially large undertaking for the requested staff positions. The budget requests for permanent staff, which begs further clarification on the future trend of the volume of complaints. Lastly, litigation costs for the department reflect a notable rise that is worth further clarification.

Staff Recommendation. Hold Open.

2240 CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

The Department of Housing and Community Development's (HCD's) mission is to preserve and expand safe and affordable housing opportunities and promote strong communities for all Californians by (1) administering housing finance, economic development, and community development programs, (2) developing housing policy and advocating for an adequate housing supply, and (3) developing building codes and regulating manufactured homes and mobilehome parks. HCD also provides technical and financial assistance to local agencies to support community development.

The California Housing Finance Agency's (CalHFA) mission is to create and finance progressive housing solutions so that more Californians have a place to call home. The agency is financially self-supporting, setting loan interest rates slightly above its costs and charging fees to cover investments related to bond proceeds. Since 2013, pursuant to the Governor's Reorganization Plan No. 2 of 2012, CalHFA has been displayed within HCD's budget and reports to the Business, Consumer Services, and Housing Agency.

Governor's Budget: The budget provides $1.8 billion and supports 909 positions at HCD in 2019-20, including roughly 234 positions at the California Housing Finance Agency. This is a decrease of roughly $800 million from 2019-20, largely due to the large infusion of one-time grant funds provided to HCD in the 2019-20 budget.

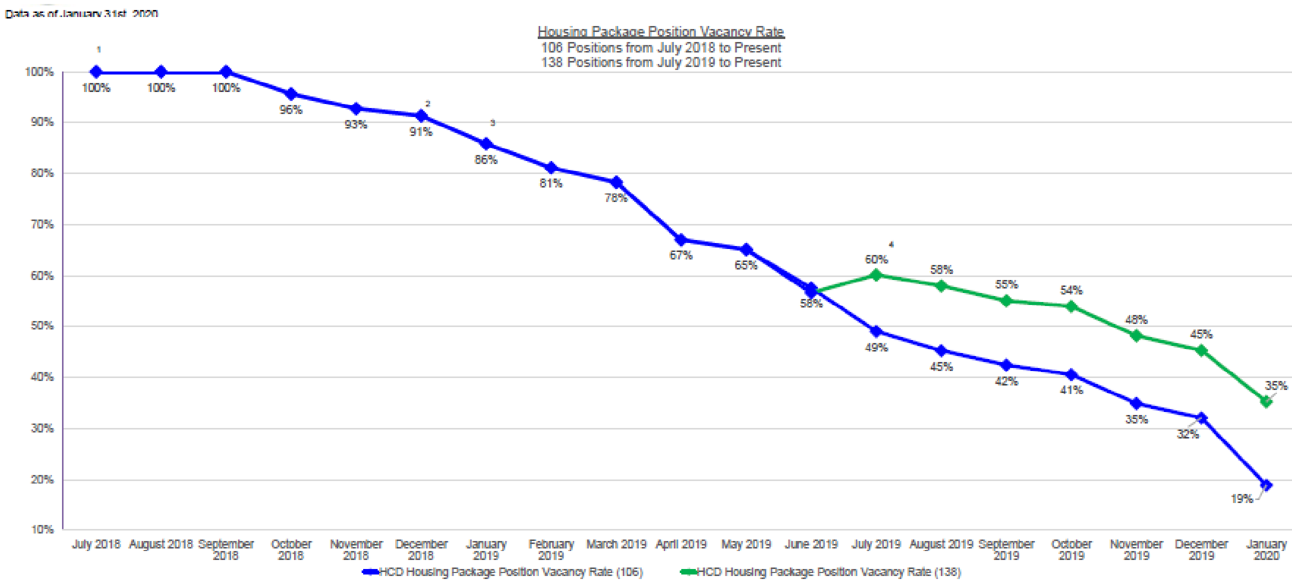
3-YEAR EXPENDITURES AND POSITIONS †

		Positions			Expenditures		
		2018-19	2019-20	2020-21	2018-19*	2019-20*	2020-21*
1660	Codes and Standards Program	170.2	173.7	179.4	$34,944	$37,198	$40,913
1665	Financial Assistance Program	274.1	308.2	331.2	2,069,252	2,299,191	1,727,713
1670	Housing Policy Development Program	39.1	53.1	57.0	131,412	275,463	37,903
1675	California Housing Finance Agency	200.2	234.2	234.2	35,532	43,133	42,477
1680	Loan Repayments Program	-	-	-	-1,944	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-167	-178	-179
9900100	Administration	117.5	106.8	107.2	22,512	25,768	27,324
9900200	Administration - Distributed	-	-	-	-22,512	-25,768	-27,324
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**801.1**	**876.0**	**909.0**	**$2,269,029**	**$2,652,863**	**$1,846,883**

† Fiscal year 2018-19 budget display reflects the best available information for use in decision-making for this department and/or these fund(s). Additional review and reconciliation of 2018-19 ending fund balances will occur in the spring to evaluate if a budget adjustment is required.

Issue 9: Update on Implementation of Recent Legislation and Other Administrative Issues

Background. Numerous pieces of legislation passed in the 2017-18, and 2018-19 sessions resulted in increased workload at HCD. As a result, HCD was provided with more than 200 additional resources over the last two budget cycles to implement these bills. To-date, HCD has taken steps to fill these positions and implement the requirements of these bills. HCDs staffing level and vacancy rate related to these bills is summarized below.



Additionally, HCD has taken action to modify the timelines of the numerous grant programs administered by the department, consistent with current law. This has been intended to ease the administrative burden on HCD and streamline the application process for grant recipients. The updated program timelines impacted by this effort is detailed on the next page.

Questions for the Department:

- What is HCD doing to fill the remaining vacancies in a timely manner?
- What is a reasonable vacancy rate for the department?
- What issues has HCD encountered while seeking to fill these positions, and what has the department done to address them?
- How does the updated NOFA timeline impact the department? How does it impact grantees?

Staff Recommendation: Oversight item, no action required.

California Department of Housing and Community Development

Notice of Funding Availability Calendar

2019/20 Q2 Update - 10/11/2019

IMPORTANT UPDATE:
The NOFA calendar below reflects recent efforts by the Department to re-seuqence NOFA issuance. As a result, program NOFA, application and award dates may have changed. Programs identifed by * below are part of this re-sequencing plan.

		FY 2019/20									FY 2020/21					
		Qtr 2			Qtr 3			Qtr 4			Qtr 1			Qtr 2		
		Oct-19	Nov-19	Dec-19	Jan-20	Feb-20	Mar-20	Apr-20	May-20	Jun-20	Jul-20	Aug-20	Sep-20	Oct-20	Nov-20	Dec-20
Funds Available by Quarter		$1.695 Billion			$708 Million			$283 Million			$369 Million			$541 Million		
Ongoing Programs NOFA Amounts in Millions																
AHSC			NOFA $550			Apps Due				Awards				NOFA $400		
VHHP			NOFA $75		Apps Due				Awards						NOFA $75	
CDBG [1]	Competitive				NOFA $80			Apps Due				Awards				
	Non-Competitive						Applications Over-the- Counter									
HOME [1]		NOFA $42			Apps Due				Awards	NOFA $35		Apps Due			Awards	
ESG [1]						NOFA $11		Apps Due		Awards						
[1] Federal funds available to non-entitlement jurisdictions only. NOFA amounts are based upon 2018 funding levels and are subject to change																
SB2 - Building Jobs and Homes Act (Dedicated Source) NOFA Amounts in Millions																
CESH		** all funds awarded **														
PLHA * Formula	Entitlement					NOFA $179		Applications Over-the-Counter				Awards				
	Non-Entitlement															
PLHA Competitive												NOFA $13		Apps Due		
Planning Grants		Over-the Counter														
Farmworker		**SB2 Farmworker funding will be released in conjuction with Serna Program NOFA under SB3 - see detail below														
No Place Like Home (Prop 2) NOFA Amounts in Millions																
NPLH	Non-Competitive															
	Competitive	NOFA $622			Apps Due					Awards						
SB3 - Veterans and Affordable Housing Bond Act (Prop 1) NOFA Amounts in Millions																
MHP				Awards	NOFA $175		Apps Due			Awards	NOFA $175		Apps Due			Awards
CalHOME *			NOFA $57		Apps Due				Awards							
SERNA *				NOFA $70		Applications Over-the-Counter				NOFA $70		Applications Over-the-Counter				
LHTF *								NOFA $57		Apps Due			Awards			
IIG		NOFA Issuance Date Pending - see timing for IIG (2019/20 General Fund Allocation) below														
TOD *								NOFA $75		Apps Due				Awards		
Other NOFA Amounts in Millions																
IIG	Competitive	NOFA $194			Apps Due			Awards				NOFA $194		Apps Due		
	Over-the-Counter	NOFA $85			Applications Over-the-Counter											
HHC (NTHF)				Awards		NOFA $33			Apps Due				Awards			
MPRROP *									NOFA $46		Applications Over-the-Counter				NOFA $46	
Local Early Action Planning					NOFA $125	Applications Over-the-Counter										
Regional Early Action Planning						NOFA $125	Applications Over-the-Counter									

NOTE: Timelines and NOFA amounts are subject to change

California Department of Housing and Community Development — Published 10/14/2019

Issue 10: Workload Resources (Various Legislation)

Governor's Budget. The budget includes a General Fund augmentation of $5.06 million for 22.0 positions in 2020-21, $4.13 million for 22.0 positions in 2021-22, $3.97 million for 17.0 positions in 2022-23 and $3.81 million for 16.0 positions in 2023-24 and ongoing to address workload associated with the enforcement of housing laws passed during the 2019 legislative session.

Background. HCD issues grants and loans to create and preserve affordable housing opportunities, registers mobilehomes, protects the health and safety of Californians by enforcing standards for housing construction, plays a critical role in the planning process, and develops policies that support housing and community development. As in recent years, 2019 saw the passage of a number of bills dealing with housing-related issues. These bills will likely drive increased workload at HCD.

Staff Comments. The relevant 2019 bills include the following:

Bill	Description	Request
AB 143 (Quirk-Silva), Ch. 336, Statutes of 2019	Review and approve homeless shelter ordinances in Orange County, Alameda County, and San Jose	1.0 PY through 2023, $159,000 per year through 2022-23
AB 173 (Chau), Ch. 448, Statutes of 2019	Manage the extension of a limited tax amnesty program for mobilehome owners	$524,000 in one-time funds
SB 280 (Jackson), Ch. 640, Statutes of 2019	Propose building standards for aging-in-place home designs	1,0 PY through 2022 $176,000 in 2021-22, $160,000 in 2022-23
SB 13 (Wieckowski), Ch. 653; AB 881 (Bloom), Ch. 659; AB 68 (Ting), Ch. 655; and AB 671 (Friedman), Ch. 658, Statutes of 2019	Auxiliary Dwelling Unit (ADU) related legislation	3.0 PYs $552,000 in 2020-21, $521,000 ongoing
AB 1010 (Eduardo Garcia), Ch. 660, Statutes of 2019	Technical Assistance and grant administration for tribal authorities	3.0 PYs $688,000 in 2020-21 $641,000 ongoing
AB 1255 (Robert Rivas), Ch. 661, Statutes of 2019	Provide lists of surplus properties to the Department of General Services	0.5 PY $96,000 ongoing

AB 1483 (Grayson), Ch. 662, Statutes of 2019	Develop a 10-year housing data strategy to inform policy development and enforcement	4.0 two-year limited term PYs $945,000 in 2020-21 $685,000 in 2021-22
AB 1485 (Wicks), Ch. 663, Statutes of 2019	Technical Assistance for a streamlined ministerial approval process for certain Bay Area affordable housing	1.0 PY $203,000 in 2020-21 $187,000 ongoing
AB 1486 (Ting), Ch. 664, Statutes of 2019	Post available surplus properties and enforce surplus land laws	4.0 PYs $929,000 ongoing
SB 6 (Beall), Ch. 667, Statutes of 2019	Review annual submissions of land available for residential development from local governments	0.5 PY $96,000 ongoing
SB 330 (Skinner), Ch. 654, Statutes of 2019	Technical assistance to local governments related to housing permitting	2.0 PYs $413,000 in 2020-21 $382,000 ongoing
N/A	Administrative support related to the above legislation	2.0 PYs $275,000 ongoing

While it is reasonable to believe that the above bills will drive significant additional workload at HCD, the Legislature should ensure that HCD is administratively and practically capable of onboarding this many new resources within the required timeframe and without interruption to existing activities.

Staff Recommendation: Hold Open.

Issue 11: Transit Oriented Development Program Alignment

Governor's Budget. The budget includes an appropriation increase of $53,146,000 in 2020-21 and $37,246,000 in 2021-22 in local assistance for the Transit Oriented Development (TOD) Program.

Background. The TOD Program was established through Proposition 1C in 2006 by Chapter 27, Statutes of 2006, to develop or facilitate higher density housing and mixed-use developments within one-quarter mile of transit stations and to encourage increased public transit ridership. HCD awarded $300 million for TOD projects through three funding rounds in 2007-08, 2009-10, and 2013-14, all of which were substantially oversubscribed. While Proposition 1C funds were fully awarded by 2013-14, $15.9 million is available due to disencumbrances and project incompletion.

Chapter 364, Statutes of 2017 enacted Proposition 1, which authorized $2.85 billion in bonds for HCD-administered housing programs and is the first significant investment in existing programs since enactment of Proposition 1C in 2006. Proposition 1 allocated $150 million to fund additional housing projects through the TOD program. In implementing Proposition 1, HCD assumed all programs would be awarded over a four year period. Based on this assumption, the annual appropriation for the TOD program would be $37,246,000 per year over four years.

Staff Comments. The department has indicated that with this change, HCD would award all Proposition 1 and $15.9 million in remaining Proposition 1C TOD funds over two years: $90,392,000 in 2020-21 (includes $74,492,000 in Proposition 1 TOD funding and $15,900,000 in remaining Proposition 1C TOD funding) and $74,492,000 in Proposition 1 TOD funding in 2021-22. This would allow the department to increase the average award size for these funds. Substantially increasing the size of the funding rounds will increase developer interest and result in more competitive applications and ultimately better housing and infrastructure projects. This would also enable HCD to more efficiently review and evaluate the TOD applications.

Staff Recommendation. Approve as Budgeted.

Issue 12: Federal Community Development Block Grant - Disaster Recovery Grant Adjustment

Governor's Budget. The budget includes a Federal Trust Fund augmentation of $87,359,000 for local assistance in 2020-21 and $184,000 in state operations for 1.0 position in 2020-21, and $169,000 ongoing to oversee the distribution of the 2017 Community Development Block Grant – Disaster Relief (CDBG-DR) funds for disaster preparedness and mitigation needs.

Background. In late 2017, California experienced severe wildfires in Northern and Southern California. In response to these fires, Congress approved $212,374,000 in CDBG-DR funds for necessary disaster recovery expenses. On April 10, 2018, the Department of Housing and Urban Development (HUD) announced California would receive $124 million for recovery and $88,219,000 for preparedness and mitigation needs.

Staff Comments. In late 2018, HUD determined that HCD's existing information technology (IT) infrastructure was not sufficient for HCD to continue to administer CDBG-DR grants. HUD is now requiring HCD to procure additional IT systems as a precondition of receiving CDBG-DR funds. The Budget Act of 2019 included resources to 1) procure an IT system that would meet HUD's requirements, 2) establish four permanent staff to create a Disaster Response and Recovery (DRR) unit at HCD, and 3) $250,000 for a consultant contract to perform a local needs assessment and data compilation related to the 2018 Camp and Woolsey wildfires.

The one requested position will implement a Grants Management system as required by HUD. The proposed system will be utilized for HCD's current CDBG and pending CDBG-DR funds and must be able to track all financial transactions based upon Generally Accepted Accounting Principles (GAAP) and have an external online portal for clients to submit information. The proposed IT specialist position will have a workload dedicated to managing the vendor's implementation of the new system and will and act as liaison with the vendor on an ongoing basis to identify support needs. The vendor will provide the systems training and direct support. The department has indicated that this will allow them to administer and distribute the $87.4 million in federal CDBG-DR funds allocated this year.

Staff Recommendation. Approve as Budgeted.

Issue 13: Housing Development Technical Assistance

Governor's Budget. The budget includes a local assistance General Fund augmentation of $10,000,000 per year for three years to provide technical assistance to local governments to help them develop new housing projects to meet State housing goals.

Background. The Legislature and the Governor have recognized that the availability of housing is a matter of statewide concern. California anticipates a population of 50 million people by 2050, underscoring the importance of adequately addressing climate change and housing goals. Further, California's high housing cost and lack of housing supply compromises the ability to access opportunity (jobs, health, stability) for families and individuals, including working families and persons with special needs.

The 2019-20 budget provided significant funding to help local governments plan for and prepare to develop additional housing. This included $500 million for the Infill Infrastructure Grant Program of 2019, as well as $250 million in grants to local governments and regional entities to plan for additional housing development and to become housing-ready. These funds were intended to provide additional resources for the governmental entities doing the hard work of planning and preparing for additional housing development - local governments.

Staff Comments. The department has indicated that, while some local and regional governments have demonstrated the capacity to put funds provided in 2019-20 immediately to use. However, others, predominantly smaller and rural governments, may struggle to do so. As such, the department has indicated that the requested funds will allow HCD to assist local governments in putting grant funds provided in 2019-20, specifically the $250 million in planning grants, to productive use.

However, the department has not provided significant detail behind how these funds will be utilized. For example, in some cases HCD will be able to provide Technical Assistance in the form of direct aid from HCD staff. In other cases, the department may have to hire outside consultants to do so. Additionally, it is unclear how these funds will be distributed across the state, or whether certain governments will be prioritized for assistance. As such, it is reasonable to delay action on this item until the department provides this additional information.

Staff Recommendation: Hold Open.

Issue 14: Employee Housing Field Inspection

Governor's Budget. The budget includes $356,000 in 2020-21 and $319,000 ongoing in reimbursement authority to fund 2.0 positions to address the increasing workload related to the inspection of Employee Housing facilities.

Background. The Legislature enacted the Employee Housing Act in 1979 and designated HCD as the enforcement agency, defining employee housing and the required permits to operate. This law was enacted for the benefit of persons living in privately owned and operated employee housing facilities to provide minimum standards for their health, safety, general welfare, and a decent living environment. Additionally, the Act also provides protection for the general public which may be impacted by conditions in and around employee housing facilities. Currently, HCD administers and enforces the Act under the Employee Housing Program (EH) in the Division of Codes and Standards. The EH program collects fees on the processing of permits to operate (PTO), inspections and re-inspections.

The U.S. Department of Labor's (DOL's) Temporary Agricultural (H-2A) Program provides housing at no cost to temporary agricultural workers. Since many of these housing facilities are statutorily defined as employee housing, they must be permitted to operate and be inspected annually or biannually by HCD. Therefore, in April of 2018, the Employment Development Department (EDD) transferred jurisdiction of all employee housing facilities to HCD. Since there is a chronic shortage of agricultural workers, the H-2A program is growing, creating an influx in regulatory requirements for HCD.

Staff Comments. Health and Safety Code section 17000 requires HCD to inspect EH facilities annually, or biannually if privately owned, and if operated employee housing facilities have five or more employees. Currently, there are 729 permitted EH facilities under HCD enforcement authority, which houses approximately 25,000 employees. Recreational companies, such as ski resorts and rafting companies, maintain employee housing for seasonal employees; however, the majority of permitted facilities house farmworkers working in agricultural-based industries including packaging and distribution facilities. EH facilities are mostly concentrated in rural agricultural areas, including the central valley and coastal communities, but may also include hotels or motels in urban areas.

In 2017-18, HCD assumed inspection responsibility from EDD for approximately 379 additional EH facilities related to agricultural workers, increasing the demand for HCD EH inspections by almost 65 percent. HCD has also seen an increase in EH facilities requesting new PTOs. HCD has been unable to meet inspection requirements with current resources, inspecting approximately only 25 percent of facilities annually.

During 2017-18, HCD received 207 new applications, up from 133 the previous year. Projected estimates assume HCD will see 15 percent growth in 2019-20 as H2A facilities become aware of the changed requirements, then level off to a seven percent increase. The department has indicated that the increase in PTO applications will support the additional 2.0 authorized positions and allow the 40.0 existing positions to charge time to the EH program when conducting EH related inspections.

Staff Recommendation: Approve as Budgeted.

Issue 15: Long-Term Monitoring and Compliance Workload

Governor's Budget. The budget includes an increase of $1,541,000 to the Housing Rehabilitation Loan Fund and $431,000 in reimbursement authority in 2020-21 and 8.0 positions, and $2,067,000 to the Housing Rehabilitation Loan Fund and $416,000 in reimbursement authority ongoing and 11.0 positions to provide long-term monitoring and compliance resolution of affordable housing projects.

Background. Per Health and Safety Code sections 50406, 50768, and 50771.1, HCD is required to conduct long-term monitoring of affordable housing projects to ensure that each project fulfills its obligations for receiving public funds from HCD. These obligations are captured in agreements between the project sponsor and the state and monitoring is conducted annually for the duration of the agreement (up to 55 years from project completion).

If a housing sponsor is significantly out of compliance with the loan or regulatory agreements, the task of bringing the project back into compliance is transferred to the Compliance Resolution Program (CRP) Unit to resolve the noncompliant issues. Noncompliance can be fiscal (i.e., failure to keep debt service current on senior loans or failure to repay HCD loan upon expiration of the term) or performance based (i.e., maintaining the property in a poor condition, providing fewer affordable rental units than required, charging rents that are too high, sale or transfer of single-family properties to ineligible individuals). The work of both monitoring affordable housing projects and ensuring compliance with affordability requirements falls to the Asset Monitoring and Compliance (AMC) branch within HCD.

Staff Comments. Existing programs, or programs that have already been established within the monitoring portfolio include the Multifamily Housing Program, Transit-Oriented Development Program, Affordable Housing and Sustainable Communities Program, and the Veterans Housing and Homelessness Prevention Program. While the portfolio of existing programs is increasing, the work is also becoming increasingly complex as many projects are receiving loans from multiple HCD programs, which increases the complexity of monitoring the programs. The number of multifamily projects in existing programs will increase from 1,222 to 1,443 by 2021-22.

Additionally, new programs, or programs that have yet to transition to the AMC branch will require additional implementation work. The new programs with the greatest impact on workload include the Roberti Affordable Sales Program (ASP), No Place Like Home (NPLH), the National Housing Trust Fund (NHTF) Program, and Housing for a Healthy California (HHC). For example, the Roberti ASP, contracted through Caltrans brings a program for the sale of over 260 single and multifamily properties in the Los Angeles/Pasadena area to AMC, with responsibilities to oversee all sales contracts plus ensure program compliance through long term monitoring.

It is reasonable to believe that the additional funding provided for affordable housing programs in recent years will drive increased long-term monitoring workload at HCD, which will in turn produce more compliance workload. However, given the uncertainty surrounding this workload, particularly with the new nature of many of the cited programs, it is unclear why the requested level of resources is appropriate.

Staff Recommendation: Hold Open.

Issue 16: Multifamily Housing Program Clean Up

Governor's Budget. The budget includes trailer bill language to clean-up the Housing Rehabilitation Loan Fund (Fund 0929) authorizing HCD to expend loan repayments from legacy programs for new loans in the Multifamily Housing Program (MHP) to maximize resources available for multifamily housing production.

Background. The Multifamily Housing Program (MHP) was enacted by SB (Alarcon), Chapter 637, Statutes of 1999 and was intended to replace multiple housing programs that HCD had previously administered. The program is designed to assist the new construction, rehabilitation and preservation of permanent and transitional rental housing for lower income households. Senate Bill 3 (X), Chapter 365, Statues 2017, authorized the Veterans and Affordable Housing Bond Act of 2018 (Proposition 1). This measure was adopted by voters on November 6, 2018. It authorizes the issuance of bonds in the amount of $1.5 billion for MHP.

Expenditure authority for MHP is contained in the program statute, not within the Housing Rehabilitation Loan Fund (Fund 0929) authorizing statute. Specifically: HSC 50675.3: Any moneys appropriated and made available by the Legislature for the purposes of this chapter [meaning the MHP program] . . . shall be deposited in the Housing Rehabilitation Loan Fund established by Section 50661.

Authorized use of the Fund 0929 is limited to HCD's older, legacy programs which have not been active for decades, as well as a few other special uses authorized by the Legislature. Since 1999, the primary expenditures from the fund have been for the MHP program, through the expenditure authority in the program statutes and fund transfers. The total amount transferred to Fund 0929 from various funds for the MHP program (and MHP Supportive Housing Program) since 2000-01 is $3.3 billion, including the $1.5 billion authorized via Proposition 1.

Staff Comments. The department has indicated that the proposed trailer bill would accomplish the following:

- Allow loan repayments from legacy housing programs to be expended for new loans in the Multifamily Housing Program.
- Resolves a technical issue that limits expenditure of funds for the Multifamily Housing Program to funds allocated specifically to the program after its enactment in 1999.
- By adding the Multifamily Housing Program as an authorized use of the Housing Rehabilitation Loan Fund, up to $95 million could be made available for the new housing projects through the Multifamily Housing Program.

While there is merit in the Administration's proposal, the Legislature should ensure that any statutory change reflects the Legislature's overall strategy to develop additional affordable housing and combat homelessness across the state.

Staff Recommendation: Hold Open.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday, March 5, 2020
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2040

Consultants: James Hacker and Meron Tesfaye

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday, March 12, 2020
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2040

Consultant: Yong Salas

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

ITEMS FOR VOTE-ONLY

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 1: Statewide Emergency Management Functions

Request. The Department of General Services, Office of Risk & Insurance Management requests $295,000 in ongoing Service Revolving Fund expenditure authority and two permanent positions to support the increased demand for departmental and statewide emergency management functions.

Background. The Government Operations Agency (GovOps) is assigned by the Governor's Office of Emergency Services (CalOES) in the State Emergency Plan as the lead for Construction and Engineering and Resources. GovOps has delegated this responsibility to DGS.

DGS remains actively involved in debris removal operations for the November 2018 Wildfires, and also has taken on a large support role for Mass Care and Shelter by providing leasing services for shelters, rental of sanitation equipment, food services, and other necessary wraparound services such as showers and restrooms. DGS also has taken on contracts for base camps as well as logistics and transportation services that support CalOES disaster response. DGS was mission-tasked to limit state staff impacts on hotel and rental housing markets to ensure survivors had adequate housing options, which were already limited in the Chico area. State staff, from multiple departments, used the base camp for lodging while in Chico working on debris removal activities. This unit currently has two authorized positions, and this request would augment it with two more, for a total of four positions.

Staff Recommendation. Approve as budgeted.

Issue 2: Enterprise Technology Solutions Permanent Positions

Request. DGS, Enterprise Technology Solutions unit is requesting nine permanent positions to be established in 2020-21 to support DGS' information technology security, privacy, and enterprise application management. No increase to expenditure authority is required.

Background. In 2017, DGS was designated as a Health Insurance Portability and Accountability Act (HIPAA) Covered Entity and Business Associate due to DGS' involvement in processing health information. This designation has significantly increased the amount of work for staff performing security, network and application support, project management, and system testing functions.

Staff Recommendation. Approve as budgeted.

Issue 3: California Commission on Disability Access

Request. DGS requests two permanent positions and a permanent budget augmentation of $700,000 General Fund beginning in 2020-21 to align budget authority with necessary personal services and operating expenses for the California Commission on Disability Access (CCDA).

Background. CCDA was established by the Legislature in 2008 to provide information regarding disability access issues and compliance, develop recommendations that would enable persons with disabilities to exercise their full and equal rights to access public facilities, and facilitate business compliance with laws and regulations to prevent and minimize compliance issues and avoid unnecessary litigation.

However, in 2014-15, CCDA became aware of a funding shortfall associated with the program operating at full staffing levels. In 2017, CCDA transitioned to DGS to alleviate cost pressures to meet their workload requirement. Since then, their expenditures have increased due to increased rent when they relocated from the Department of Rehabilitation building to the Victim Compensation Board building. Additionally, they are required to conduct outreach services, estimated at approximately $38,000 per event, and maintain educational tools, estimated to cost approximately $67,000 per fiscal year.

Staff Recommendation. Approve as budgeted.

Issue 4: Clean-up of Provisional Language

Background. The 2019 budget provided $8 million General Fund in deferred maintenance projects for DGS. The language was inadvertently left in for the 2020-21 Governor's Budget.

Staff Recommendation. Reject the provisional language appropriating $8 million for deferred maintenance under 7760-001-0001.

7910 OFFICE OF ADMINISTRATIVE LAW

Issue 5: Right-size Funding for Staff and Contracted Services

Request. The Office of Administrative Law (OAL) requests $644,000 ($386,000 General Fund and $258,000 Central Service Cost Recovery Fund) for 2020-21 and ongoing for one permanent Attorney position and to address the structural deficit within the department's current operations budget.

Background. OAL has a current operating budget of $4.1 million and 22 positions, of which 11 are reviewing attorney positions and 11 management and support staff. However, over the years, the operating costs for OAL have increased without associated increased expenditure authority, due in part to increased lease costs, increased legal reference materials costs, increased third-party service rates, increased printing costs, and increased training costs. OAL has determined that $501,000 is needed to right-size its budget.

Additionally, OAL states that they need an additional attorney to meet increased workload due to an increase in the number of Public Records Act (PRA) requests and provide additional reviews of agency submissions. In 2019-20, the Legislature appropriated resources for an additional Associate Governmental Program Analyst (AGPA) position to help address the workload of the increased PRA requests as well as additional duties; however, OAL states that much of the increased workload is attorney workload that cannot be handled within the duties of the AGPA.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 6: Political Reform Act of 1974: contribution limits (AB 571)

Request. The Fair Political Practices Commission (FPPC) requests $932,000 General Fund in 2020-21 with $890,000 General Fund ongoing thereafter, and six permanent positions to implement the provisions of AB 571 (Mullin), Chapter 556, Statutes of 2019.

Background. AB 571 established default campaign contribution limits for county and city office at the same level as the limit on contributions from individuals to candidates for the Senate and Assembly, effective January 1, 2021. Cities and counties are able to establish its own contribution limits, which would prevail over these default limits. According to the FPPC, 28 percent of counties, 23 percent of cities, and a small minority of districts have adopted their own local contribution limits under existing state law.

To adequately implement and enforce a statewide default contributions limit, the FPPC states that they require the addition of two political reform consultants, two senior commission counsel, one special investigator, and one program specialist, for a total of six additional positions. The Enforcement Division will be tasked with enforcing limits in numerous jurisdictions that do not currently have limits, and in some jurisdictions that currently have limits who may repeal existing contributions restrictions to shift the costs of enforcing limits to the state and the FPPC. The Legal Division will also see an increase in providing informal assistance, conducting educational and informational seminars throughout the state for local entities.

Staff Recommendation. Approve as budgeted.

8885 COMMISSION ON STATE MANDATES

Issue 7: Administrative and Budget Staff for Mandatory Requirements

Request. The Commission on State Mandates (Commission) requests $206,000 ongoing General Fund and 1.5 positions to perform the Commission's administrative functions of budgeting, procurement, and human resources, and comply with the additional requirements of FI$Cal.

Background. The 2019 Budget provided $53,000 ongoing General Fund and 0.5 positions to meet human resources requirements, as well as personal services contracting and new procurement requirements under FI$Cal. The Commission recently underwent a compliance audit by the State Personnel Board, which found that staffing levels were insufficient for the procurement process, which requires a separation of functions through multiple positions.

Staff Recommendation. Approve as budgeted.

Issue 8: Funded and Suspended Mandates

Request. The proposed funding for non-education mandate payments to local governments is included in the Commission's budget. The Governor's mandate proposal is largely a continuation of the status quo in terms of mandates in effect (funded) and mandates not in effect (suspended). The budget proposes expenditures of $41.1 million related to funding non-education mandates. Funded mandates are listed in the following table.

	2019-20 Funded Local Government Mandates for Governor's Budget	**Proposed GB**
	General Fund	
1.	Allocation of Property Tax Revenues	585,000
2.	Crime Victims' Domestic Violence Incident Reports	165,000
3.	Custody of Minors-Child Abduction and Recovery	12,884,000
4.	Domestic Violence Arrest Policies	9,475,000
5.	Domestic Violence Arrests and Victims Assistance	2,221,000
6.	Domestic Violence Treatment Services	2,388,000
7.	Health Benefits for Survivors of Peace Officers and Firefighters	2,675,000
8.	Local Agency Ethics	23,000
9.	Medi-Cal Beneficiary Death Notices	15,000
10.	Medi-Cal Eligibility of Juvenile Offenders	4,000
11.	Peace Officer Personnel Records: Unfounded Complaints and Discovery	819,000
12.	Rape Victim Counseling	604,000
13.	Sexually Violent Predators	3,689,000
14.	State Authorized Risk Assessment Tool	657,000
15.	Threats Against Peace Officers	0

16.	Tuberculosis Control	221,000
17.	Unitary Countywide Tax Rates	413,000
18	U Visa 918 Form	3,300,000
19	Impasse Procedures II	1,009,000
	Total General Fund	**41,147,000**

Of note, the Governor's Budget proposes to reimburse local agencies for costs related to two new claims – the U Visa 918 Form, Victims of Crime: Nonimmigrant Status mandate (SB 674 [De Leon], Chapter 721, Statutes of 2015), and for costs related to Local Agency Employee Organizations, Impasse Procedures II (AB 1606 (Perea), Chapter 314, Statutes of 2012). SB 674 required agencies, upon the request of an immigrant victim of crime, to certify victim helpfulness on the applicable form so that the victim may apply for a U-visa to temporarily live and work in the United States. AB 1606 clarified that fact-finding is available to employee organizations in all situations, regardless of whether the employer and employee have engaged in mediation.

Consistent with previous years, the budget includes the suspension of 38 mandates totaling $564.7 million.

Staff Recommendation. Approve as budgeted.

0511 SECRETARY OF GOVERNMENT OPERATIONS AGENCY

Issue 9: Funding Realignment

Request. The Government Operations Agency (GovOps) requests to realign $252,000 between General Fund and reimbursements and authority to make annual baseline workload adjustments based on GovOps approved funding methodology.

Background. GovOps states that this realignment of funding will allow GovOps to accurately charge departments, boards, and offices GovOps oversees for the services provided to them. Currently, GovOps receives funding for its operations based on the percentage of positions each entity under GovOps is authorized to have. Departments that are primarily General Fund-funded, or where a policy decision was made to only recover a partial amount for services rendered, General Fund is provided to cover the difference.

Over the past four years, workload within GovOps has grown through reimbursement funding, with minimal General Fund growth. As a result, the handful of departments within GovOps have been reimbursing the agency for services provided by GovOps to other entities. This request will correct that imbalance and more accurately reflect the services provided by GovOps to its entities under its jurisdiction.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

8880 DEPARTMENT OF FI$CAL

Overview. The Department of FI$Cal is responsible for supporting the Financial Information System for California (FI$Cal) Project, including supporting the system's customers and stakeholders, onboarding any new, deferred, or exempt entities, as well as assuming responsibility for system maintenance, upgrades, and enhancements as portions of the system are implemented and accepted.

The 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 will provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. FI$Cal, through the adoption of best business practices, will: 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.

Budget. The budget includes $103 million ($59 million General Fund) and 256.6 positions in 2020-21.

Issue 10: Special Project Report 8 Update

Background. One of the most vital projects for the state is FI$Cal, the statewide project being undertaken to integrate and re-engineer the statewide business processes related to budgeting, accounting, procurement and cash management. FI$Cal provides a unified and consistent financial system that will be used by virtually all state entities, and provides transparency in state financial data. FI$Cal is managed by a partnership of four control agencies – Department of Finance, State Controller’s Office (SCO), State Treasurer’s Office, and the Department of General Services.

Departments began operating in FI$Cal in July 2013, and since then, have onboarded in “waves.” In 2016-17, the Legislature approved a permanent administrative structure for FI$Cal, establishing it as a stand-alone department. FI$Cal is a central service agency, and non-general fund costs are recouped through the Central Service Recovery Fund, which charges various special and nongovernmental funds. Currently, 152 departments are now transacting in the system. There are 10 deferred departments, who are implemented or in the process of implementing their own financial management system (and as these systems require upgrades or the departments desire expanded functionality, they will move on to FI$Cal). There are also 10 exempt departments, who have statutory authority to use systems other than FI$Cal for their financial management.

FI$Cal is an ambitious and complex project that has undergone numerous changes in scope, schedule and cost. These various changes have been incorporated and documented in special project reports (SPRs) with the project currently working under the rubric of SPR 8, which was established in August 2019. ~~This SPR delayed project completion from July 2019 to July 2020, and also removed the SCO cash management functionality from the scope.~~

The 2019 Budget Act appropriated $58.1 million through June 2022 to provide additional support for state departments utilizing the FI$Cal system and struggling to transition from their legacy and department-specific applications to the integrated financial platform. Accenture, LLP is the contracted FI$Cal System Integrator, and assisted the state in heavily configuring software developed by Oracle and used in FI$Cal, and in deploying the software for department usage. This included departmental trainings to use the software, solving complaint tickets, and providing enhancements to the software based on feedback. In addition, the 2019 Budget Act provided $6 million to implement the SCO cash management functionality and the Consolidated Annual Financial Report (CAFR) reporting.

This funding allowed FI$Cal to contract for additional resources to provide departmental support, deploy tools to help departments create reports, improve performance in system use, and improve training for departments. FI$Cal states that the main reasons for the delays in closing out month and year-end reports are: 1) the time it takes for a department to be proficient in FI$Cal; 2) training that has not been completed by end-users; 3) staff turnover; and 4) the challenges that come with changing the internal business processes of a department. FI$Cal states that historically, it takes one to three years before a department consistently completes their month and year-end reports in a timely manner. For the 2020-21 fiscal year, departments are requesting additional resources to meet the workload required by operating in FI$Cal, with $23.2 million and 132.3 positions in the first year, and $19.6 million ongoing.

In its December 17, 2019, letter to the Governor and the Legislature, the California State Auditor expressed concerns with "the manner in which the 2019 project plan update sets a formal end date for the project even though the FI$Cal project will not have implemented promised functionality." Specifically, the Auditor pointed out that the project removed features from the project's scope, and that the project's financial documentation understates the true costs of the project. As a result, the Auditor expressed concerns that the state's credit rating would be affected and increase borrowing costs.

Since 2015, the state's credit rating has improved or remained the same:

Year	Fitch	Moody's Investor Service	Standard & Poor's
2020 (Current)	AA	Aa2	AA-
2019	AA (Aug.)	Aa2 (Oct.)	AA-
2018	AA-	Aa3	AA-
2017	AA-	Aa3	AA-
2016	AA-	Aa3	AA-
2015	A+	Aa3	AA-

A key change made in SPR 8 was the removal of "Milestone 6," or the closeout of the SCO's legacy system when the SCO has gained assurance in the system as the Book of Record. In the meantime, SCO will run the FI$Cal system and its existing legacy accounting systems in tandem under what's known as the Integrated Solution. The Integrated Solution includes developing interfaces between both FI$Cal and SCO's legacy systems so that data is entered only once (in either system) but then both systems share the data so that each system can perform the accounting and cash management functions for the state.

LAO. The LAO points out that SPR 8 delays the project deadline by one year to July 2020, and removes some functions from the project's scope, while simultaneously increasing the project cost by $150 million for a total of $1.06 billion. The LAO also points out that the projected cost as stated in SPR 8 does not reflect total costs associated with the project; for example, the project cost does not include $25.6 million (of which $15.1 million is General Fund) for SCO to support the development and implementation of the Integrated Solution, nor does it include funding for departments to change their business processes and hire staff to operate in FI$Cal. The project does not include the addition of the ten deferred departments to the FI$Cal system.

The LAO recommends that the Legislature: (1) consider adopting statutory language defining IT project completion and success for the FI$Cal project; (2) consider adopting statutory language that continues current oversight practices into the operations and maintenance (post-completion) stage of the FI$Cal project, should project completion continue to be defined as under SPR 8; and, (3) consider as a future practice adopting budget bill language that conditions the release of IT project funding (in the case of FI$Cal and IT projects more generally) on the California Department of Technology's approval of the latest SPR and 30-day notification being given to the Legislature that includes the total cost and schedule of the project from the project approval document.

Staff Comment. SPR 7 removed Milestone 6, or the retirement of the SCO's legacy system from the FI$Cal project scope, and FI$Cal states that it will address this milestone using the Department of Technology's approved processes. Additionally, reporting requirements that are statutorily required will sunset upon the completion of the project, which is currently slated to be July 2020. The Legislature is currently working with the Administration on a new reporting structure for information technology projects in general, potentially including the FI$Cal project reporting as part of this new structure.

The subcommittee may wish to consider reporting requirements that capture critical information needed for continued legislative oversight after the project is complete, in particular with regard to the SCO functionality and the deferred departments.

Staff Recommendation. Adopt additional reporting requirements that include tracking the progress of Milestone 6, or the progress of SCO's transition from its legacy system to the FI$Cal, and when the remaining departments operate in FI$Cal.

CORRECTION: The analysis incorrectly stated that the removal of Milestone 6 was part of SPR 8; it was removed in SPR 7. Additionally, the analysis incorrectly stated that SPR 8 will remove the SCO's cash management functionality from its project scope. Staff comment was updated to reflect this, as well as state that conversations around reporting are currently ongoing.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Overview. The Department of General Services, as an enterprise organization under the Government Operations Agency, provides centralized services to state agencies in the areas of: management of state-owned and leased real estate, including design and construction of state infrastructure projects; approval of architectural designs for local schools and other state-owned buildings; printing services; procurement of commodities, services, and equipment for state agencies; and management of the state's vehicle fleet. Furthermore, DGS employs practices that support initiatives to reduce energy consumption and help preserve California resources. The director of DGS serves on several state boards and commissions.

Budget. The Governor's Budget includes $1.3 billion ($120.5 million General Fund, $1.2 billion special funds, and $5.7 million in reimbursements) to support the department and its various programs.

Issue 11: Contracted Fiscal Services Workload Increase

Request. DGS' Contracted Fiscal Services Program requests $2.3 million in additional authority comprised of the following funds: $720,000 Central Services Cost Recovery Fund, $850,000 Service Revolving Fund, and $710,000 General Fund. Additionally, the Department requests 15 positions to provide accounting services for four new client agencies and establish a strike team to consult and assist other state agencies with their accounting.

Background. The Financial Information System for California (FI$Cal) provides a unified and consistent financial system that will be used by virtually all state entities, and provides transparency in state financial data. With the transition to the new system, FI$Cal changed how some state entities performed their accounting and budgeting functions. For example, FI$Cal requires multiple users operating within it to maintain a separation of duties in order to prevent fraud and minimize errors, and changed how transactions were recorded. At the same time, the Contracted Fiscal Services (CFS) unit within DGS, which provides budgeting and accounting services to other state departments, boards, and commissions that do not have the staff or expertise necessary to perform budget and/or accounting functions, has seen an increase in its clientele. Currently, CFS provides accounting services to 48 state entities and budgeting services to 23 state entities using FI$Cal, and recovers its costs by billing customers through an interagency agreement.

In 2020-21, CFS will be providing accounting services for California Children and Families Commission, California Student Aid Commission, and the Public Employment Relations Board. In addition, CFS will be providing accounting, human resources and budgeting services for the Commission on Asian and Pacific Islander Affairs. DGS requests nine positions to assume the accounting work for the additional client agencies.

DGS also requests six new, ongoing positions to establish the CFS Accounting Strike Team. The Department of FI$Cal and the Department of Finance (DOF) provide a variety of support options to assist departments in operating within the FI$Cal system. FI$Cal department staff provide on-site support, training, and assistance with using the system, and DOF staff provide policy and procedure support regarding accounting-related issues, as well as training and technical support.

The proposed strike team would assist state entities in the following areas:

- Providing instructions and assistance in posting of daily and monthly accounting transactions.
- Providing instructions and assistance with month-end close.
- Assisting with researching accounting issues.
- Collaborating with the Department of FI$Cal and DOF to resolve any accounting issues or provide consultative advice to the state entity.

LAO. The LAO recommends that the Legislature approve the funding for the six-person CFS Strike Team on a two-year limited-term basis, rather than on an ongoing basis, as proposed by the Governor. If DGS determines continued resources are required at the end of this limited-term funding, it can request funding for additional years at that time. After the two-year period, the Administration should be able to provide information on how the resources provided to implement FI$Cal—including those provided to the CFS Strike Team, Department of FI$Cal, and other departments that have received FI$Cal-related augmentations—have been used thus far and the outcomes they have achieved. This information should enable the Legislature to make a more informed decision regarding whether ongoing resources are needed for the CFS Strike Team. Additionally, this information should assist the Legislature with its ongoing oversight over the progress of the FI$Cal project.

Staff Comments. In 2019-20, FI$Cal received $58.1 million to provide additional departmental training and support for state departments struggling with the FI$Cal system, which was provided over three years. These resources were provided in response to departments struggling to transition from legacy and department-specific applications to FI$Cal, a majority of which was used to retain the contract vendor.

DGS states that the CFS strike team would also backfill vacant positions that are critical to perform accounting functions in FI$Cal in small- to medium-sized departments until those positions can be filled.

Staff Recommendation. Hold open.

Issue 12: Sacramento Region: Jesse Unruh Building Renovation

Request. DGS requests $116.8 million ($116,768,000) lease-revenue bond authority in 2020-21 for the design-build phase of a project to renovate the historic Jesse Unruh Building, located at 915 Capitol Mall in Sacramento.

Background. The 2018 Budget Act provided $6.3 million General Fund for the performance criteria phase of the Jesse Unruh Building renovation project, and would bring the total project cost to $123.1 million. The estimated project total in 2018 was $89.9 million for this project. The Administration states that the design-build phase currently includes $91.7 million for the contract, $6.4 million for contingency, $4.1 million for A&E, and $14.6 million for other costs. DGS states that approximately 25 percent of hazardous materials were found than was previously known about in the building. Additionally, the water intrusion was more severe than anticipated, resulting in a 25 percent increase in repair costs.

The Capitol Fountain was completed circa 1928, and is one of three listed contributors to the Capitol Annex National Register Historic District, which also includes the Unruh Building and the Stanley Mosk Library and Courts Building. However, the draft environmental impact report for the Jesse Unruh Building Renovation Project found that there were issues with "electrical shortages in the fountain lighting, failure of mechanical equipment, leaks in the fountain bowl and associated valves, and a possible drain line collapse."[1]

In an opinion piece in The Sacramento Bee, Preservation Sacramento wrote, "As the central element to the plaza, the fountain has framed California's Capitol since 1928. The beauty of this fountain reflects its purpose: 'Celebrate California'… California cities have successfully restored historic fountains: Sacramento's Chavez Plaza Park fountain, Los Angeles' Mulholland Memorial Fountain and San Diego's Broadway Fountain in Horton Plaza Park."[2]

The Jesse Unruh building was built in 1929 and is a historical landmark – the proposed renovation will restore the building's historical character and also address critical life safety and other code deficiencies. The proposed $116.8 million in lease-revenue bond financing would only be enough to renovate the building. To include restoration to the fountain, the total amount needed would $118.8 million, an increase of $2 million, and would also include potential modification costs to the Capitol Mall roundabout area as well.

A facilities condition assessment completed in 2015 ranked the Jesse Unruh Building number five for requiring renovation or replacement. This project is part of DGS' 10-year sequencing plan for Sacramento.

Legislative Analyst's Office (LAO). The LAO recommends requiring DGS to report on options to contain costs for legislative consideration. We recommend that the Legislature require DGS to report at budget hearings with further details on potential options—such as reducing the extent of renovations, employing less expensive materials, or delaying projects—that could reduce the costs of these projects, along with their associated trade-offs.

Staff Recommendation. Approve $118.8 million lease-revenue bond financing for the design build phase of the renovations to the Jesse M. Unruh Building and the Capitol Plaza, including the restoration of the State Capitol Fountain in accordance with the Secretary of Interior's Standards for treatment of historic properties. Adopt budget bill language that prohibits the demolition of the State Capitol Fountain.

Issue 13: Sacramento Region: Resources Building Renovation

Request. DGS requests $421.3 million lease revenue bond authority for the design-build phase of a project to renovate the Resources Building, located at 1416 Ninth Street in Sacramento.

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[1] https://www.dgs.ca.gov/-/media/Divisions/RESD/Resources/Notices-Information-Resources-for-CEQA/Projects/Sacramento-County/Jesse-M-Unruh-Building-Renovation-Project/Unruh-DEIR-508-compliant.pdf

[2] Vanacker, Eleanor and Gregory (17 October 2019). "California's Capitol Mall fountain should not be demolished." *The Sacramento Bee.* p. 11A

Background. The 2019 Budget Act provided $8.9 million General Fund for the performance criteria phase of the renovation project, and would bring the total cost of the project to $430.2 million. The estimated cost for the design-build phase when funds associated with the performance criteria phase was approved in 2019 was $367 million. DGS states that the extent of the hazardous materials in the building, while not materially different than assumed, will now require a phased demolition approach, which is costlier than a more straightforward demolition approach.

A study completed in 2008 (and updated in 2013) identified various fire and life safety, building code, hazardous materials, and other infrastructure deficiencies at the Resources Building, which was the first major post-war development constructed in 1964 and has not received any significant renovations since then. It has been designated as a "historic building" due to its historical significance and its architectural design and requires State Historic Preservation Office review.

A facilities condition assessments completed in 2015 found that the Resources Building ranked first statewide for state-owned, DGS-controlled office buildings requiring renovation or replacement. This project will correct numerous and serious code deficiencies, including lack of fire suppression, inadequate fire alarm, presence of hazardous materials such as asbestos, poor indoor air quality, lack of proper emergency exiting, and inadequate structural integrity.

LAO. The LAO recommends requiring DGS to report on options to contain costs for legislative consideration. The LAO recommends that the Legislature require DGS to report at budget hearings with further details on potential options—such as reducing the extent of renovations, employing less expensive materials, or delaying projects—that could reduce the costs of these projects, along with their associated trade-offs.

Staff Recommendation. Approve as budgeted.

Issue 14: Sacramento Region: Gregory Bateson Building Renovation

Request. DGS requests $183.6 million lease-revenue bond authority in 2020-21 for the design-build phase of a project to renovate the Gregory Bateson Building, located at 1600 Ninth Street in Sacramento.

Background. The 2018 Budget Act provided $5.2 million General Fund for the performance criteria phase of the Gregory Bateson Building renovation project. This request brings the total cost of the project to $188.8 million. In 2018, the total project costs were estimated to be $161 million. DGS states that while exterior water intrusion was evident, further investigation revealed the entire exterior system was unsalvageable. In addition, replacement of the exterior balcony guard rails is needed.

The building ranked sixth statewide for state owned, DGS- controlled office buildings requiring renovation or replacement. The current occupants, the Health and Human Services Agency, Department of Developmental Services, and Department of State Hospitals. Proposed tenants for the renovated Bateson Building include California Natural Resources Agency departments from leased space that are not consolidating into the New Natural Resources Agency Headquarters Building.

The project includes renovation of all major building systems, applicable reinstatement of energy systems, and corrections to ADA and fire and life safety deficiencies. The mechanical, plumbing, electrical, and telecommunications systems will be replaced. In addition, repairs to prevent water intrusion and hazardous material abatement will be performed. A security officer station and physical barriers will also be placed at one of the building entrances.

LAO. The LAO recommends requiring DGS to report on options to contain costs for legislative consideration. We recommend that the Legislature require DGS to report at budget hearings with further details on potential options—such as reducing the extent of renovations, employing less expensive materials, or delaying projects—that could reduce the costs of these projects, along with their associated trade-offs.

Staff Recommendation. Approve as budgeted.

Issue 15: Facilities Management Division Elevator Deferred Maintenance

Request. DGS requests $56.4 million one-time General Fund to address critical safety issues relating to conveyance systems including elevator repairs in buildings owned and operated by DGS.

Background. DGS states that limited funding and competing priorities have contributed to a backlog of deferred maintenance projects. The current statewide deferred maintenance need totals $1.4 billion and includes fire alarm systems, end-of-life elevator systems, heating and cooling systems, and end-of-life roofing systems. This proposal requests $56.4 million to address the most urgent elevator safety deficiencies. The four projects identified below are related to fire/life/safety, public safety, violations of regulations, and/or malfunctioning mission-critical systems and equipment that have been identified for repair or modernization.

Location	Building Name	Number of Stories	Number of Cars	Project Cost
Oakland	Elihu Harris	22	17	$17,901,000
Los Angeles	Ronald Reagan State Building	14 & 16	20	$21,060,000
San Francisco	Ronald M. George SOC (Hiram Johnson Building)	14	13	$14,196,000
San Francisco	Ronald M. George SOC (Earl Warren Building)	6	3	$3,276,000
Totals			**53**	**$56,433,000**

LAO. The LAO recommends: 1) rejecting funding for two non-urgent elevator projects; 2) modifying provisional language to limit use of elevator funding to specific projects; and 3) requiring DGS to report on plan for maintaining facilities and adjusting rates to reflect actual costs. The LAO recommends that the Legislature only approve funding for the most critical, urgent deferred maintenance projects. Less urgent projects should generally be planned for in advance and funded over a period of time through DGS' rates structure. This approach would more fairly apportion their costs across various funds and also create better incentives for the department to be a good steward of its buildings. Consistent with this approach, the LAO recommends that the Legislature reject the $35.4 million (General Fund) proposed for the Elihu Harris and Ronald M. George Building elevator projects. While these specific projects may be worthwhile, it is not clear they represent immediate, critical needs. (The LAO is not raising concerns with the $44.7 million for the Ronald Reagan Building elevator project and the fire alarm system projects, since the department and the facility condition assessments better support the urgency of these projects.)

Staff Comment. The LAO notes that the facility condition assessments on the Ronald M. George, Elihu Harris, and Ronald Reagan buildings identified much lower costs for the recommended elevator modernizations that what is being requested by DGS. The facility condition assessments estimated that the costs of the elevator projects at these three buildings would total about $13 million, and DGS is currently requesting $56.4 million.

DGS states that the facility condition assessment costs were never intended to be exact estimations of cost for the following reasons: 1) the estimates were made at a point in time in 2015—five years of escalation is considerable, and does not account for code changes that have since occurred; 2) the estimates were made without respect to market conditions with regard to the availability and the cost of firms who install and repair elevators; and 3) the estimates were made without respect to associated/ancillary work triggered by undertaking the modernization. DGS states that the $56.4 million is based upon professional estimates from a construction management firm based upon recent design work and reflect total project costs, including full soft costs and escalation.

Staff Recommendation. Hold open.

Issue 16: Facilities Management Division Fire Alarm System Deferred Maintenance

Request. DGS requests $23.6 million one-time General Fund, available over two years, to repair or replace fire alarm systems in seven state buildings owned and operated by DGS.

Background. Fire alarm systems include fire alarm control panels, accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices. The existing fire alarm systems in the seven buildings identified below require replacement for a number of reasons, including system malfunctions and the inability of manufacturers to provide replacement parts for antiquated systems.

Location	Building Name	Project Cost
San Francisco	Edmund Brown Building	$ 2,562,431
Van Nuys	Van Nuys Building	$ 1,283,207
Sacramento	Justice Building	$ 2,817,587
Sacramento	Library & Courts II	$ 1,014,300
Sacramento	FTB Campus - Los Angeles	$ 4,322,774
Sacramento	FTB Campus - Sacramento/San Francisco	$ 7,987,438
Sacramento	FTB Campus - San Diego	$ 3,645,317
Totals		**$ 23,633,054**

Staff Recommendation. Approve as budgeted.

Issue 17: Electric Vehicle Service Equipment Assessments and Infrastructure

Request. DGS requests a one-time augmentation of $23.4 million one-time Service Revolving Fund, which will allow the Office of Sustainability to expend a one-time General Fund transfer of $15 million to the Service Revolving Fund and recover $8.4 million in costs from special funds. DGS also requests one permanent position to continue performing assessments for the installation of Electric Vehicle Service Equipment (EVSE) at state facilities.

Background. In prior years, DGS requested funding for this project through an equal split between the Service Revolving Fund, which receives General Fund and charges for work rendered by the Department of General Services, and the General Fund. However, DGS states that restrictions on fund use and budgetary challenges kept departments from using special funds, which has slowed down progress. DGS states that special funds have accounted for only 36 percent of authorized EVSE expenditures for 2017-18 and 2018-19, and is now asking for a funding split that adheres to 64 percent General Fund and 36 percent special fund.

In 2018, the Governor issued an executive order that set a target of putting five million ZEVs on California roads by 2030. The 2018 Action Plan prioritized actions for state agencies to execute in 2018 to enable progress toward the 2025 and 2030 goals. As part of this plan, DGS is responsible for assisting state agencies in: (1) having at least 50 percent of the state's annual light-duty fleet purchase be ZEVs by 2025, and (2) creating charging capabilities in five percent of workplace parking spaces.

DGS supports state agencies in completing readiness surveys, conducting site assessments, and providing oversight of architectural and engineering functions, construction management, system activation, and identification of alternative funding options if available. In 2019-20, DGS received a one-time augmentation of $18.6 million ($9.3 million General Fund and $9.3 million Service Revolving Fund) to continue the activities related to the installation of EVSEs in state facilities. In 2018-19, DGS received a one-time augmentation of $15.6 million ($7.8 million General Fund and $7.8 million Service Revolving Fund) to continue the installation of EVSE in state facilities and three permanent positions, bringing the total to four positions.

This request is to fund year four of the DGS ZEV Five-Year Infrastructure Plan to install EVSEs in state facilities to support both the state fleet and state employee charging needs, and would bring the total positions to five. $23.1 million will support 1,647 EVSE installations and the remaining $256,000 will support work related to the remaining goal of completing 377 facility assessments. Total costs to implement this effort is $93.9 million to install 5,750 EVSEs by 2021-22, which is 734 less ports than what was previously planned.

Staff Comment. To date, DGS has completed 6,107 assessments, and estimates that they will install 5,750 EVSEs, assuming that they would be able to fully use the authorized special funds. In 2017-18, they were able to expend 41 percent of their authorized special funds, and in 2018-19, they were able to expend 85 percent of their authorized special funds. Because assessments cost less than installations, a significant number of more assessments have been made than installations:

Actual Implementation			
Assessments	954	3,753	1,400
Ports Installed	22	160	400

The current number of completed assessments outnumber DGS' projection of EVSE port installations. DGS states that although it has completed 6,107 assessments to date, DGS will need to perform a minimum of 6,484 assessments in order to reach the goal of 6,484 installations. Assessments are the first step in determining the actual cost and number of ports that can be installed at a given site. As a result, some assessments are not acted on due to cost or other limitations discovered during the assessment. DGS' current estimate is that approximately 5,750 ports would be installed through 2023-24, however, actual installations are likely to be closer to DGS' goals as a result of increased General Fund resources relative to past years.

Staff Recommendation. Hold open.

Issue 18: California Pharmaceutical Collaborative Local Outreach

Request. DGS Procurement Division requests four positions and $723,000 ongoing Service Revolving Fund expenditure authority to support the workload for the Statewide Pharmaceutical Program's Local Governmental Outreach Project and Member Agency responsibilities for the California Pharmaceutical Collaborative.

Background. The Statewide Pharmaceutical Program was established in 2002, and allows state and local governmental entities to access negotiated contracts that can provide substantial savings through bulk purchasing of pharmaceutical products and services. While local governmental entities may participate in the statewide pharmaceutical program, very few do.

The Governor issued Executive Order N-01-19 to create the largest single purchaser for prescription drugs and allow private employers to join the State in negotiating drug prices. As part of the executive order, DGS: 1) developed a list of prescription drugs that could be prioritized for future bulk purchasing initiatives or reexamined for renegotiation; 2) based on the prioritized list, develop and implement bulk purchasing arrangements for high-priority drugs and provide pro-active outreach to local governments to encourage participation; and 3) develop a framework for enabling private purchasers, including small businesses, health plans, and the self-insured to opt in to a state purchasing program to benefit from the state bulk pharmaceutical purchasing program.

According to DGS, the Governor's Office specified defined objectives to reduce the cost of prescription drugs at local jails, and a jail task force will be established. High-cost drugs and other drugs that counties identify as a priority need for their populations will be prioritized, and prioritized in largely populated counties with high pharmaceutical spend such as Los Angeles County and Alameda County.

Staff Comment. According to the Board of State and Community Corrections Jail Profile Survey, second quarter 2019 reports show that statewide, local communities have spent $13.2 million on medication, of which, $4.7 million were spent on psychotropic drugs (based on information provided by 24 jurisdictions). Of these, Los Angeles County spent the most at $7.8 million, of which $2.8 million were spent on psychotropic drugs.

A recent policy brief by the California Health Policy Strategies published in January 2018 found that the use of jail inmates taking psychotropic drugs jumped by 25 percent in between March 2012 and February 2017 in a sample of 45 counties, and they now account for about a fifth of the county jail population across the state.[3] The policy brief stated that this increase could be a result of several different causes – 1) a trend toward increased incarceration in jails of seriously mentally ill individuals, either due to increased local homelessness and/or state policy changes under the public safety realignment; or 2) better identification, diagnosis, and treatment of seriously mentally ill individuals.

However, recent articles highlighted the concerns of some advocates for the mentally ill who worry that the drugs are at times prescribed inappropriately, or administered without the context of holistic mental health treatment.[4] These issues are outside of the scope of this request and the jurisdiction of this subcommittee, but are concerns that hang overhead as this jail task force moves forward. Mainly, if the Legislature approves this request, are we enabling easier acquisition of psychotropic drugs to use as a tool for sedation and behavioral management of mentally-ill inmates without proper therapeutic treatments? Additionally, the jail task force—why it was established, its composition, and its goals—requires further scrutiny from the Legislature.

While these issues will be deliberated in other areas of the budget, the subcommittee may wish to ask questions on the jail task force when considering this request.

Staff Recommendation. Hold open.

0511 SECRETARY OF GOVERNMENT OPERATIONS AGENCY

Issue 19: Workload Adjustment and Position Transparency BCP

[3] https://calhps.com/reports/PolicyBrief_PsychotropicMedications_CalHPS.pdf
[4] https://www.washingtonpost.com/national/health-science/use-of-psychiatric-drugs-soars-in-california-jails/2018/05/08/57fcb9e2-52a0-11e8-a6d4-ca1d035642ce_story.html

Request. GovOps requests 3 new positions and the reclassification of 2 existing positions, associated with $286,000 General Fund and $450,000 reimbursements ongoing to fund and manage existing and new workload and increased lease costs.

Background. GovOps has been borrowing staff from other departments to cover shortfalls in personnel needs that have been dedicated to existing and ongoing GovOps workload. With the addition of the Office of Digital Innovation and other new priority initiatives, GovOps workload continues to increase.

The three new positions that are being requested will cover ongoing workload needs:

1. *Permanent transfer of a position from the Franchise Tax Board (FTB).* This position is currently located within GovOps through a borrowed vacant position from the FTB. This position will work on workforce development, performance improvement, and state employee apprenticeship programs.

2. *Agency information officer.* The work is currently being conducted by an agency information officer within the Business and Consumer Services and Housing Agency (BCSH), and covering two agencies by the same information officer is no longer tenable.

3. *Assistant Secretary for Communications*. GovOps currently has one Deputy Secretary for Communications and is borrowing two positions from other entities to help with the communications workload.

Additionally, GovOps is proposing to convert two existing positions.

1. *Legal Secretary.* First, they are proposing to convert an office technician position into a legal secretary to provide the legal team with the necessary support. GovOps states that legal workload has continued to increase as GovOps has grown, and with the Administration focusing heavily on compliance and enforcement of regulations, mandatory trainings, and accessibility laws to ensure a diverse, well trained, and fair workforce, the workload and associated tracking in the legal area is best suited for a legal secretary rather than an office technician.

2. *Chief Data Officer.* Finally, GovOps is proposing to convert the Director of Performance Improvement, a position that the Legislature approved last year as permanent, into an exempt position for the Chief Data Officer. This position will be the primary steward of the data portal for the state's public data, and will mediate disagreements when data holders decline to share requested data. The ongoing workload associated with the director of performance improvement will be transferred to a different position, whose previous workload associated with apprenticeship programs is being reduced. The Administration states that this individual will work with the Department of Technology in developing a public repository of all agreements and requests.

Staff Comment. Data sharing among government entities may provide benefits to the public of which they may be unaware – for example, the Department of Social Services shares data about foster youth with the Department of Education so that local educational agencies can identify foster youth and provide educational support services to these individuals. The Administration has indicated that it intends to develop a standard process for departments to request and receive data from other departments, wherein the chief data officer would mediate any data sharing disputes that arise.

Existing law, namely the Information Practices Act of 1977, outlines requirements that state entities must do when collecting personal information, which includes notice of the principal purpose within the agency for which the agency is to be used and any known or foreseeable disclosures when data sharing is required by law.

Most recently, the Legislature passed and the Governor signed the California Consumer Privacy Act (CCPA). Among the requirements, consumers now have the right to know what personal information is collected, used, shared or sold by; the right to delete personal information held by businesses; and the right to opt-out of sale of personal information by businesses. These requirements are not applicable to public entities that hold or collect consumer data, nor should they be since certain information is mandated for some programs. Existing law requires that forms used by state agencies to collect personal information also include specified notices, including the principal purpose within the agency for which the information is to be used, any known or foreseeable disclosures that are required by law, and whether submission of that information is voluntary or mandatory.

The subcommittee may wish to strengthen some of the disclosure requirements, especially in light of the Administration's direction to share data and with regard to voluntary data sharing agreements.

Staff Recommendation. Hold open.

8260 CALIFORNIA ARTS COUNCIL

Issue 20: Cultural Districts and Disaster Preparedness

Request. The California Arts Council requests $10.5 million one-time General Fund. Of the requested amount, $9 million will be used to support existing cultural districts and expand the cultural district program. $1 million will be used to develop disaster preparedness guidelines and best practices for local governments to protect and preserve resources and artifacts during a disaster. $500,000 will be used to support administrative costs and technical assistance services associated with these activities.

Background. Chapter 396, Statutes of 2015, required the Council to develop a state designated cultural districts program. During the time of the bill's deliberation, the author argued that, "Cultural districts have the potential to draw in tourism and invigorate local economies… other states, such as Massachusetts and Louisiana, that have Arts & Culture District programs have seen substantial economic benefit over time: the creation of new business, increased community interaction and out-of-area visitors, as well as increased government revenue based on economic growth."

Out of 42 applications, 14 districts were selected for a two-year pilot program. A minimum of three partnering organizations from a cultural nonprofit or artist collective, a local business or business association, and a branch of local government or a community development corporation was required to apply, among other criteria. Each state-designated cultural district received $10,000, technical assistance via webinars, marketing and branding support, and a convening of professional learning and networking. The 14 districts are:

Cultural District	City
Balboa Park Cultural District	San Diego
Barrio Logan Cultural District	San Diego
The BLVD Cultural District	Lancaster
Calle 24 Latino Cultural District	San Francisco
Rotten City - Emeryville Cultural Arts District	Emeryville
Eureka Cultural Arts District	Eureka
Grass Valley-Nevada City Cultural District	Grass Valley/Nevada City
Little Tokyo	Los Angeles
Oceanside Cultural District	Oceanside
Redding Cultural District	Redding
San Pedro Arts & Cultural District	San Pedro
Downtown San Rafael Arts Districts	San Rafael
SOMA Pilipinas - Filipino Cultural Heritage District	San Francisco
Truckee Cultural District	Truckee

The Council contracted with third-party evaluators to review the pilot cohort's first two years. The evaluation suggested 12 recommendations to enhance future program effectiveness: 1) provide significantly greater financial support to the districts; 2) continue current program inputs (designation, stipend, marketing materials, State partner agencies, technical assistance, and peer-to-peer networking) and develop them in ways that will increase their impact; 3) develop a comprehensive technical assistance resource center to support capacity building for cultural districts; 4) develop inter-agency partnerships to support capacity building for cultural districts; 5) do a round of applications in 2020 to select a second cohort of cultural districts but then pause for three years; 6) defer decisions about program expansion beyond the initial two cohorts until the first five years of the program can be assessed; 7) increase program investment through a legislative request or allocation of CAC Program Funds; 8) conduct ongoing and annual evaluation; 9) document economic impact of the districts and the program; 10) increase CAC staffing of the program; 11) revisit and clarify the legislative language in AB 189; and 12) encourage cultural districts to consider applications to other CAC programs.

The evaluation identified an additional 7 recommendations specific to equity:

1. Prioritize designation of African American/Black, Native American, and Chinese American cultural districts in the next cohort.

2. Prioritize designation of districts in areas of the state that are underfunded or not directly funded by the CAC.

3. Support the development of applications that promote equity.

4. Build inter-agency partnerships to identify and support diverse districts.

5. Provide technical assistance to communities considering an application and to applicants.

6. Revisit and refine the selection criteria for the program with an equity lens.

7. More strongly make the case for the importance of the state designation.

In addition to the workload related to its cultural districts program, the Council requests $1 million to expand its pilot efforts to center cultural placekeeping as a preparedness strategy to safeguard and strengthen local arts and culture communities. The Council provides $5,000 stipends to each of 19 participating counties and also paid for various costs associated with providing training workshops. This investment will allow the Council to provide $10,000 for two years for each of the 58 counties.

Staff Comment. The evaluation of the pilot cultural districts commissioned by the Council found that participants identified benefits including improved or increased collaboration within the district, credibility, visibility, and increased visitation. Only 8 percent of the stakeholders perceived the designation resulted in positive economic development. 77 percent of respondents identified underfunding as a challenge, in addition to lack of staff and marketing visibility, among others.

The $9 million requested would support stipends of $100,000 annually for three years for 30 cultural districts (14 existing districts and 16 new districts), a significant increase from the current stipend of $10,000 over two years.

The evaluation presented its gap analysis report, which found that half of the 14 cultural districts are located in counties whose residents live above the state's median household income and half are below. However, if we look at the median household income of each zip code where these districts are located (as reported by the United States Census Bureau), and compare it to the poverty level threshold used for Medi-Cal applicants (138 percent of the federal poverty level, which is $35,535 in 2019), we find that 13 out of the 14 cultural districts are located in zip codes where the median household income is above the poverty line. The evaluation notes that some of the cultural districts face challenges with gentrification and displacement of lower-income residents.

Cultural District	Zip Code	Median Income*	Poverty Level**
Balboa Park Cultural District	92101	$ 60,417	Above
Barrio Logan Cultural District	92113	$ 33,125	Below
The BLVD Cultural District	93534	$ 37,883	Above
Calle 24 Latino Cultural District	94110	$ 109,747	Above
Rotten City - Emeryville Cultural Arts District	94608	$ 68,352	Above
Eureka Cultural Arts District	95501	$ 40,629	Above
Grass Valley-Nevada City Cultural District	95945/95959	$ 53,609	Above
Little Tokyo	90012	$ 38,786	Above
Oceanside Cultural District	92054	$ 56,170	Above
Redding Cultural District	96001	$ 48,125	Above
San Pedro Arts & Cultural District	90731	$ 49,464	Above
Downtown San Rafael Arts Districts	94901	$ 85,889	Above
SOMA Pilipinas - Filipino Cultural Heritage District	94103	$ 49,052	Above
Truckee Cultural District	96161	$ 89,091	Above

* As reported by the U.S. Census.
** Poverty level is defined at $35,535.

Above	13
Below	1

Additionally, the evaluation notes that "the cultural districts are not often located in regions of the state that are underserved by the Arts Council, especially the northeastern, southeastern, and Central Valley counties of the state."

The Arts Council stated that the gap analysis is only one resource it is utilizing to establish new guidelines which will be voted on by the Council. The Council intends to establish an advisory committee to develop the new Cultural Districts guidelines in the most equitable way. One of the recommendations specific to equity from the evaluation was to "revisit and refine the selection criteria for the program with an equity lens." The subcommittee may wish to ask the Council how it envisions it would define equity when considering which districts to select in the expansion.

Because the expansion will provide significant investments in the cultural districts, the subcommittee may wish to consider prioritizing these dollars in low-income communities or in geographic areas without state-designated districts, such as the Central Valley.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday, March 12, 2020
9:30 a.m. or Upon Adjournment of Session
State Capitol - Room 2040

Consultant: Yong Salas

ITEMS FOR VOTE ONLY

ITEMS FOR DISCUSSION

ITEMS FOR VOTE-ONLY

7760 Department of General Services (DGS)

Issue 1: Statewide Emergency Management Functions

Request. The Department of General Services, Office of Risk & Insurance Management requests $295,000 in ongoing Service Revolving Fund expenditure authority and two permanent positions to support the increased demand for departmental and statewide emergency management functions.

Background. The Government Operations Agency (GovOps) is assigned by the Governor's Office of Emergency Services (CalOES) in the State Emergency Plan as the lead for Construction and Engineering and Resources. GovOps has delegated this responsibility to DGS.

DGS remains actively involved in debris removal operations for the November 2018 Wildfires, and also has taken on a large support role for Mass Care and Shelter by providing leasing services for shelters, rental of sanitation equipment, food services, and other necessary wraparound services such as showers and restrooms. DGS also has taken on contracts for base camps as well as logistics and transportation services that support CalOES disaster response. DGS was mission-tasked to limit state staff impacts on hotel and rental housing markets to ensure survivors had adequate housing options, which were already limited in the Chico area. State staff, from multiple departments, used the base camp for lodging while in Chico working on debris removal activities. This unit currently has two authorized positions, and this request would augment it with two more, for a total of four positions.

Staff Recommendation. Approve as budgeted.

Issue 2: Enterprise Technology Solutions Permanent Positions

Request. DGS, Enterprise Technology Solutions unit is requesting nine permanent positions to be established in 2020-21 to support DGS' information technology security, privacy, and enterprise application management. No increase to expenditure authority is required.

Background. In 2017, DGS was designated as a Health Insurance Portability and Accountability Act (HIPAA) Covered Entity and Business Associate due to DGS' involvement in processing health information. This designation has significantly increased the amount of work for staff performing security, network and application support, project management, and system testing functions.

Staff Recommendation. Approve as budgeted.

Issue 3: California Commission on Disability Access

Request. DGS requests two permanent positions and a permanent budget augmentation of $700,000 General Fund beginning in 2020-21 to align budget authority with necessary personal services and operating expenses for the California Commission on Disability Access (CCDA).

Background. CCDA was established by the Legislature in 2008 to provide information regarding disability access issues and compliance, develop recommendations that would enable persons with disabilities to exercise their full and equal rights to access public facilities, and facilitate business compliance with laws and regulations to prevent and minimize compliance issues and avoid unnecessary litigation.

However, in 2014-15, CCDA became aware of a funding shortfall associated with the program operating at full staffing levels. In 2017, CCDA transitioned to DGS to alleviate cost pressures to meet their workload requirement. Since then, their expenditures have increased due to increased rent when they relocated from the Department of Rehabilitation building to the Victim Compensation Board building. Additionally, they are required to conduct outreach services, estimated at approximately $38,000 per event, and maintain educational tools, estimated to cost approximately $67,000 per fiscal year.

Staff Recommendation. Approve as budgeted.

Issue 4: Clean-up of Provisional Language

Background. The 2019 budget provided $8 million General Fund in deferred maintenance projects for DGS. The language was inadvertently left in for the 2020-21 Governor's Budget.

Staff Recommendation. Reject the provisional language appropriating $8 million for deferred maintenance under 7760-001-0001.

7910 OFFICE OF ADMINISTRATIVE LAW

Issue 5: Right-size Funding for Staff and Contracted Services

Request. The Office of Administrative Law (OAL) requests $644,000 ($386,000 General Fund and $258,000 Central Service Cost Recovery Fund) for 2020-21 and ongoing for one permanent Attorney position and to address the structural deficit within the department's current operations budget.

Background. OAL has a current operating budget of $4.1 million and 22 positions, of which 11 are reviewing attorney positions and 11 management and support staff. However, over the years, the operating costs for OAL have increased without associated increased expenditure authority, due in part to increased lease costs, increased legal reference materials costs, increased third-party service rates, increased printing costs, and increased training costs. OAL has determined that $501,000 is needed to right-size its budget.

Additionally, OAL states that they need an additional attorney to meet increased workload due to an increase in the number of Public Records Act (PRA) requests and provide additional reviews of agency submissions. In 2019-20, the Legislature appropriated resources for an additional Associate Governmental Program Analyst (AGPA) position to help address the workload of the increased PRA requests as well as additional duties; however, OAL states that much of the increased workload is attorney workload that cannot be handled within the duties of the AGPA.

Staff Recommendation. Approve as budgeted.

8620 FAIR POLITICAL PRACTICES COMMISSION

Issue 6: Political Reform Act of 1974: contribution limits (AB 571)

Request. The Fair Political Practices Commission (FPPC) requests $932,000 General Fund in 2020-21 with $890,000 General Fund ongoing thereafter, and six permanent positions to implement the provisions of AB 571 (Mullin), Chapter 556, Statutes of 2019.

Background. AB 571 established default campaign contribution limits for county and city office at the same level as the limit on contributions from individuals to candidates for the Senate and Assembly, effective January 1, 2021. Cities and counties are able to establish its own contribution limits, which would prevail over these default limits. According to the FPPC, 28 percent of counties, 23 percent of cities, and a small minority of districts have adopted their own local contribution limits under existing state law.

To adequately implement and enforce a statewide default contributions limit, the FPPC states that they require the addition of two political reform consultants, two senior commission counsel, one special investigator, and one program specialist, for a total of six additional positions. The Enforcement Division will be tasked with enforcing limits in numerous jurisdictions that do not currently have limits, and in some jurisdictions that currently have limits who may repeal existing contributions restrictions to shift the costs of enforcing limits to the state and the FPPC. The Legal Division will also see an increase in providing informal assistance, conducting educational and informational seminars throughout the state for local entities.

Staff Recommendation. Approve as budgeted.

8885 COMMISSION ON STATE MANDATES

Issue 7: Administrative and Budget Staff for Mandatory Requirements

Request. The Commission on State Mandates (Commission) requests $206,000 ongoing General Fund and 1.5 positions to perform the Commission's administrative functions of budgeting, procurement, and human resources, and comply with the additional requirements of FI$Cal.

Background. The 2019 Budget provided $53,000 ongoing General Fund and 0.5 positions to meet human resources requirements, as well as personal services contracting and new procurement requirements under FI$Cal. The Commission recently underwent a compliance audit by the State Personnel Board, which found that staffing levels were insufficient for the procurement process, which requires a separation of functions through multiple positions.

Staff Recommendation. Approve as budgeted.

Issue 8: Funded and Suspended Mandates

Request. The proposed funding for non-education mandate payments to local governments is included in the Commission's budget. The Governor's mandate proposal is largely a continuation of the status quo in terms of mandates in effect (funded) and mandates not in effect (suspended). The budget proposes expenditures of $41.1 million related to funding non-education mandates. Funded mandates are listed in the following table.

	2019-20 Funded Local Government Mandates for Governor's Budget	Proposed GB
	General Fund	
1.	Allocation of Property Tax Revenues	585,000
2.	Crime Victims' Domestic Violence Incident Reports	165,000
3.	Custody of Minors-Child Abduction and Recovery	12,884,000
4.	Domestic Violence Arrest Policies	9,475,000
5.	Domestic Violence Arrests and Victims Assistance	2,221,000
6.	Domestic Violence Treatment Services	2,388,000
7.	Health Benefits for Survivors of Peace Officers and Firefighters	2,675,000
8.	Local Agency Ethics	23,000
9.	Medi-Cal Beneficiary Death Notices	15,000
10.	Medi-Cal Eligibility of Juvenile Offenders	4,000
11.	Peace Officer Personnel Records: Unfounded Complaints and Discovery	819,000
12.	Rape Victim Counseling	604,000
13.	Sexually Violent Predators	3,689,000
14.	State Authorized Risk Assessment Tool	657,000
15.	Threats Against Peace Officers	0
16.	Tuberculosis Control	221,000
17.	Unitary Countywide Tax Rates	413,000
18	U Visa 918 Form	3,300,000
19	Impasse Procedures II	1,009,000
	Total General Fund	**41,147,000**

Of note, the Governor's Budget proposes to reimburse local agencies for costs related to two new claims – the U Visa 918 Form, Victims of Crime: Nonimmigrant Status mandate (SB 674 [De

Leon], Chapter 721, Statutes of 2015), and for costs related to Local Agency Employee Organizations, Impasse Procedures II (AB 1606 (Perea), Chapter 314, Statutes of 2012). SB 674 required agencies, upon the request of an immigrant victim of crime, to certify victim helpfulness on the applicable form so that the victim may apply for a U-visa to temporarily live and work in the United States. AB 1606 clarified that fact-finding is available to employee organizations in all situations, regardless of whether the employer and employee have engaged in mediation.

Consistent with previous years, the budget includes the suspension of 38 mandates totaling $564.7 million.

Staff Recommendation. Approve as budgeted.

0511 SECRETARY OF GOVERNMENT OPERATIONS AGENCY

Issue 9: Funding Realignment

Request. The Government Operations Agency (GovOps) requests to realign $252,000 between General Fund and reimbursements and authority to make annual baseline workload adjustments based on GovOps approved funding methodology.

Background. GovOps states that this realignment of funding will allow GovOps to accurately charge departments, boards, and offices GovOps oversees for the services provided to them. Currently, GovOps receives funding for its operations based on the percentage of positions each entity under GovOps is authorized to have. Departments that are primarily General Fund-funded, or where a policy decision was made to only recover a partial amount for services rendered, General Fund is provided to cover the difference.

Over the past four years, workload within GovOps has grown through reimbursement funding, with minimal General Fund growth. As a result, the handful of departments within GovOps have been reimbursing the agency for services provided by GovOps to other entities. This request will correct that imbalance and more accurately reflect the services provided by GovOps to its entities under its jurisdiction.

Staff Recommendation. Approve as budgeted.

ITEMS FOR DISCUSSION

8880 Department of FI$Cal

Overview. The Department of FI$Cal is responsible for supporting the Financial Information System for California (FI$Cal) Project, including supporting the system's customers and stakeholders, onboarding any new, deferred, or exempt entities, as well as assuming responsibility for system maintenance, upgrades, and enhancements as portions of the system are implemented and accepted.

The 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 will provide the state with a single integrated financial management system that encompasses budgeting, accounting, procurement, cash management, and financial management and reporting. FI$Cal, through the adoption of best business practices, will: 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.

Budget. The budget includes $103 million ($59 million General Fund) and 256.6 positions in 2020-21.

Issue 10: Special Project Report 8 Update

Background. One of the most vital projects for the state is FI$Cal, the statewide project being undertaken to integrate and re-engineer the statewide business processes related to budgeting, accounting, procurement and cash management. FI$Cal provides a unified and consistent financial system that will be used by virtually all state entities, and provides transparency in state financial data. FI$Cal is managed by a partnership of four control agencies – Department of Finance, State Controller’s Office (SCO), State Treasurer’s Office, and the Department of General Services.

Departments began operating in FI$Cal in July 2013, and since then, have onboarded in “waves.” In 2016-17, the Legislature approved a permanent administrative structure for FI$Cal, establishing it as a stand-alone department. FI$Cal is a central service agency, and non-general fund costs are recouped through the Central Service Recovery Fund, which charges various special and nongovernmental funds. Currently, 152 departments are now transacting in the system. There are 10 deferred departments, who are implemented or in the process of implementing their own financial management system (and as these systems require upgrades or the departments desire expanded functionality, they will move on to FI$Cal). There are also 10 exempt departments, who have statutory authority to use systems other than FI$Cal for their financial management.

FI$Cal is an ambitious and complex project that has undergone numerous changes in scope, schedule and cost. These various changes have been incorporated and documented in special project reports (SPRs) with the project currently working under the rubric of SPR 8, which was established in August 2019. ~~This SPR delayed project completion from July 2019 to July 2020, and also removed the SCO cash management functionality from the scope.~~

The 2019 Budget Act appropriated $58.1 million through June 2022 to provide additional support for state departments utilizing the FI$Cal system and struggling to transition from their legacy and department-specific applications to the integrated financial platform. Accenture, LLP is the contracted FI$Cal System Integrator, and assisted the state in heavily configuring software developed by Oracle and used in FI$Cal, and in deploying the software for department usage. This included departmental trainings to use the software, solving complaint tickets, and providing enhancements to the software based on feedback. In addition, the 2019 Budget Act provided $6 million to implement the SCO cash management functionality and the Consolidated Annual Financial Report (CAFR) reporting.

This funding allowed FI$Cal to contract for additional resources to provide departmental support, deploy tools to help departments create reports, improve performance in system use, and improve training for departments. FI$Cal states that the main reasons for the delays in closing out month and year-end reports are: 1) the time it takes for a department to be proficient in FI$Cal; 2) training that has not been completed by end-users; 3) staff turnover; and 4) the challenges that come with changing the internal business processes of a department. FI$Cal states that historically, it takes one to three years before a department consistently completes their month and year-end reports in a timely manner. For the 2020-21 fiscal year, departments are requesting additional resources to meet the workload required by operating in FI$Cal, with $23.2 million and 132.3 positions in the first year, and $19.6 million ongoing.

In its December 17, 2019, letter to the Governor and the Legislature, the California State Auditor expressed concerns with "the manner in which the 2019 project plan update sets a formal end date for the project even though the FI$Cal project will not have implemented promised functionality." Specifically, the Auditor pointed out that the project removed features from the project's scope, and that the project's financial documentation understates the true costs of the project. As a result, the Auditor expressed concerns that the state's credit rating would be affected and increase borrowing costs.

Since 2015, the state's credit rating has improved or remained the same:

Year	Fitch	Moody's Investor Service	Standard & Poor's
2020 (Current)	AA	Aa2	AA-
2019	AA (Aug.)	Aa2 (Oct.)	AA-
2018	AA-	Aa3	AA-
2017	AA-	Aa3	AA-
2016	AA-	Aa3	AA-
2015	A+	Aa3	AA-

A key change made in SPR 8 was the removal of "Milestone 6," or the closeout of the SCO's legacy system when the SCO has gained assurance in the system as the Book of Record. In the meantime, SCO will run the FI$Cal system and its existing legacy accounting systems in tandem under what's known as the Integrated Solution. The Integrated Solution includes developing interfaces between both FI$Cal and SCO's legacy systems so that data is entered only once (in either system) but then both systems share the data so that each system can perform the accounting and cash management functions for the state.

LAO. The LAO points out that SPR 8 delays the project deadline by one year to July 2020, and removes some functions from the project's scope, while simultaneously increasing the project cost by $150 million for a total of $1.06 billion. The LAO also points out that the projected cost as stated in SPR 8 does not reflect total costs associated with the project; for example, the project cost does not include $25.6 million (of which $15.1 million is General Fund) for SCO to support the development and implementation of the Integrated Solution, nor does it include funding for departments to change their business processes and hire staff to operate in FI$Cal. The project does not include the addition of the ten deferred departments to the FI$Cal system.

The LAO recommends that the Legislature: (1) consider adopting statutory language defining IT project completion and success for the FI$Cal project; (2) consider adopting statutory language that continues current oversight practices into the operations and maintenance (post-completion) stage of the FI$Cal project, should project completion continue to be defined as under SPR 8; and, (3) consider as a future practice adopting budget bill language that conditions the release of IT project funding (in the case of FI$Cal and IT projects more generally) on the California Department of Technology's approval of the latest SPR and 30-day notification being given to the Legislature that includes the total cost and schedule of the project from the project approval document.

Staff Comment. SPR 7 removed Milestone 6, or the retirement of the SCO's legacy system from the FI$Cal project scope, and FI$Cal states that it will address this milestone using the Department of Technology's approved processes. Additionally, reporting requirements that are statutorily required will sunset upon the completion of the project, which is currently slated to be July 2020. The Legislature is currently working with the Administration on a new reporting structure for information technology projects in general, potentially including the FI$Cal project reporting as part of this new structure.

The subcommittee may wish to consider reporting requirements that capture critical information needed for continued legislative oversight after the project is complete, in particular with regard to the SCO functionality and the deferred departments.

Staff Recommendation. Adopt additional reporting requirements that include tracking the progress of Milestone 6, or the progress of SCO's transition from its legacy system to the FI$Cal, and when the remaining departments operate in FI$Cal.

CORRECTION: The analysis incorrectly stated that the removal of Milestone 6 was part of SPR 8; it was removed in SPR 7. Additionally, the analysis incorrectly stated that SPR 8 will remove the SCO's cash management functionality from its project scope. Staff comment was updated to reflect this, as well as state that conversations around reporting are currently ongoing.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Overview. The Department of General Services, as an enterprise organization under the Government Operations Agency, provides centralized services to state agencies in the areas of: management of state-owned and leased real estate, including design and construction of state infrastructure projects; approval of architectural designs for local schools and other state-owned buildings; printing services; procurement of commodities, services, and equipment for state agencies; and management of the state's vehicle fleet. Furthermore, DGS employs practices that support initiatives to reduce energy consumption and help preserve California resources. The director of DGS serves on several state boards and commissions.

Budget. The Governor's Budget includes $1.3 billion ($120.5 million General Fund, $1.2 billion special funds, and $5.7 million in reimbursements) to support the department and its various programs.

Issue 11: Contracted Fiscal Services Workload Increase

Request. DGS' Contracted Fiscal Services Program requests $2.3 million in additional authority comprised of the following funds: $720,000 Central Services Cost Recovery Fund, $850,000 Service Revolving Fund, and $710,000 General Fund. Additionally, the Department requests 15 positions to provide accounting services for four new client agencies and establish a strike team to consult and assist other state agencies with their accounting.

Background. The Financial Information System for California (FI$Cal) provides a unified and consistent financial system that will be used by virtually all state entities, and provides transparency in state financial data. With the transition to the new system, FI$Cal changed how some state entities performed their accounting and budgeting functions. For example, FI$Cal requires multiple users operating within it to maintain a separation of duties in order to prevent fraud and minimize errors, and changed how transactions were recorded. At the same time, the Contracted Fiscal Services (CFS) unit within DGS, which provides budgeting and accounting services to other state departments, boards, and commissions that do not have the staff or expertise necessary to perform budget and/or accounting functions, has seen an increase in its clientele. Currently, CFS provides accounting services to 48 state entities and budgeting services to 23 state entities using FI$Cal, and recovers its costs by billing customers through an interagency agreement.

In 2020-21, CFS will be providing accounting services for California Children and Families Commission, California Student Aid Commission, and the Public Employment Relations Board. In addition, CFS will be providing accounting, human resources and budgeting services for the Commission on Asian and Pacific Islander Affairs. DGS requests nine positions to assume the accounting work for the additional client agencies.

DGS also requests six new, ongoing positions to establish the CFS Accounting Strike Team. The Department of FI$Cal and the Department of Finance (DOF) provide a variety of support options to assist departments in operating within the FI$Cal system. FI$Cal department staff provide on-site support, training, and assistance with using the system, and DOF staff provide policy and procedure support regarding accounting-related issues, as well as training and technical support.

The proposed strike team would assist state entities in the following areas:

- Providing instructions and assistance in posting of daily and monthly accounting transactions.
- Providing instructions and assistance with month-end close.
- Assisting with researching accounting issues.
- Collaborating with the Department of FI$Cal and DOF to resolve any accounting issues or provide consultative advice to the state entity.

LAO. The LAO recommends that the Legislature approve the funding for the six-person CFS Strike Team on a two-year limited-term basis, rather than on an ongoing basis, as proposed by the Governor. If DGS determines continued resources are required at the end of this limited-term funding, it can request funding for additional years at that time. After the two-year period, the Administration should be able to provide information on how the resources provided to implement FI$Cal—including those provided to the CFS Strike Team, Department of FI$Cal, and other departments that have received FI$Cal-related augmentations—have been used thus far and the outcomes they have achieved. This information should enable the Legislature to make a more informed decision regarding whether ongoing resources are needed for the CFS Strike Team. Additionally, this information should assist the Legislature with its ongoing oversight over the progress of the FI$Cal project.

Staff Comments. In 2019-20, FI$Cal received $58.1 million to provide additional departmental training and support for state departments struggling with the FI$Cal system, which was provided over three years. These resources were provided in response to departments struggling to transition from legacy and department-specific applications to FI$Cal, a majority of which was used to retain the contract vendor.

DGS states that the CFS strike team would also backfill vacant positions that are critical to perform accounting functions in FI$Cal in small- to medium-sized departments until those positions can be filled.

Staff Recommendation. Hold open.

Issue 12: Sacramento Region: Jesse Unruh Building Renovation

Request. DGS requests $116.8 million ($116,768,000) lease-revenue bond authority in 2020-21 for the design-build phase of a project to renovate the historic Jesse Unruh Building, located at 915 Capitol Mall in Sacramento.

Background. The 2018 Budget Act provided $6.3 million General Fund for the performance criteria phase of the Jesse Unruh Building renovation project, and would bring the total project cost to $123.1 million. The estimated project total in 2018 was $89.9 million for this project. The Administration states that the design-build phase currently includes $91.7 million for the contract, $6.4 million for contingency, $4.1 million for A&E, and $14.6 million for other costs. DGS states that approximately 25 percent of hazardous materials were found than was previously known about in the building. Additionally, the water intrusion was more severe than anticipated, resulting in a 25 percent increase in repair costs.

The Capitol Fountain was completed circa 1928, and is one of three listed contributors to the Capitol Annex National Register Historic District, which also includes the Unruh Building and the Stanley Mosk Library and Courts Building. However, the draft environmental impact report for the Jesse Unruh Building Renovation Project found that there were issues with "electrical shortages in the fountain lighting, failure of mechanical equipment, leaks in the fountain bowl and associated valves, and a possible drain line collapse."[1]

In an opinion piece in The Sacramento Bee, Preservation Sacramento wrote, "As the central element to the plaza, the fountain has framed California's Capitol since 1928. The beauty of this fountain reflects its purpose: 'Celebrate California'… California cities have successfully restored historic fountains: Sacramento's Chavez Plaza Park fountain, Los Angeles' Mulholland Memorial Fountain and San Diego's Broadway Fountain in Horton Plaza Park."[2]

The Jesse Unruh building was built in 1929 and is a historical landmark – the proposed renovation will restore the building's historical character and also address critical life safety and other code deficiencies. The proposed $116.8 million in lease-revenue bond financing would only be enough to renovate the building. To include restoration to the fountain, the total amount needed would $118.8 million, an increase of $2 million, and would also include potential modification costs to the Capitol Mall roundabout area as well.

A facilities condition assessment completed in 2015 ranked the Jesse Unruh Building number five for requiring renovation or replacement. This project is part of DGS' 10-year sequencing plan for Sacramento.

Legislative Analyst's Office (LAO). The LAO recommends requiring DGS to report on options to contain costs for legislative consideration. We recommend that the Legislature require DGS to report at budget hearings with further details on potential options—such as reducing the extent of renovations, employing less expensive materials, or delaying projects—that could reduce the costs of these projects, along with their associated trade-offs.

Staff Recommendation. Approve $118.8 million lease-revenue bond financing for the design build phase of the renovations to the Jesse M. Unruh Building and the Capitol Plaza, including the restoration of the State Capitol Fountain in accordance with the Secretary of Interior's Standards for treatment of historic properties. Adopt budget bill language that prohibits the demolition of the State Capitol Fountain.

[1] https://www.dgs.ca.gov/-/media/Divisions/RESD/Resources/Notices-Information-Resources-for-CEQA/Projects/Sacramento-County/Jesse-M-Unruh-Building-Renovation-Project/Unruh-DEIR-508-compliant.pdf
[2] Vanacker, Eleanor and Gregory (17 October 2019). "California's Capitol Mall fountain should not be demolished." *The Sacramento Bee.* p. 11A

Issue 13: Sacramento Region: Resources Building Renovation

Request. DGS requests $421.3 million lease revenue bond authority for the design-build phase of a project to renovate the Resources Building, located at 1416 Ninth Street in Sacramento.

Background. The 2019 Budget Act provided $8.9 million General Fund for the performance criteria phase of the renovation project, and would bring the total cost of the project to $430.2 million. The estimated cost for the design-build phase when funds associated with the performance criteria phase was approved in 2019 was $367 million. DGS states that the extent of the hazardous materials in the building, while not materially different than assumed, will now require a phased demolition approach, which is costlier than a more straightforward demolition approach.

A study completed in 2008 (and updated in 2013) identified various fire and life safety, building code, hazardous materials, and other infrastructure deficiencies at the Resources Building, which was the first major post-war development constructed in 1964 and has not received any significant renovations since then. It has been designated as a “historic building” due to its historical significance and its architectural design and requires State Historic Preservation Office review.

A facilities condition assessments completed in 2015 found that the Resources Building ranked first statewide for state-owned, DGS-controlled office buildings requiring renovation or replacement. This project will correct numerous and serious code deficiencies, including lack of fire suppression, inadequate fire alarm, presence of hazardous materials such as asbestos, poor indoor air quality, lack of proper emergency exiting, and inadequate structural integrity.

LAO. The LAO recommends requiring DGS to report on options to contain costs for legislative consideration. The LAO recommends that the Legislature require DGS to report at budget hearings with further details on potential options—such as reducing the extent of renovations, employing less expensive materials, or delaying projects—that could reduce the costs of these projects, along with their associated trade-offs.

Staff Recommendation. Approve as budgeted.

Issue 14: Sacramento Region: Gregory Bateson Building Renovation

Request. DGS requests $183.6 million lease-revenue bond authority in 2020-21 for the design-build phase of a project to renovate the Gregory Bateson Building, located at 1600 Ninth Street in Sacramento.

Background. The 2018 Budget Act provided $5.2 million General Fund for the performance criteria phase of the Gregory Bateson Building renovation project. This request brings the total cost of the project to $188.8 million. In 2018, the total project costs were estimated to be $161 million. DGS states that while exterior water intrusion was evident, further investigation revealed the entire exterior system was unsalvageable. In addition, replacement of the exterior balcony guard rails is needed.

The building ranked sixth statewide for state owned, DGS- controlled office buildings requiring renovation or replacement. The current occupants, the Health and Human Services Agency, Department of Developmental Services, and Department of State Hospitals. Proposed tenants for the renovated Bateson Building include California Natural Resources Agency departments from leased space that are not consolidating into the New Natural Resources Agency Headquarters Building.

The project includes renovation of all major building systems, applicable reinstatement of energy systems, and corrections to ADA and fire and life safety deficiencies. The mechanical, plumbing, electrical, and telecommunications systems will be replaced. In addition, repairs to prevent water intrusion and hazardous material abatement will be performed. A security officer station and physical barriers will also be placed at one of the building entrances.

LAO. The LAO recommends requiring DGS to report on options to contain costs for legislative consideration. We recommend that the Legislature require DGS to report at budget hearings with further details on potential options—such as reducing the extent of renovations, employing less expensive materials, or delaying projects—that could reduce the costs of these projects, along with their associated trade-offs.

Staff Recommendation. Approve as budgeted.

Issue 15: Facilities Management Division Elevator Deferred Maintenance

Request. DGS requests $56.4 million one-time General Fund to address critical safety issues relating to conveyance systems including elevator repairs in buildings owned and operated by DGS.

Background. DGS states that limited funding and competing priorities have contributed to a backlog of deferred maintenance projects. The current statewide deferred maintenance need totals $1.4 billion and includes fire alarm systems, end-of-life elevator systems, heating and cooling systems, and end-of-life roofing systems. This proposal requests $56.4 million to address the most urgent elevator safety deficiencies. The four projects identified below are related to fire/life/safety, public safety, violations of regulations, and/or malfunctioning mission-critical systems and equipment that have been identified for repair or modernization.

Location	Building Name	Number of Stories	Number of Cars	Project Cost
Oakland	Elihu Harris	22	17	$17,901,000
Los Angeles	Ronald Reagan State Building	14 & 16	20	$21,060,000
San Francisco	Ronald M. George SOC (Hiram Johnson Building)	14	13	$14,196,000
San Francisco	Ronald M. George SOC (Earl Warren Building)	6	3	$3,276,000
Totals			**53**	**$56,433,000**

LAO. The LAO recommends: 1) rejecting funding for two non-urgent elevator projects; 2) modifying provisional language to limit use of elevator funding to specific projects; and 3) requiring DGS to report on plan for maintaining facilities and adjusting rates to reflect actual costs. The LAO recommends that the Legislature only approve funding for the most critical, urgent deferred maintenance projects. Less urgent projects should generally be planned for in advance and funded over a period of time through DGS' rates structure. This approach would more fairly apportion their costs across various funds and also create better incentives for the department to be a good steward of its buildings. Consistent with this approach, the LAO recommends that the Legislature reject the $35.4 million (General Fund) proposed for the Elihu Harris and Ronald M. George Building elevator projects. While these specific projects may be worthwhile, it is not clear they represent immediate, critical needs. (The LAO is not raising concerns with the $44.7 million for the Ronald Reagan Building elevator project and the fire alarm system projects, since the department and the facility condition assessments better support the urgency of these projects.)

Staff Comment. The LAO notes that the facility condition assessments on the Ronald M. George, Elihu Harris, and Ronald Reagan buildings identified much lower costs for the recommended elevator modernizations that what is being requested by DGS. The facility condition assessments estimated that the costs of the elevator projects at these three buildings would total about $13 million, and DGS is currently requesting $56.4 million.

DGS states that the facility condition assessment costs were never intended to be exact estimations of cost for the following reasons: 1) the estimates were made at a point in time in 2015—five years of escalation is considerable, and does not account for code changes that have since occurred; 2) the estimates were made without respect to market conditions with regard to the availability and the cost of firms who install and repair elevators; and 3) the estimates were made without respect to associated/ancillary work triggered by undertaking the modernization. DGS states that the $56.4 million is based upon professional estimates from a construction management firm based upon recent design work and reflect total project costs, including full soft costs and escalation.

Staff Recommendation. Hold open.

Issue 16: Facilities Management Division Fire Alarm System Deferred Maintenance

Request. DGS requests $23.6 million one-time General Fund, available over two years, to repair or replace fire alarm systems in seven state buildings owned and operated by DGS.

Background. Fire alarm systems include fire alarm control panels, accessible pull stations, smoke detection systems, and accessible audio-visual announcement devices. The existing fire alarm systems in the seven buildings identified below require replacement for a number of reasons, including system malfunctions and the inability of manufacturers to provide replacement parts for antiquated systems.

Location	Building Name	Project Cost
San Francisco	Edmund Brown Building	$ 2,562,431
Van Nuys	Van Nuys Building	$ 1,283,207
Sacramento	Justice Building	$ 2,817,587
Sacramento	Library & Courts II	$ 1,014,300
Sacramento	FTB Campus - Los Angeles	$ 4,322,774
Sacramento	FTB Campus - Sacramento/San Francisco	$ 7,987,438
Sacramento	FTB Campus - San Diego	$ 3,645,317
Totals		**$ 23,633,054**

Staff Recommendation. Approve as budgeted.

Issue 17: Electric Vehicle Service Equipment Assessments and Infrastructure

Request. DGS requests a one-time augmentation of $23.4 million one-time Service Revolving Fund, which will allow the Office of Sustainability to expend a one-time General Fund transfer of $15 million to the Service Revolving Fund and recover $8.4 million in costs from special funds. DGS also requests one permanent position to continue performing assessments for the installation of Electric Vehicle Service Equipment (EVSE) at state facilities.

Background. In prior years, DGS requested funding for this project through an equal split between the Service Revolving Fund, which receives General Fund and charges for work rendered by the Department of General Services, and the General Fund. However, DGS states that restrictions on fund use and budgetary challenges kept departments from using special funds, which has slowed down progress. DGS states that special funds have accounted for only 36 percent of authorized EVSE expenditures for 2017-18 and 2018-19, and is now asking for a funding split that adheres to 64 percent General Fund and 36 percent special fund.

In 2018, the Governor issued an executive order that set a target of putting five million ZEVs on California roads by 2030. The 2018 Action Plan prioritized actions for state agencies to execute in 2018 to enable progress toward the 2025 and 2030 goals. As part of this plan, DGS is responsible for assisting state agencies in: (1) having at least 50 percent of the state's annual light-duty fleet purchase be ZEVs by 2025, and (2) creating charging capabilities in five percent of workplace parking spaces.

DGS supports state agencies in completing readiness surveys, conducting site assessments, and providing oversight of architectural and engineering functions, construction management, system activation, and identification of alternative funding options if available. In 2019-20, DGS received a one-time augmentation of $18.6 million ($9.3 million General Fund and $9.3 million Service Revolving Fund) to continue the activities related to the installation of EVSEs in state facilities. In 2018-19, DGS received a one-time augmentation of $15.6 million ($7.8 million General Fund and $7.8 million Service Revolving Fund) to continue the installation of EVSE in state facilities and three permanent positions, bringing the total to four positions.

This request is to fund year four of the DGS ZEV Five-Year Infrastructure Plan to install EVSEs in state facilities to support both the state fleet and state employee charging needs, and would bring the total positions to five. $23.1 million will support 1,647 EVSE installations and the remaining $256,000 will support work related to the remaining goal of completing 377 facility assessments. Total costs to implement this effort is $93.9 million to install 5,750 EVSEs by 2021-22, which is 734 less ports than what was previously planned.

Staff Comment. To date, DGS has completed 6,107 assessments, and estimates that they will install 5,750 EVSEs, assuming that they would be able to fully use the authorized special funds. In 2017-18, they were able to expend 41 percent of their authorized special funds, and in 2018-19, they were able to expend 85 percent of their authorized special funds. Because assessments cost less than installations, a significant number of more assessments have been made than installations:

Actual Implementation			
Assessments	954	3,753	1,400
Ports Installed	22	160	400

The current number of completed assessments outnumber DGS' projection of EVSE port installations. DGS states that although it has completed 6,107 assessments to date, DGS will need to perform a minimum of 6,484 assessments in order to reach the goal of 6,484 installations. Assessments are the first step in determining the actual cost and number of ports that can be installed at a given site. As a result, some assessments are not acted on due to cost or other limitations discovered during the assessment. DGS' current estimate is that approximately 5,750 ports would be installed through 2023-24, however, actual installations are likely to be closer to DGS' goals as a result of increased General Fund resources relative to past years.

Staff Recommendation. Hold open.

Issue 18: California Pharmaceutical Collaborative Local Outreach

Request. DGS Procurement Division requests four positions and $723,000 ongoing Service Revolving Fund expenditure authority to support the workload for the Statewide Pharmaceutical Program's Local Governmental Outreach Project and Member Agency responsibilities for the California Pharmaceutical Collaborative.

Background. The Statewide Pharmaceutical Program was established in 2002, and allows state and local governmental entities to access negotiated contracts that can provide substantial savings through bulk purchasing of pharmaceutical products and services. While local governmental entities may participate in the statewide pharmaceutical program, very few do.

The Governor issued Executive Order N-01-19 to create the largest single purchaser for prescription drugs and allow private employers to join the State in negotiating drug prices. As part of the executive order, DGS: 1) developed a list of prescription drugs that could be prioritized for future bulk purchasing initiatives or reexamined for renegotiation; 2) based on the prioritized list, develop and implement bulk purchasing arrangements for high-priority drugs and provide pro-active outreach to local governments to encourage participation; and 3) develop a framework for enabling private purchasers, including small businesses, health plans, and the self-insured to opt in to a state purchasing program to benefit from the state bulk pharmaceutical purchasing program.

According to DGS, the Governor's Office specified defined objectives to reduce the cost of prescription drugs at local jails, and a jail task force will be established. High-cost drugs and other drugs that counties identify as a priority need for their populations will be prioritized, and prioritized in largely populated counties with high pharmaceutical spend such as Los Angeles County and Alameda County.

Staff Comment. According to the Board of State and Community Corrections Jail Profile Survey, second quarter 2019 reports show that statewide, local communities have spent $13.2 million on medication, of which, $4.7 million were spent on psychotropic drugs (based on information provided by 24 jurisdictions). Of these, Los Angeles County spent the most at $7.8 million, of which $2.8 million were spent on psychotropic drugs.

A recent policy brief by the California Health Policy Strategies published in January 2018 found that the use of jail inmates taking psychotropic drugs jumped by 25 percent in between March 2012 and February 2017 in a sample of 45 counties, and they now account for about a fifth of the county jail population across the state.[3] The policy brief stated that this increase could be a result of several different causes – 1) a trend toward increased incarceration in jails of seriously mentally ill individuals, either due to increased local homelessness and/or state policy changes under the public safety realignment; or 2) better identification, diagnosis, and treatment of seriously mentally ill individuals.

However, recent articles highlighted the concerns of some advocates for the mentally ill who worry that the drugs are at times prescribed inappropriately, or administered without the context of holistic mental health treatment.[4] These issues are outside of the scope of this request and the jurisdiction of this subcommittee, but are concerns that hang overhead as this jail task force moves forward. Mainly, if the Legislature approves this request, are we enabling easier acquisition of psychotropic drugs to use as a tool for sedation and behavioral management of mentally-ill inmates without proper therapeutic treatments? Additionally, the jail task force—why it was established, its composition, and its goals—requires further scrutiny from the Legislature.

While these issues will be deliberated in other areas of the budget, the subcommittee may wish to ask questions on the jail task force when considering this request.

Staff Recommendation. Hold open.

[3] https://calhps.com/reports/PolicyBrief_PsychotropicMedications_CalHPS.pdf
[4] https://www.washingtonpost.com/national/health-science/use-of-psychiatric-drugs-soars-in-california-jails/2018/05/08/57fcb9e2-52a0-11e8-a6d4-ca1d035642ce_story.html

0511 Secretary of Government Operations Agency

Issue 19: Workload Adjustment and Position Transparency BCP

Request. GovOps requests 3 new positions and the reclassification of 2 existing positions, associated with $286,000 General Fund and $450,000 reimbursements ongoing to fund and manage existing and new workload and increased lease costs.

Background. GovOps has been borrowing staff from other departments to cover shortfalls in personnel needs that have been dedicated to existing and ongoing GovOps workload. With the addition of the Office of Digital Innovation and other new priority initiatives, GovOps workload continues to increase.

The three new positions that are being requested will cover ongoing workload needs:

1. *Permanent transfer of a position from the Franchise Tax Board (FTB).* This position is currently located within GovOps through a borrowed vacant position from the FTB. This position will work on workforce development, performance improvement, and state employee apprenticeship programs.

2. *Agency information officer.* The work is currently being conducted by an agency information officer within the Business and Consumer Services and Housing Agency (BCSH), and covering two agencies by the same information officer is no longer tenable.

3. *Assistant Secretary for Communications*. GovOps currently has one Deputy Secretary for Communications and is borrowing two positions from other entities to help with the communications workload.

Additionally, GovOps is proposing to convert two existing positions.

1. *Legal Secretary.* First, they are proposing to convert an office technician position into a legal secretary to provide the legal team with the necessary support. GovOps states that legal workload has continued to increase as GovOps has grown, and with the Administration focusing heavily on compliance and enforcement of regulations, mandatory trainings, and accessibility laws to ensure a diverse, well trained, and fair workforce, the workload and associated tracking in the legal area is best suited for a legal secretary rather than an office technician.

2. *Chief Data Officer.* Finally, GovOps is proposing to convert the Director of Performance Improvement, a position that the Legislature approved last year as permanent, into an exempt position for the Chief Data Officer. This position will be the primary steward of the data portal for the state's public data, and will mediate disagreements when data holders decline to share requested data. The ongoing workload associated with the director of performance improvement will be transferred to a different position, whose previous workload associated with apprenticeship programs is being reduced. The Administration

states that this individual will work with the Department of Technology in developing a public repository of all agreements and requests.

Staff Comment. Data sharing among government entities may provide benefits to the public of which they may be unaware – for example, the Department of Social Services shares data about foster youth with the Department of Education so that local educational agencies can identify foster youth and provide educational support services to these individuals. The Administration has indicated that it intends to develop a standard process for departments to request and receive data from other departments, wherein the chief data officer would mediate any data sharing disputes that arise.

Existing law, namely the Information Practices Act of 1977, outlines requirements that state entities must do when collecting personal information, which includes notice of the principal purpose within the agency for which the agency is to be used and any known or foreseeable disclosures when data sharing is required by law.

Most recently, the Legislature passed and the Governor signed the California Consumer Privacy Act (CCPA). Among the requirements, consumers now have the right to know what personal information is collected, used, shared or sold by; the right to delete personal information held by businesses; and the right to opt-out of sale of personal information by businesses. These requirements are not applicable to public entities that hold or collect consumer data, nor should they be since certain information is mandated for some programs. Existing law requires that forms used by state agencies to collect personal information also include specified notices, including the principal purpose within the agency for which the information is to be used, any known or foreseeable disclosures that are required by law, and whether submission of that information is voluntary or mandatory.

The subcommittee may wish to strengthen some of the disclosure requirements, especially in light of the Administration's direction to share data and with regard to voluntary data sharing agreements.

Staff Recommendation. Hold open.

8260 California Arts Council

Issue 20: Cultural Districts and Disaster Preparedness

Request. The California Arts Council requests $10.5 million one-time General Fund. Of the requested amount, $9 million will be used to support existing cultural districts and expand the cultural district program. $1 million will be used to develop disaster preparedness guidelines and best practices for local governments to protect and preserve resources and artifacts during a disaster. $500,000 will be used to support administrative costs and technical assistance services associated with these activities.

Background. Chapter 396, Statutes of 2015, required the Council to develop a state designated cultural districts program. During the time of the bill's deliberation, the author argued that, "Cultural districts have the potential to draw in tourism and invigorate local economies… other states, such as Massachusetts and Louisiana, that have Arts & Culture District programs have seen substantial economic benefit over time: the creation of new business, increased community interaction and out-of-area visitors, as well as increased government revenue based on economic growth."

Out of 42 applications, 14 districts were selected for a two-year pilot program. A minimum of three partnering organizations from a cultural nonprofit or artist collective, a local business or business association, and a branch of local government or a community development corporation was required to apply, among other criteria. Each state-designated cultural district received $10,000, technical assistance via webinars, marketing and branding support, and a convening of professional learning and networking. The 14 districts are:

Cultural District	**City**
Balboa Park Cultural District	San Diego
Barrio Logan Cultural District	San Diego
The BLVD Cultural District	Lancaster
Calle 24 Latino Cultural District	San Francisco
Rotten City - Emeryville Cultural Arts District	Emeryville
Eureka Cultural Arts District	Eureka
Grass Valley-Nevada City Cultural District	Grass Valley/Nevada City
Little Tokyo	Los Angeles
Oceanside Cultural District	Oceanside
Redding Cultural District	Redding
San Pedro Arts & Cultural District	San Pedro
Downtown San Rafael Arts Districts	San Rafael
SOMA Pilipinas - Filipino Cultural Heritage District	San Francisco
Truckee Cultural District	Truckee

The Council contracted with third-party evaluators to review the pilot cohort's first two years. The evaluation suggested 12 recommendations to enhance future program effectiveness: 1) provide significantly greater financial support to the districts; 2) continue current program inputs (designation, stipend, marketing materials, State partner agencies, technical assistance, and peer-to-peer networking) and develop them in ways that will increase their impact; 3) develop a comprehensive technical assistance resource center to support capacity building for cultural districts; 4) develop inter-agency partnerships to support capacity building for cultural districts; 5) do a round of applications in 2020 to select a second cohort of cultural districts but then pause for three years; 6) defer decisions about program expansion beyond the initial two cohorts until the first five years of the program can be assessed; 7) increase program investment through a legislative request or allocation of CAC Program Funds; 8) conduct ongoing and annual evaluation; 9) document economic impact of the districts and the program; 10) increase CAC staffing of the program; 11) revisit and clarify the legislative language in AB 189; and 12) encourage cultural districts to consider applications to other CAC programs.

The evaluation identified an additional 7 recommendations specific to equity:

1. Prioritize designation of African American/Black, Native American, and Chinese American cultural districts in the next cohort.

2. Prioritize designation of districts in areas of the state that are underfunded or not directly funded by the CAC.

3. Support the development of applications that promote equity.

4. Build inter-agency partnerships to identify and support diverse districts.

5. Provide technical assistance to communities considering an application and to applicants.

6. Revisit and refine the selection criteria for the program with an equity lens.

7. More strongly make the case for the importance of the state designation.

In addition to the workload related to its cultural districts program, the Council requests $1 million to expand its pilot efforts to center cultural placekeeping as a preparedness strategy to safeguard and strengthen local arts and culture communities. The Council provides $5,000 stipends to each of 19 participating counties and also paid for various costs associated with providing training workshops. This investment will allow the Council to provide $10,000 for two years for each of the 58 counties.

Staff Comment. The evaluation of the pilot cultural districts commissioned by the Council found that participants identified benefits including improved or increased collaboration within the district, credibility, visibility, and increased visitation. Only 8 percent of the stakeholders perceived the designation resulted in positive economic development. 77 percent of respondents identified underfunding as a challenge, in addition to lack of staff and marketing visibility, among others.

The $9 million requested would support stipends of $100,000 annually for three years for 30 cultural districts (14 existing districts and 16 new districts), a significant increase from the current stipend of $10,000 over two years.

The evaluation presented its gap analysis report, which found that half of the 14 cultural districts are located in counties whose residents live above the state's median household income and half are below. However, if we look at the median household income of each zip code where these districts are located (as reported by the United States Census Bureau), and compare it to the poverty level threshold used for Medi-Cal applicants (138 percent of the federal poverty level, which is $35,535 in 2019), we find that 13 out of the 14 cultural districts are located in zip codes where the median household income is above the poverty line. The evaluation notes that some of the cultural districts face challenges with gentrification and displacement of lower-income residents.

Cultural District	Zip Code	Median Income*	Poverty Level**
Balboa Park Cultural District	92101	$ 60,417	Above
Barrio Logan Cultural District	92113	$ 33,125	Below
The BLVD Cultural District	93534	$ 37,883	Above
Calle 24 Latino Cultural District	94110	$ 109,747	Above
Rotten City - Emeryville Cultural Arts District	94608	$ 68,352	Above
Eureka Cultural Arts District	95501	$ 40,629	Above
Grass Valley-Nevada City Cultural District	95945/95959	$ 53,609	Above
Little Tokyo	90012	$ 38,786	Above
Oceanside Cultural District	92054	$ 56,170	Above
Redding Cultural District	96001	$ 48,125	Above
San Pedro Arts & Cultural District	90731	$ 49,464	Above
Downtown San Rafael Arts Districts	94901	$ 85,889	Above
SOMA Pilipinas - Filipino Cultural Heritage District	94103	$ 49,052	Above
Truckee Cultural District	96161	$ 89,091	Above

* As reported by the U.S. Census.
** Poverty level is defined at $35,535.

Above	13
Below	1

Additionally, the evaluation notes that "the cultural districts are not often located in regions of the state that are underserved by the Arts Council, especially the northeastern, southeastern, and Central Valley counties of the state."

The Arts Council stated that the gap analysis is only one resource it is utilizing to establish new guidelines which will be voted on by the Council. The Council intends to establish an advisory committee to develop the new Cultural Districts guidelines in the most equitable way. One of the recommendations specific to equity from the evaluation was to "revisit and refine the selection criteria for the program with an equity lens." The subcommittee may wish to ask the Council how it envisions it would define equity when considering which districts to select in the expansion.

Because the expansion will provide significant investments in the cultural districts, the subcommittee may wish to consider prioritizing these dollars in low-income communities or in geographic areas without state-designated districts, such as the Central Valley.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday May 21, 2020
1:30 p.m.
State Capitol - Room 4203

Consultant: Anita Lee

Part A: Labor and Employee Compensation

Vote-Only

(Attachment 1)

Vote Only Calendar for Governor's Budget Proposals from January

Vote Only Calendar for Modifications to Budget Proposals from January

Vote -Only Calendar for New Administration Proposals Introduced in May

Items for Discussion

BU 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Issue 42: Unemployment Insurance Benefits and Program Administration.

Request. The May Revision requests an increase of $37.96 billion ($33.95 billion federal funds) in spending authority for unemployment insurance (UI) benefit payments for 2020-21, of this funding. The May Revision also requests an increase of $126.3 million and 777.1 positions in 2020-21 to reflect federal funding increases and projected workload increases for UI administration.

Background. The state's UI program is an employer-funded program that provides benefits to workers who become unemployed through no fault of their own. From March 2020 through April 2020, approximately 4 million initial unemployment claims were filed. In total, as of May 9th, about $12 billion in unemployment insurance benefits have been distributed. The LAO note that the UI Trust Fund became in solvent a few weeks ago, and as of May 18th, the federal government has advanced $1.1 billion to the state to cover UI benefits over the next few weeks.

According to EDD, the unemployment rate grew from 3.9 percent in February 2020 to 5.3 percent in March 2020. The Coronavirus Aid, Relief, and Economic Security (CARES) Act included several provisions to provide federally funded assistance to workers, as follows: (1) Federal Pandemic Unemployment Compensation (FPUC) provides a temporary increase of $600 per week in addition to the regular weekly benefit amount and will expire by July 31, 2020, (2) Pandemic Unemployment Assistance (PUA) program provides up to 39 weeks of benefits to workers who lost their jobs due to COVID-19, but do not qualify for state UI, this will expire on December 31,2020, and (3) Pandemic Emergency Unemployment Compensation (PEUC), which provides an additional 13 weeks of state UI benefits above the state maximum of 26 weeks.

The Emergency Unemployment Insurance Stabilization and Access Act (EUISAA) provide states with grants for UI program administration. EDD received its first allotment of $58.99 million on April 1, 2020, and EDD will likely apply for the second allotment of $59.0 million in the current year. The EDD UI branch is planning to hire 600 additional staff at the new call center operation in May and June, and 900 new UI program representatives to handle more complex UI claim filings this summer. Additionally, EDD has redirected 1,400 staff from EDDs other branches and throughout the state to help with claims processing. In an effort to provide timely benefit payments, the EDD has exercised flexibility on: (1) the eligibility requirement to look for work and be available for work, and (2) immediately paying incoming claims after identity and wages are verified and prior to making determination of eligibility. Beginning on April 20th, a new call center was stood up for general or technical support from 9 a.m. and 8 p.m., seven days a week. EDD is currently collecting data on its two call centers, the EDD notes that the UI main line, which addresses more complex claims, is open 8 a.m. to noon Monday through Friday, had 80 percent of the calls blocked and the average wait time on the phone is 59 minutes.

Staff Recommendation: Adopt the May Revision proposal.

CONTROL SECTION 3.90, CONTROL SECTION 3.91, ITEM 9800

Issue 43: Employee Compensation Reduction and Suspension

Request. The May Revision proposes to add Control Section 3.90, which specifies a reduction in employee compensation to be achieved through all collective bargaining agreements and non-represented employees by $1.45 billion General Fund and $1.39 billion in other funds. The BBL specifies that a reduction in compensation is not achieved through all collective bargaining agreements by July 1, 2020, then the Director of the Department of Finance shall reduce employee compensation for all members of bargaining units with an agreement to reduce compensation. The reductions in employee compensation shall not exceed 10 percent.

The May Revision also proposes to add Control Section 3.91 to suspend employee compensation increases. The BBL states that absent additional federal funds, increased salaries and wages, such as general salary increases, general wage increase, special salary adjustments, and pay differentials that were to become effective during the 2020-21 fiscal year, that are not specified in Item 9800 are suspended. These suspensions represent a $383.43 million General Fund and $454.78 million decrease to Item 9800.

These items were included in the Governor's "trigger-off" list.

Background. The Governor's budget assumed the state costs to pay for state employee pay and non-retirement benefits would increase $1.5 billion ($660 million General Fund) to fully fund provisions included in ratified memoranda of understanding as well as the proposed Bargaining Unit 18 tentative agreement. The January budget also set aside $230 million General Fund in anticipation of new MOUs. Seven of the 21 state bargaining contracts are scheduled to expire this summer. These bargaining units represent approximately 187,000 full-time equivalent employees.

Staff Recommendation. Hold Open.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Issue 44: Supplemental Pension Payment Adjustment

Background. The 2019-20 budget provided a $3 billion General Fund supplemental pension payment for the state's CalPERS unfunded liability. The budget act specified that $2.5 billion would be applied in 2018-19 and the remaining $500 million over three years starting in 2020-21, of which $243 million was to pay the CHP State plan unfunded liability. The $2.5 billion supplemental pension payment would have produced an estimated $5.9 billion gross savings. The January budget proposed to modify the payment schedule for the $500 million to be applied in 2019-20 instead of over several years.

Proposal. The May Revision proposes to withdraw the $500 million General Fund CalPERS supplemental pension payment due to the economic crisis. The May Revision proposes $243 million Proposition 2 funds, instead of General Fund, to pay for the California Highway Patrol CalPERS unfunded liability. The May Revision also proposes to repurpose the $2.5 supplemental pension payment to supplant state General Fund contributions this year. This results in savings of $2.4 billion over multiple years including 2020-21.

The May Revision proposes trailer bill language to implement this change. Under the Governor's May Revision proposal, the total estimated gross savings over the next three decades is $3.1 billion.

Staff Recommendation. Hold Open.

California State Teachers Retirement System (CalSTRS) and CalPERS School Pool

Issue 45: Supplemental Payment, Supplanting Payment and Rate Authority

Background. The 2014-15 budget enacted a CalSTRS Funding plan which enacted to eliminate the CalSTRS unfunded liability in about 30 years. The plan phased in higher contribution rates from districts, employees and the state. Statute specifies district contribution rates through 2020-21. Under the statutory schedule, the district rate will increase to 19.1 percent in 2020-21. After 2020-21 CalSTRS can increase or decrease the rate by up to one percentage point per year, though the total district rate cannot exceed 20.25 percent.

The 2019-20 budget made a $660 million General Fund supplemental pension payment to the state share of the CalPERS School pool unfunded liability, and $144 million General Fund in 2019-20 and $100 million General Fund supplanting payment in 2020-221 to the school district employer CalPERS contribution rates.

The 2019-20 budget provided $1.64 billion General supplemental pension payment to the state share of the CalSTRS unfunded liability, and $356 million General Fund in 2019-20 and $250 million General Fund in 2020-21 supplanting payment for school employer CalSTRS contribution rates.

Proposal. The May Revision proposes to redirect the $660 million CalPERS School Pool supplemental pension payment to make supplanting payments to school employer contribution rates. This would increase the supplanting payment in 2020-21 to $430 million and $330 million in 2021-22. This would reduce the estimated contribution rate from 22.67 percent to 20.7 percent in 2020-21, and from 24.6 percent to 22.84 percent in 2021-22.

The May Revision proposes to redirect the $1.64 billion General Fund CalSTRS supplemental pension payment to make an additional supplanting payment in 2020-21 and 2021-22. This would increase the supplanting payment in 2020-21 to $1.07 billion and to $820 million in 2021-22. These payments would reduce the estimated employer contribution rate from in 2020-21 from 18.41 percent to 16.15 percent and from 17.9 percent to 16.02 percent in 2021-22.

The May Revision summary notes a trailer bill proposal to suspend the CalSTRS annual rate increases authorized by the STRS Board at the 2019-20 level until 2023-24. The Administration would instead continue to make supplemental payments from Proposition 2.

Staff Recommendation. Hold Open.

Governor's Budget Withdrawn or Sustained Issues
Vote Only

Issue	Department	BR Title	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
1	Department of Fair Housing and Employment	Paid Family Leave Trailer Bill Language				The Administration proposes trailer bill language to expand the California Family Rights Act to apply to employers with one or more employees. The CFRA provides up to 12 weeks of job protected leave for workers to bond with a new child or care for seriously ill family member. The TBL expands the CFRA to include familial relationships currently covered under the Paid Family Leave wage-replacement program. These relationships include siblings, grandparents, and parent-in-laws. Under this proposal, if both parents work for the same employer, they would now both be eligible to take up to 12 weeks of CFRA protected leave each. The TBL would allow employees to up to eight weeks of paid job protected leave when CFRA and PFL are taken concurrently.	Approve as proposed.
2	Employment Development Department	Implementation of Proposition 64: Cannabis Legalization Initiative	--	3,633,000	7	The January budget proposed $3.6 million in 2020-21 to 2022-23 and $1.6 million in 2023-24 and ongoing from the Cannabis Tax Fund to continue administering Proposition 64. The May Revision sustains this proposal.	Approve as proposed.
3	Employment Development Department	Accounting and Business Services Resources	--	3,000,000	--	The January budget proposed $3 million from the Unemployment Compensation Disability Fund and the EDD Contingent Fund from 2020-21 through 2022-23. This proposal helps transition the legacy accounting systems to FI$Cal. The resources also allow EDD to comply with statewide accounting and procurement policies. The May Revision sustains this proposal.	Approve as proposed.
4	Employment Development Department	Benefit Systems Modernization	23,000,000	23,000,000	147.5	The January budget provides $46 million and 147.5 positions funding equally by the General Fund and Unemployment Disability Fund, and a redirection of $3.14 million and 19 positions in 2020-21 for the Benefit Systems Modernization project. These resources begin the multi-year implementation of an integrated and secure benefits system for unemployment, disability or paid family leave benefits. This proposal starts year one of the design, development and implementation phase of the project. The May Revision sustains the proposal.	Approve as proposed.
5	Employment Development Department	Worker Status: Employees and Independent Contractors (AB 5)	3,359,000	--	--	The January budget proposed $3.4 million in 2020-21 and $3.2 million in 2021-22 and $2 million in 2022-23 from the General Fund to implement AB 5 (Gonzalez), Chapter 296, Statutes of 2019.	Approve as proposed.

Governor's Budget Withdrawn or Sustained Issues
Vote Only

Issue	Department	BR Title	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
6	Employment Development Department	Paid Family Leave Small Business Grant	1,000,000		--	The January budget proposed $1 million General Fund ongoing to fund a grant program to assist training needs of small businesses with employees utilizing the Paid Family Leave Program. The proposal would provide $1 million General Fund ongoing to three business associations to provide grants to small businesses with less than 10 employees, and utilize paid family leave. The small business would receive up to $500 per person that is trained or temporarily hired to backfill the workload and responsibilities of the person that took paid family leave. The May Revision sustains this proposal.	Approve as proposed.
7	California Workforce Development Board	Entrepreneurship Pathways Grant Program	10,000,000	--	--	The January budget proposed $10 million General Fund one-time to fund the Social Entrepreneurs for Economic Development (SEED) Initiative to provide micro-grants and entrepreneurial training to immigrants. This funding targets individuals with limited English proficiency, and individuals who are not US citizens or are undocumented. Under the proposal CWDB will enter into an interagency agreement with UCLA Labor Center. UCLA Labor Center will partner with community based organizations to provide outreach education and training, and the CBOs will select awardees for business microgrants. The BCP notes that CWDB will provide oversight and accountability measures over the program, including an independent evaluation of the program. The May Revision sustains this proposal.	Approve as proposed, and adopt placeholder trailer bill language as necessary, and also include reporting language regarding outcomes.
8	Department of Industrial Relations	Electronic Adjudication Management System Modernization	--	-864,000	--	The January budget proposed $864,000 in 2020-21 and $333,000 in 2021-22 from the Workers' Compensation Administration Revolving Fund to upgrade the workers compensation case management system. This would fund phase two of the alternatives analysis phase form the project. The May Revision withdraws this proposal.	Approve May Revision proposal.
9	Department of Industrial Relations	Legal and Public Records Act Resources	--	-1,236,000	-7.0	The January budget proposed seven positions and $1.2 million in 2020-21, 13 positions and $2.3 million in 2021-22, and $2.2 million ongoing from Occupational Safety and Health Fund to the Division of Occupational Safety and Health's (DOSH) Legal Unit. The proposal sought to help the legal unit litigate existing caseloads of appeals and meet statutory deadlines for request for records under the California Public Records Act. The May Revision withdraws this proposal.	Approve May Revision proposal.

Governor's Budget Withdrawn or Sustained Issues
Vote Only

Issue	Department	BR Title	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
10	Department of Industrial Relations	Division of Workers' Compensation Security Upgrades	--	2,283,000	--	The January budget proposed $2.3 million ongoing from the Workers' Compensation Administration Revolving Fund to allow the Division to expand full-time California Highway Patrol security at its district offices. Currently DWX has been absorbing the costs of providing full-time CHP for 15 district offices. This proposal will provide CHP security at 7 additional locations, and cover increased costs of DWC's existing CHP contracts, The May Revision sustains the proposal.	Approve as proposed.
11	Department of Industrial Relations	Financial and Administrative Compliance	--	8,670,000	32.5	The January budget proposed $8.7 million and 32.5 positions in 2020-21, and $7.5 million in 2021-22 and 2022-23,, and $4.9 million ongoing for: (1) 9.5 human resources staff positions to address audit findings from the California State Auditor, State Personnel Board, and CalHR. The positions will provide capacity for labor relations, performance management, process improvement and hiring efforts; (2) 21 Fi$Cal and financial compliance staff, and 2 business management staff to administer Fi$Cal workload, and increase financial administrative oversight for departmental operations, and (3) limited term funding for research and legal staff to "right size" the capacity to promulgate its regulator calendar and reduce the backlog of pending regulations.	Approve as proposed.
12	Department of Industrial Relations	Wage Claim Adjudication Support to Decrease Claim Processing Times	--	2,348,000	15.0	The January budget proposed a four year phase in of positions for the wage claim adjudication unit at DIR: (1) 15 positions and $2.3 million in 2020-21, (2) 31 positions and $4.6 million in 202122, (3) 63 positions and $8.8 million in 2023-24, and (4) $8.6 million ongoing from the Labor Enforcement Compliance Fund. The proposal seeks to hire settlement and hearing officers to reduce delays for workers seeking unpaid wages. State law requires wage claims to be adjudicated within 120 days. However, in 2018, the average claim takes almost 400 days to adjudicate. The administration estimates that once the positions are fully phased in, the duration of wait time will be reduced by half. The May Revision sustains the proposal.	Approve as proposed, and adopt trailer bill language to require the Labor Commissioner's Office to annually submit a report to the Legislature regarding data and outcomes.

Governor's Budget Withdrawn or Sustained Issues
Vote Only

Issue	Department	BR Title	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
13	Department of Industrial Relations	Occupational Safety and Health Appeals Board Resources	--	461,000	2.0	The January budget proposed $461,000 and two positions in 2020-21, and $436,000 ongoing from the Occupational Safety and Health Fund for the OSH Appeals Board to assist in workload levels that have increased by 41.3 percent over the last four years, and provide timely processing of expedited appeals. Regulations require the board to calendar an expediated appeals hearing within 150 days, however the board has struggled to meet this mandate. and has had to cancel regular/general hearings to meet the expedited appeals. This causes the regular/general appeal to be pushed back seven to eight months. The additional 2 positions will allow the board to resolve an additional 650 appeals each year. The May Revision sustains this proposal.	Approve as proposed.
14	Department of Industrial Relations	Amusement Ride and Tramway Unit Resources	--	571,000	3.0	The January budget provided $571,000 and three positions in 2020-21 and $533,000 ongoing from the occupational safety and health fund to address permanent and temporary amusement ride programs and inspection workloads. The May Revision sustains the proposal.	Approve as proposed.
15	Department of Industrial Relations	Worker Status: Employees and Independent Contractors (AB 5)	--	17,538,000	103.5	The January budget proposed $17.5 million and 103.5 positions in 2020-21, and $16 million in 2021-22 and 2022-23 from various fund sources for three-year limited term to implement AB 5. The positions will be as follows: (1) Division of workers compensation (DWC) - 63 positions: to adjudicate and manage workers comps claims, (2) Division of Labor Standards Enforcement (DLSE) - 26.5 positions: to investigate violations and conduct outreach, (3) Division of Occupational Safety and Health (DOSH) - 2 positions: inspections, and (4) Division of Administration - 12 support staff positions. The May Revision sustains the proposal	Approve as proposed.
16	Department of Industrial Relations	Enhanced Enforcement Compliance (Various Legislation)	--	3,324,000	15.5	The January budget proposed $3.3 million and 15.5 positions in 2020-21, and $26 million ongoing in 2021-22 to implement the following chaptered 2019 legislation: (1) AB 35 (Karla), Chapter 710 - Reporting of blood lead levels, (2) AB 51 (Gonzalez), Chapter 711 - employment discrimination enforcement, (3) AB 673 (Carillo), Chapter 716 - penalty for failure to timely pay wages, (4) AB 1400 (Kamlager-Dove), Chapter 717 - Study on exposure to carcinogens, (5) SB 142 (Wiener), Chapter 720 - Employees lactation accommodation, and (6) SB 698 (Leyva), Chapter 508 - Employee wages payment	Approve as proposed.

Governor's Budget Withdrawn or Sustained Issues
Vote Only

Issue	Department	BR Title	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
17	Department of Human Resources	Creation of Childcare Bargaining Division (AB 378)	1,341,000	--	6.0	The January budget proposed six positions and $1.34 million General Fund in 2020-21 and $1.32 million in 2021-22 and ongoing to create a childcare Bargaining Division. This will address workload resulting from the passage of SB 75 (Committee on Budget), Chapter 51, Statutes of 2019, and AB 378 (Limon), Chapter 385, Statutes of 2019.	Approve as proposed.
18	CalSTRS	Organizational Growth	0	-8,696,000	-27.0	The January Budget proposed an increase of $8.69 million and 27 permanent positions for external contracts costs related to property management services and various software tools and subscriptions. The May Revision withdraws this proposal.	Approve as proposed.
19	CalSTRS	Pension Solution Project Augmentation	0	53,000,000	0.0	The January budget proposed an increase of $53 million one-time funding authority through June 30, 2023 for internal and external resources to complete the pension solution project. This spending authority will be used as follows: (1) $34 million of fund contract amendment for CGI Group, Inc. the system integrator on the project and (2) $19 million for internal staff and external resources for the final two years of the project. In 2007, the Teachers' Retirement Board directed staff to begin the process that eventually became the Pension Solution Project. The Project seeks to replace the CalSTRS aging technology infrastructure. The implementation of the Project began in 2015, and is currently anticipated to finish in 2022. CalSTRS has committed $304.8 million from the Teachers' Retirement Fund thus far to the project, and is requesting the use of $53 million to complete the project, which they anticipate will allow for completion of the project without further complications. The technology project seeks to streamline case management, provide automated workflow, user friendly portals, appointment scheduling tools, and improve staff tools and access to information.	Approve as proposed.

Revised January Budget Issues
Vote Only

Issue	Department	BR Title	General Fund BY	Other Funds	Positions	Staff Comments	Staff Recommendation
20	Secretary for Labor and Workforce Development Agency	Department of Better Jobs and Higher Wages	-2,440,000	--	-10.0	The January budget proposed $2.4 million General Fund, 10 positions, and trailer bill language to create the Department of Better Jobs and Higher Wages. This proposal would consolidate the California Workforce Development Board, the Employment Training Panel, Division of Apprenticeship Standards (from DIR), and employment and training services from the EDD into the new department. The May Revision withdraws the associated funding and positions, while sustaining the trailer bill language to establish and create the new state department. The Administration notes that this consolidation will help create efficiencies and coordination between resources and programs. Creating a new department requires significant staff time and resources that may otherwise be utilized for existing programs and services, such as unemployment insurance administration and claims processing. Creating a new department is a significant proposal that the Legislature and the public needs to further analyze and review.	Approve May Revise propose to withdraw the positions and associated funding. Defer trailer bill language and any associated shifts without prejudice.
21	Department of Industrial Relations	Victims of Wage Theft	--	--	--	The January budget proposed trailer bill language to shift expenditure authority from the Garment Industry Regulation Fund to the Labor Enforcement and Compliance Fund, and remove statutory caps on registration fees among others. The January budget also included a fund shift of $3.34 million and 20 positions to reflect this change. The May Revision withdraws this proposal. The May Revision retains the budget bill language to authorize the transfer of any remaining unencumbered balance of the Unpaid Wage Fund into the Garment Manufactures Special Account, Farmworker Remedial Account or the Car Wash Worker Restitution fund to help pay back unpaid wages. Currently, there are 276 garment claims totaling $8.9 million. Currently, there is $9.2 million in unencumbered balance in the UWF.	Approve as proposed.
22	Department of Human Resources	Administrative Workload and Funding Modifications	-995,000	759,000	-2.0	The January budget proposed four permanent positions and $1,884,000 ($1,616,000 General Fund, $5,000 FlexElect Benefit Fund, $922,000 Deferred Compensation Fund, -$745,000 Reimbursement, and $86,000 Central Service Cost Recovery) in fiscal year 2020-21 to assist with administrative workload in the Accounting and Budget Offices, modify funding sources in the Legal and Workforce Development Divisions, and fund increased contract costs for the Savings Plus and Employee Assistance Programs. The May Revision reduces this proposal to $130,000 to fund two positions.	Approve May Revision proposal.

Revised January Budget Issues
Vote Only

Issue	Department	BR Title	General Fund BY	Other Funds	Positions	Staff Comments	Staff Recommendation
23	Department of Human Resources	Departmental Data Solutions	-2,145,000	-1,846,000	-8.0	The January budget proposed nine permanent positions and $4,223,000 ($2,197,000 General Fund, $809,000 Reimbursements, $4,000 FlexElect Benefit Fund, $35,000 Deferred Compensation, and $1,178,000 Central Service Cost Recovery Fund) for fiscal year 2020-21 to address internal information technology and security workload, continue development and enhancement of a statewide Learning Management System, purchase and implement a case tracking and billing system for the Legal Division, and make enhancements to the CalCareers website. The May Revision reduces funding and number of proposed positions to one.	Approve May Revision proposal.
24	Section 3.60 Rate Adjustments to Employer Contributions to CalPERS Retirement	Updated Control Section 3.60 Retirement Rate Adjustments	-18,692,000	-28,517,000	0.0	Control Section 3.60 specifies the employer contribution rate for state employees who are members of the CalPERS or Judges Retirement System II. The May Revision proposes a decrease of $18.69 million General Fund and $28.52 million other funds compared to the Governor's budget. These changes reflect changes in state retirement contribution rates for state members of the Cal PERS as adopted by the CaPERS Board on April 21,2020, which grows at a lower rate than estimated in January.	Approve the May Revision proposal.
25	Section 3.60 Rate Adjustments to Employer Contributions to CalPERS Retirement	No Payroll Growth Adjustment	-77,520,000	-69,080,000	0.0	In addition to the adjustments to the employer contributions rate from the CalPERS Board, the May revision also proposes a decrease of $77.5 million General Fund and $69.1 million other funds to reflect the Administration's assumption of pay roll growth. This assumption is associated with the Governor's proposal to suspend pay increases, as reflected in control Section 3.91. Staff recommends to hold open Section 3.91, and as a result, staff recommends to hold this item open.	Hold Open.
26	Section 3.60 Rate Adjustments to Employer Contributions to JRS	Revised Estimates	-1,965,000	0	0.0	The May Revision proposes a reduction of $1.95 million General Fund to reflect a decrease in the JRS II contribution rate from 24.964 percent to 24.4 percent, which was adopted by the CalPERS Board. This decrease in the retirement contribution is mainly due to investment gains realized in 2018-19.	Approve the May Revision proposal.
27	BU 9800	Augmentation for Employee Compensation	0.0	0	0	The Administration proposes budget bill language to authorize funds be made available for penalties the state may be assessed by other government entities where an individual healthcare mandate has been enacted and the state has a reporting obligation, as it related to the federal Patient Protection and Affordable Care Act.	Approve the May Revision proposal.
28	C.S. 3.61	CS 03.61 Contribution to Prefund Other Postemployment Benefits	0.0			The May Revision proposes to amend Bargaining Unit 10's employer contribution rate from 2.8 percent to 2.4 percent. The BU 10 memorandum of understanding contains language to allow for automatic increases or decreases to the contribution rate to maintain a 50/50 normal cost share. Based on the most recent valuation and pensionable compensation information, the rate changed by more than 0.5 percent, which triggers a change in the rate.	Approve the May Revision proposal.

Revised January Budget Issues
Vote Only

Issue	Department	BR Title	General Fund BY	Other Funds	Positions	Staff Comments	Staff Recommendation
29	C.S. 31.00	CS 31.00 Budget Act Administrative Procedures for Salaries and Wages	0.0			The May Revision proposes to amend the salary threshold from $12,116 to $11,258 for when departments have to submit the "Change in Established Position Form" request to Finance for review before submitting changes to the State Controller's Office. This amendment reflects the Administration's proposal to suspend employee compensation adjustments. Staff recommends to hold open the proposal to suspend employee compensation adjustments, and as a result, staff recommends this item is held open.	Hold Open.
30	Secretary for Labor and Workforce Development Agency, Agricultural Labor Relations Board, Department of Industrial Relations	Labor Agency Strategic Outreach	--	188,000	-5	The January budget proposed $19.8 million from the Labor and Workforce Development Fund and $6.4 million in reimbursements for 20221 and 24 positions for strategic outreach. The positions in 2020-21 are as follows: (1) 2 positions at Labor Agency, (2) 5 positions at the ALRB, and (3) 17 positions at DIR. The January budget also proposed $19 million LWDF and $5.8 million reimbursements in 2021-22, and $17.5 million LWDF and $4.3 million reimbursements in 2022-23. The January proposal planned to use the funds as follows: (1) $15 million over three years for outreach and education, (2) $24 million over three years for community based organization grants for outreach and direct services, and (3) $1.5 million over three years to planning and resources for enforcement. The May Revision modifies this proposal sustaining the $20 million and 19 positions in 2020-21 only, with this funding to be spent over three years. The outreach efforts are also modified to focus on COVD-19 workplace safety and labor laws. Labor Agency will also target outreach to low-wage immigrant workers, and also support employers as they navigate how to re-open and operate. The May Revision withdraws 5 positions from ALRB. ALRB will utilize the temp help blanket as necessary to provide position authority/make limited term hires to support the outreach program. Departments would work with community based organizations to help with outreach and education, however department staff would be the primary for conducting the outreach. The outreach would cover both urban and rural areas throughout the state. The initiative would prioritize language access, reaching communities with lower literacy levels and cultural barriers accessing Agency's programs and services.	Approve May Revision proposal.

New May Revision Proposals
Vote Only

Issue	Department	BR Title	General Fund BY	Other Funds BY	Staff Comments	Staff Recommendation
31	Secretary for Labor and Workforce Development Agency	Labor and Workforce Development Fund Loan to the General Fund	--	107,000,000	The May Revision proposes a $107 million loan from the Labor and Workforce Development Fund (LWDF) to the General Fund. The LWDF is funded through litigation settlements for labor law violations, primary through the Private Attorneys General Act. The LWDF is used to fund labor law outreach, education and enforcement. In 2019-20, the LWDF balance was $133 million, with revenue estimates of $43 million in 2020-21. For 2020-21, the administration proposes $31 million for programs and operations. After taking into account the loan, approximately $38 million is the balance.	Approve the May Revision proposal.
32	Secretary for Labor and Workforce Development Agency	Future of Work Appropriation	500,000	--	The 2019-20 budget act established the Future of Work Commission to evaluate the state's economy and how technological developments will impact workforce needs and industries. The 2019-20 budget provided $2.5 million one-time General Fund and nine positions in 2019-20, $2 million and nine positions in 2020-21, $1.5 million and six positions ongoing. The May Revision proposes a appropriation of $500,000 from 2019-20. The commission is required to report by May 1, 2020 on its progress. Agency needs additional time to enter into contracts for labor market research and industry sector analysis that will help form the commissions final recommendation for the report.	Approve May Revision Proposal.

New May Revision Proposals
Vote Only

Issue	Department	BR Title	General Fund BY	Other Funds BY	Staff Comments	Staff Recommendation
33	Employment Development Department	May Revise: Disability Insurance Benefits	--	1,547,402,000	The May Revision proposes an increase of $1.55 billion from the Disability Insurance Fund in spending authority based on estimates on increased disability insurance benefit claims. Benefit projections are based on historical trends of benefit weeks paid, average weekly benefit amounts, legislative expansions to the program (such as increase in the number of paid family leave benefits from six weeks to eight weeks starting on July 1, 2020) and also the impacts of the COVID-19 pandemic. Additionally, the Administration proposes an increase of $718.93 million in benefit authority for 2019-20.	Approve the May Revision proposal.
34	Employment Development Department	May Revise: Disability Insurance Program Administration Resources	--	21,576,000	The May Revision requests an increase of $21.58 million and 169.5 positions (15.7 to administer the Paid Family Leave program) to administer the disability insurance benefits program. The May Revision also proposes for 2019-20 an increase of $12.16 million and 98.3 positions for disability insurance benefits program administration. These increases are due to an increase in project workload due to disability insurance claims as a result of the COVID-19 pandemic.	Approve May Revision Proposal.
35	Employment Development Department	May Revise: School Employees Fund Benefits	--	116,200,000	The May Revision proposes an increase of $1.16 million in authority level for benefits in the School Employees Fund (SEF). The SEF is a joint pooled risk fund, which collects contributions based on a percentage of wages paid by local education agencies. The SEF is used to reimburse the Unemployment fund for benefits paid to former employees for schools that have elected this option in lieu f the regular tax-rated method. Currently 1,344 school districts and 72 community college districts participate in the program. These increases in claims are due to school closures responding to the COVID-19 pandemic. Additionally, the May Revision proposes a $45.48 million increase in benefit authority for 2019-20.	Approve the May Revision proposal.

New May Revision Proposals
Vote Only

Issue	Department	BR Title	General Fund BY	Other Funds BY	Staff Comments	Staff Recommendation
36	Employment Development Department	May Revise: Workforce Innovation and Opportunity Act (WIOA)	--	25,440,000	The May Revision proposes a increase of $25.44 million in federal WIOA funds as follows: $22.96 million in local assistance funds to local boards, $293,000 increase in WIOA discretionary administration funds, $3.56 million in program funds and a decrease of $1.4 million in rapid response programs. The program funds help fund the Regional Workforce Accelerator program, which will focus on workers who loss work due to COVID - 19, people who are housing insecure, and immigrants. These strategies include programs such as high road training partnerships.	Approve the May Revision proposal.
37	California Workford	May Revise: Workforce Innovation and Opportunity Act (WIOA)	--	1,500,000	The May Revision proposes an increase of $1.5 million in federal WIOA funds authority for the Cross-System Analytics and Assessment for Learning and Skills Attainment (CAAL-SkillS) data initiative from the EDD to the CWDB to align the budget with program operations and managerial structure.	Approve the May Revision proposal.
38	Highway Patrol Salary Survey	Suspend the California Highway Patrol Salary Survey			The May Revision proposed trailer bill language to suspend the five percent general salary increase CHP are scheduled to receive on July 1, 2020. This is related to the Administration's proposal to suspend specified salary increases for all bargaining units. The Administration recently withdrew this proposal, and will be considering it with the union through the collective bargaining process.	No Action. This is for informational purposes.
39	Public Employees' Retirement System	Current Year and Budget Year Adjustments	0	-198,436,000	The May Revision proposes a decrease of $198.4 million to reflect updated estimates of external investment management fees, salaries, benefits, and third-party fees. This information is to reflect corresponding changes in CalPERS continuous appropriation authority.	Approve May Revision proposal.

New May Revision Proposals
Vote Only

Issue	Department	BR Title	General Fund BY	Other Funds BY	Staff Comments	Staff Recommendation
40	State Teachers' Retirement System	Revised Creditable Compensation	5,203,000	0	The May Revision proposes an increase of $5.2 million to reflect an increase in the state's contribution to the CalSTRS Defined Benefit program and supplemental benefit maintenance account. These changes are based on updated creditable compensation amounts.	Approve May Revision proposal.
41	Supplemental Pension Payments	SB 84 Loan Repayment Adjustments for Other Funds	0	119,101,000	The 2017-18 budget provided a $6 billion loan from the Surplus Money Investment Fund to make a one-time CalPERS Supplemental pension payment. Statute requires that all funds that make contributions to CalPERS are responsible to repay the loan by June 30, 2030. The may revision proposes an increase of $119 million from various fund sources to repay the loan.	Approve May Revision proposal.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday May 21, 2020
1:30 p.m.
State Capitol - Room 4203

Consultant: Anita Lee

Part A: Labor and Employee Compensation

OUTCOMES

Vote-Only

(Attachment 1) FOR OUTCOMES, SEE ATTACHMENT

Vote Only Calendar for Governor's Budget Proposals from January

Vote Only Calendar for Modifications to Budget Proposals from January

Vote -Only Calendar for New Administration Proposals Introduced in May

Items for Discussion

BU 7100 EMPLOYMENT DEVELOPMENT DEPARTMENT

Issue 42: Unemployment Insurance Benefits and Program Administration.

Request. The May Revision requests an increase of $37.96 billion ($33.95 billion federal funds) in spending authority for unemployment insurance (UI) benefit payments for 2020-21, of this funding. The May Revision also requests an increase of $126.3 million and 777.1 positions in 2020-21 to reflect federal funding increases and projected workload increases for UI administration.

Background. The state's UI program is an employer-funded program that provides benefits to workers who become unemployed through no fault of their own. From March 2020 through April 2020, approximately 4 million initial unemployment claims were filed. In total, as of May 9th, about $12 billion in unemployment insurance benefits have been distributed. The LAO note that the UI Trust Fund became in solvent a few weeks ago, and as of May 18th, the federal government has advanced $1.1 billion to the state to cover UI benefits over the next few weeks.

According to EDD, the unemployment rate grew from 3.9 percent in February 2020 to 5.3 percent in March 2020. The Coronavirus Aid, Relief, and Economic Security (CARES) Act included several provisions to provide federally funded assistance to workers, as follows: (1) Federal Pandemic Unemployment Compensation (FPUC) provides a temporary increase of $600 per week in addition to the regular weekly benefit amount and will expire by July 31, 2020, (2) Pandemic Unemployment Assistance (PUA) program provides up to 39 weeks of benefits to workers who lost their jobs due to COVID-19, but do not qualify for state UI, this will expire on December 31,2020, and (3) Pandemic Emergency Unemployment Compensation (PEUC), which provides an additional 13 weeks of state UI benefits above the state maximum of 26 weeks.

The Emergency Unemployment Insurance Stabilization and Access Act (EUISAA) provide states with grants for UI program administration. EDD received its first allotment of $58.99 million on April 1, 2020, and EDD will likely apply for the second allotment of $59.0 million in the current year. The EDD UI branch is planning to hire 600 additional staff at the new call center operation in May and June, and 900 new UI program representatives to handle more complex UI claim filings this summer. Additionally, EDD has redirected 1,400 staff from EDDs other branches and throughout the state to help with claims processing. In an effort to provide timely benefit payments, the EDD has exercised flexibility on: (1) the eligibility requirement to look for work and be available for work, and (2) immediately paying incoming claims after identity and wages are verified and prior to making determination of eligibility. Beginning on April 20th, a new call center was stood up for general or technical support from 9 a.m. and 8 p.m., seven days a week. EDD is currently collecting data on its two call centers, the EDD notes that the UI main line, which addresses more complex claims, is open 8 a.m. to noon Monday through Friday, had 80 percent of the calls blocked and the average wait time on the phone is 59 minutes.
Staff Recommendation: Adopt the May Revision proposal.

CONTROL SECTION 3.90, CONTROL SECTION 3.91, ITEM 9800

Issue 43: Employee Compensation Reduction and Suspension

Request. The May Revision proposes to add Control Section 3.90, which specifies a reduction in employee compensation to be achieved through all collective bargaining agreements and non-represented employees by $1.45 billion General Fund and $1.39 billion in other funds. The BBL specifies that a reduction in compensation is not achieved through all collective bargaining agreements by July 1, 2020, then the Director of the Department of Finance shall reduce employee compensation for all members of bargaining units with an agreement to reduce compensation. The reductions in employee compensation shall not exceed 10 percent.

The May Revision also proposes to add Control Section 3.91 to suspend employee compensation increases. The BBL states that absent additional federal funds, increased salaries and wages, such as general salary increases, general wage increase, special salary adjustments, and pay differentials that were to become effective during the 2020-21 fiscal year, that are not specified in Item 9800 are suspended. These suspensions represent a $383.43 million General Fund and $454.78 million decrease to Item 9800.

These items were included in the Governor's "trigger-off" list.

Background. The Governor's budget assumed the state costs to pay for state employee pay and non-retirement benefits would increase $1.5 billion ($660 million General Fund) to fully fund provisions included in ratified memoranda of understanding as well as the proposed Bargaining Unit 18 tentative agreement. The January budget also set aside $230 million General Fund in anticipation of new MOUs. Seven of the 21 state bargaining contracts are scheduled to expire this summer. These bargaining units represent approximately 187,000 full-time equivalent employees.

Staff Recommendation. Hold Open.

7900 CALIFORNIA PUBLIC EMPLOYEES' RETIREMENT SYSTEM

Issue 44: Supplemental Pension Payment Adjustment

Background. The 2019-20 budget provided a $3 billion General Fund supplemental pension payment for the state's CalPERS unfunded liability. The budget act specified that $2.5 billion would be applied in 2018-19 and the remaining $500 million over three years starting in 2020-21, of which $243 million was to pay the CHP State plan unfunded liability. The $2.5 billion supplemental pension payment would have produced an estimated $5.9 billion gross savings. The January budget proposed to modify the payment schedule for the $500 million to be applied in 2019-20 instead of over several years.

Proposal. The May Revision proposes to withdraw the $500 million General Fund CalPERS supplemental pension payment due to the economic crisis. The May Revision proposes $243 million Proposition 2 funds, instead of General Fund, to pay for the California Highway Patrol CalPERS unfunded liability. The May Revision also proposes to repurpose the $2.5 supplemental pension payment to supplant state General Fund contributions this year. This results in savings of $2.4 billion over multiple years including 2020-21.

The May Revision proposes trailer bill language to implement this change. Under the Governor's May Revision proposal, the total estimated gross savings over the next three decades is $3.1 billion.

Staff Recommendation. Hold Open.

CALIFORNIA STATE TEACHERS RETIREMENT SYSTEM (CALSTRS) AND CALPERS SCHOOL POOL

Issue 45: Supplemental Payment, Supplanting Payment and Rate Authority

Background. The 2014-15 budget enacted a CalSTRS Funding plan which enacted to eliminate the CalSTRS unfunded liability in about 30 years. The plan phased in higher contribution rates from districts, employees and the state. Statute specifies district contribution rates through 2020-21. Under the statutory schedule, the district rate will increase to 19.1 percent in 2020-21. After 2020-21 CalSTRS can increase or decrease the rate by up to one percentage point per year, though the total district rate cannot exceed 20.25 percent.

The 2019-20 budget made a $660 million General Fund supplemental pension payment to the state share of the CalPERS School pool unfunded liability, and $144 million General Fund in 2019-20 and $100 million General Fund supplanting payment in 2020-221 to the school district employer CalPERS contribution rates.

The 2019-20 budget provided $1.64 billion General supplemental pension payment to the state share of the CalSTRS unfunded liability, and $356 million General Fund in 2019-20 and $250 million General Fund in 2020-21 supplanting payment for school employer CalSTRS contribution rates.

Proposal. The May Revision proposes to redirect the $660 million CalPERS School Pool supplemental pension payment to make supplanting payments to school employer contribution rates. This would increase the supplanting payment in 2020-21 to $430 million and $330 million in 2021-22. This would reduce the estimated contribution rate from 22.67 percent to 20.7 percent in 2020-21, and from 24.6 percent to 22.84 percent in 2021-22.

The May Revision proposes to redirect the $1.64 billion General Fund CalSTRS supplemental pension payment to make an additional supplanting payment in 2020-21 and 2021-22. This would increase the supplanting payment in 2020-21 to $1.07 billion and to $820 million in 2021-22. These payments would reduce the estimated employer contribution rate from in 2020-21 from 18.41 percent to 16.15 percent and from 17.9 percent to 16.02 percent in 2021-22.

The May Revision summary notes a trailer bill proposal to suspend the CalSTRS annual rate increases authorized by the STRS Board at the 2019-20 level until 2023-24. The Administration would instead continue to make supplemental payments from Proposition 2.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4

Agenda

Senator Anna M. Caballero (Chair)
Senator Maria Elena Durazo
Senator Jim Nielsen

Part B

Housing and Homelessness

Thursday, May 21, 2020
State Capitol - Room 4203

Consultant: James Hacker

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Vote-Only Calendar

Items for Discussion

Vote - Only Calendar for Budget Proposals from Governor's January Budget

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
1	0515	Business, Consumer Services, and Housing Agency	Homeless Housing, Assistance and Prevention Program Position Authority	0	0	3.0	Codifies the administrative creation of three positions to oversee the implementation of the HHAPP program.	Approve as Budgeted
2	0515	Business, Consumer Services, and Housing Agency	Technical Adjustment to Shift Funding from Funds 0067 and 0298 to New Fund 3363	0	0	0.0	Technical adjustments within the Agency budget.	Approve as Budgeted
3	2240	Department of Housing and Community Development	Federal Community Development Block Grant Program-Disaster Recovery Grant Adjustment	--	87,543,000	1.0	Provides necessary expenditure authority for the distribution of the 2017 Community Development Block Grant – Disaster Relief (CDBG-DR) funds for	Approve as Budgeted

							disaster preparedness and mitigation needs.	
4	2240	Department of Housing and Community Development	Transit - Oriented Development Program Alignment	-	53,146,000	0	Shifts out-year funding for the Transit-Oriented Development program forward into 20-21 and 21-22.	Approve as Budgeted
5	2240	Department of Housing and Community Development	Employee Housing-Field Inspections	--	356,000	2.0	Provides $356,000 in 2020-21 and $319,000 ongoing in reimbursement authority to fund 2.0 positions to address the increasing workload related to the inspection of Employee Housing facilities.	Approve as Budgeted

6	2240	Department of Housing and Community Development	Long-Term Monitoring and Compliance Resolution Workload	--	1,541,000	8.0	Provides a mix of state resources and Reimbursement authority to provide long-term monitoring and compliance resolution of affordable housing projects	Approve as Budgeted

<u>Vote-Only Calendar for Proposals Withdrawn from the January Budget</u>

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
7	2240	Department of Housing and Community Development	Housing Production Technical Assistance	-10,000,000	--	--	The budget included $10,000,000 per year for three years to provide technical assistance to local governments to help them develop new housing projects. While laudable, this program was not defined and its benefit was uncertain.	Approve the withdrawal of this proposal.

8	2240	Department of Housing and Community Development	Multifamily Housing Program Clean-Up	--	0	--	This trailer bill language is replaced by new language discussed below.	Approve the withdrawal of this trailer bill language.
9	2240	Department of Housing and Community Development	Foster Care Transitional Housing Extension	--	--	--	This is a language change that effectively eliminates out year funding for the Foster Care Transitional Housing program. The budget still provides $8 million in 2020-21 and $4 million in 2021-22.	Hold this item open for later consideration.

Vote -Only Calendar for Modifications to the Governor's Budget Proposals from January

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
10	2240	Department of Housing and Community Development	Workload Resources (Various Legislation)	-524,000	--	--	The January budget included a General Fund augmentation of $5.06 million for 22.0 positions in 2020-21. This proposal would reduce this item by $524,000 related to operating the Register Your Mobilehome Program until December 2020 under Chapter 148, Statutes of 2019 (AB 173). This six-month workload can likely be absorbed with current resources.	Approve modification of the January proposal.

Vote -Only Calendar for New Administration Proposals Introduced in May

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
11	0515	Business, Consumer Services, and Housing Agency	Homeless Coordinating and Financing Council Resources	1,521,000	0	10.0	The requested positions would allow HCFC to expand from the current ad hoc approach to homeless policy and build capacity to coordinate statewide policy implementation and regional coordination of homeless efforts.	Approve as Budgeted
12	0515	Business, Consumer Services, and Housing Agency	Homelessness Program Transfer from 0260 to 0265	0	0	0.0	Technical adjustment to properly budget for the Council's activities.	Approve as Budgeted
13	0515	Business, Consumer Services, and Housing Agency	TBL for the Homeless Data Integration System	0	0	0.0	Allows HCFC to collect certain health care information for the Homeless Data Integration	Approve the requested trailer bill language

							Project from local partners.	
14	2240	Department of Housing and Community Development	CDBG-DR Unmet Need	--	1,055,456,000	--	Expands HCD's federal obligation authority to utilize federal CDBG-DR funds for both the 2017 and 2018 wildfires.	Approve as Budgeted
15	2240	Department of Housing and Community Development	Federal Fund Budget Authority Augmentation	--	56,665,000	--	This proposal provides additional federal authority to allow the department to expend disencumbered funds from prior year allocations.	Approve as Budgeted
16	2240	Department of Housing and Community Development	Transit - Oriented Development Program Acceleration	--	50,916,000	--	This proposal pairs with the January proposal and allows the department to accelerate the Transit Oriented Development program into a single year.	Approve as Budgeted

17	2240	Department of Housing and Community Development	COVID-19 CARES Act Augmentation for Housing and Homelessness	--	1,223,000	--	This technical request provides federal authority for the remaining state operations funds received to allow HCD to continue monitoring CARES Act funding through CDBG.	Approve as Budgeted
18	2240	Department of Housing and Community Development	Mobilehome Park Purchase Fund Loan	15,000,000	-15,000,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted
19	2240	Department of Housing and Community Development	Rental Housing Construction Fund Loan	3,000,000	-3,000,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted
20	2240	Department of Housing and Community Development	Predevelopment Loan Fund Loan	1,500,000	-1,500,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted

21	2240	Department of Housing and Community Development	Emergency Housing and Assistance Fund Loan	1,000,000	-1,000,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted
22	2240	Department of Housing and Community Development	Planning Grants Encumbrance and Liquidation Extension	0	--	--	Technical adjustment to extend the period over which local governments can expend planning grants provided in recent years.	Approve as Budgeted
23	2240	Department of Housing and Community Development	Housing Rehabilitation Loan Fund Transfer	-95,000,000--	0	--	Provides for a $95 million transfer from the CRLF to the General Fund. Requires trailer bill language.	Approve as Budgeted. Approve placeholder trailer bill language.
24	2240	Department of Housing and Community Development	Transit-Oriented Development Account Transfer	-19,900,000	0	--	Provides for a $19.9 million transfer from the TODA to the General Fund. Requires trailer bill language.	Approve as budgeted. Approve placeholder trailer bill language.
25	2240	Department of Housing and Community Development	HOME Accelerator	0	--	--	Makes technical conforming changes related to local planning grants, allows	Hold Open pending more information.

							certain alternative sites to be included in the regional housing needs allocation, waives special occupancy park requirements for certain emergency parks, and permit certain state housing development on excess sites.	
26	2240	Department of Housing and Community Development	Housing Navigator Early Reversion	-5,000,000	0		This amount remains unallocated from 2019-20 for housing navigators for young adults.	Reject this proposal for inclusion in the June budget package and defer deliberation for a later date.

Issues for Discussion

BU 2240 / BU 8860 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT / DEPARTMENT OF FINANCE

Issue 27: Housing and Homelessness Proposals

Request. Specifically, the May Revision includes Control Section 11.90, which the Administration intends to use to allocate roughly $2.5 billion from the state's share of the federal Coronavirus Relief Fund (CRF) for broad housing and homelessness related purposes in the context of COVID-19. This control section will be used to allocate other CRF funds as well, and is discussed in more detail later in this agenda.

Background. The Administration has indicated that the funds will be allocated as follows:

1. $750 million in CRF funding for acquiring hotels, motels, and other properties for homeless housing, including:

- $150 million in General Fund backfill for the $150 million provided by the state in March.
- $600 million to support acquisition and conversion of hotels, motels, and other properties for permanent housing.

2. $1.75 billion in CRF funding for direct aid to locals. This includes:

- Allocation of Supplemental County Funds: ($1.289 billion)
    - 50% ($645 million) to 42 counties with population below 500,000 based on share of population
        - Awards range from $115,000 to $50 million
    - 50% ($645 million) to counties with population over 500,000 of which:
        - 45% ($290 million) divided among five counties who received direct allocations from the federal government for large cities

        - 55% ($354 million) divided among 11 large counties whose cities did not receive a direct allocation
        - Awards range from $12 million to $163 million

- Allocation of Supplemental City Funds: ($450 million)
    - Excludes five cities with population greater than 500,000 that received direct allocations from the federal government
    - 50% to seven cities with population 300,000 - 500,000 ($225 million); share of population
        - Funds will be allocated directly
    - 50% to cities with population under 300,000 ($225 million); share of population
        - Funds will be allocated to these cities through counties where they are located.

Staff Comments. By Federal law all CRF funds must be spent by the end of the calendar year. This limits the ability to provide ongoing support to local housing and homelessness programs through this approach, and raises questions about the ability of the state to acquire $600 million in properties in a six month time period.

Additionally, these funds are not limited to combating homelessness. The Administration has indicated that $1.75 billion in local aid could be used on a wide variety of purposes, including homelessness, public safety, and public health, as long as it is connected to the broader response to the coronavirus pandemic. While there is no reason to not spend these funds, they should be viewed as more general aid to local governments rather than specific funding for homelessness.

Lastly, as proposed, the use of these funds would be at the discretion of the Department of Finance, with minimal oversight or accountability from the Legislature. This sidesteps existing structures that already exist for the management of federal funds, including Control Section 28.00, and raises delegation of authority issues. This issue will be discussed later in this agenda.
Staff Recommendation: Hold Open.

BU 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 28: National Mortgage Settlement

Request. The May Revision includes trailer bill language related to the National Mortgage Settlement Special Deposit Fund. Specifically, the trailer bill would allocate the $331 million balance of the fund in the budget year.

Background. A 2019 court order required California to return $331 million from the General Fund to the National Mortgage Special Deposit Fund to comply with the terms of the 2012 National Mortgage Settlement. The 2019-20 Budget included trailer bill language stating the Legislature's intent to establish a trust for the funds to provide ongoing mortgage relief, housing counseling, and tenant legal aid, consistent with the terms of the settlement.

Staff Comments. The trailer bill language proposes that the National Mortgage Settlement funds be allocated as follows:

- $300 million for the California Housing Finance Agency for HUD-certified housing counseling services and mortgage assistance for qualified California households.
- $31 million for the Judicial Counsel to provide grants through the Equal Access Program for legal aid for renters and homeowners.

Given the current fiscal situation, it is prudent to put the full balance of the National Mortgage Settlement funds to work, rather than creating a trust that may only provide a portion of these funds in any given year. However, the proposed trailer bill language lacks detail on how the various programs will be managed, who will qualify, and how funds will be distributed. These details should be clarified before the trailer bill language is finalized.

Staff Recommendation. Hold Open.

Issue 29: Housing Reversions

Request. The May Revision includes a number of early reversions of previously-authorized housing appropriations, specifically from funds provided for low and moderate income housing production and infill infrastructure.

Background. AB 101 (Committee on Budget), Chapter 159, Statutes of 2019, provided $500 million over four years to the California Housing Finance Agency for the production of low and moderate income housing, including $200 million in 2019-20 and $95 million in 2020-21. This funding was intended to support mixed-income housing developments. AB 101 additionally provided $500 million for the Infill Infrastructure Grant (IIG) Program of 2019, which provides funding for housing-related infrastructure projects in infill areas. This program is intended to support the development of additional housing by providing for the construction, rehabilitation, demolition, relocation, preservation, and acquisition of infrastructure that supports the development of housing.

Staff Comments. The Administration has indicated that these reversions cover the unencumbered balance of the IIG program, worth roughly $203 million, $45 million of the budget year allocation of the low and moderate housing funding, and the remainder of the out year low and moderate income housing budget allocation totaling roughly $205 million.

While these reversions are clearly beneficial to the General Fund, the chosen programs are legislative priorities and play an important role in supporting the development of additional housing - something of crucial importance to the state given the lack of affordable housing. The Legislature should balance these two priorities - General Fund support during an economic downturn versus supporting housing development - as it considers the overall budget architecture. In doing so, the Legislature may want to consider what investments would not be made, and which projects would not be developed, if these funds are reverted as proposed.

Staff Recommendation. Hold Open.

Issue 30: AB 1783 Clean Up

Request. The May Revision includes trailer bill language modifying the implementation of AB 1783 (Rivas), Chapter 866, Statutes of 2019.

Background. AB 1783 created a streamlined, ministerial approval process for agricultural employee housing, as specified. The bill also prohibits specified state housing funds from being utilized for constructing housing for H-2A workers (nonimmigrant agricultural workers). It also established that predevelopment of, developing, or operating of any housing for farmworkers holding federal H-2A visas shall be ineligible for state funding. It also requires the Department of Housing and Community Development (HCD) to establish an application and review process for certifying that an organization is an affordable housing organization qualified to operate agricultural employee housing.

Staff Comments. The Administration has proposed trailer bill language to clarify when the streamlined approval process could be applied, as well as to clarify HCD's regulatory role and the processes the department is to follow in acting in a regulatory capacity.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4
Agenda

Senator Anna M. Caballero (Chair)
Senator Maria Elena Durazo
Senator Jim Nielsen

Part B

Housing and Homelessness

OUTCOMES

Thursday, May 21, 2020
State Capitol - Room 4203

Consultant: James Hacker

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Vote-Only Calendar

See Chart Below

Items for Discussion

Vote - Only Calendar for Budget Proposals from Governor's January Budget

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
1	0515	Business, Consumer Services, and Housing Agency	Homeless Housing, Assistance and Prevention Program Position Authority	0	0	3.0	Codifies the administrative creation of three positions to oversee the implementation of the HHAPP program.	Approve as Budgeted 2-1
2	0515	Business, Consumer Services, and Housing Agency	Technical Adjustment to Shift Funding from Funds 0067 and 0298 to New Fund 3363	0	0	0.0	Technical adjustments within the Agency budget.	Approve as Budgeted 3-0
3	2240	Department of Housing and Community Development	Federal Community Development Block Grant Program-Disaster Recovery Grant Adjustment	--	87,543,000	1.0	Provides necessary expenditure authority for the distribution of the 2017 Community Development Block Grant – Disaster Relief	Approve as Budgeted 3-0

							(CDBG-DR) funds for disaster preparedness and mitigation needs.	
4	2240	Department of Housing and Community Development	Transit - Oriented Development Program Alignment	-	53,146,000	0	Shifts out-year funding for the Transit-Oriented Development program forward into 20-21 and 21-22.	Approve as Budgeted 3-0
5	2240	Department of Housing and Community Development	Employee Housing-Field Inspections	--	356,000	2.0	Provides $356,000 in 2020-21 and $319,000 ongoing in reimbursement authority to fund 2.0 positions to address the increasing workload related to the inspection of Employee Housing facilities.	Approve as Budgeted 2-1

6	2240	Department of Housing and Community Development	Long-Term Monitoring and Compliance Resolution Workload	--	1,541,000	8.0	Provides a mix of state resources and Reimbursement authority to provide long-term monitoring and compliance resolution of affordable housing projects	Approve as Budgeted 2-1

Vote-Only Calendar for Proposals Withdrawn from the January Budget

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
7	2240	Department of Housing and Community Development	Housing Production Technical Assistance	-10,000,000	--	--	The budget included $10,000,000 per year for three years to provide technical assistance to local governments to help them develop new housing projects. While laudable, this program was not defined	Approve the withdrawal of this proposal. 3-0

							and its benefit was uncertain.	
8	2240	Department of Housing and Community Development	Multifamily Housing Program Clean-Up	--	0	--	This trailer bill language is replaced by new language discussed below.	Approve the withdrawal of this trailer bill language. 3-0
9	2240	Department of Housing and Community Development	Foster Care Transitional Housing Extension	--	--	--	This is a language change that effectively eliminates out year funding for the Foster Care Transitional Housing program. The budget still provides $8 million in 2020-21 and $4 million in 2021-22.	Hold this item open for later consideration.

Vote -Only Calendar for Modifications to the Governor's Budget Proposals from January

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
10	2240	Department of Housing and Community Development	Workload Resources (Various Legislation)	-524,000	--	--	The January budget included a General Fund augmentation of $5.06 million for 22.0 positions in 2020-21. This proposal would reduce this item by $524,000 related to operating the Register Your Mobilehome Program until December 2020 under Chapter 148, Statutes of 2019 (AB 173). This six-month workload can likely be absorbed with current resources.	Approve modification of the January proposal. 2-1

Vote -Only Calendar for New Administration Proposals Introduced in May

Issue	Entity	Department	Subject	General Fund	Other Funds	Positions	Staff Comments	Staff Recommendation
11	0515	Business, Consumer Services, and Housing Agency	Homeless Coordinating and Financing Council Resources	1,521,000	0	10.0	The requested positions would allow HCFC to expand from the current ad hoc approach to homeless policy and build capacity to coordinate statewide policy implementation and regional coordination of homeless efforts.	Approve as Budgeted 2-1
12	0515	Business, Consumer Services, and Housing Agency	Homelessness Program Transfer from 0260 to 0265	0	0	0.0	Technical adjustment to properly budget for the Council's activities.	Approve as Budgeted 3-0
13	0515	Business, Consumer Services, and Housing Agency	TBL for the Homeless Data Integration System	0	0	0.0	Allows HCFC to collect certain health care information for the Homeless Data Integration Project from local partners.	Approve the requested trailer bill language 2-1

14	2240	Department of Housing and Community Development	CDBG-DR Unmet Need	--	1,055,456,000	--	Expands HCD's federal obligation authority to utilize federal CDBG-DR funds for both the 2017 and 2018 wildfires.	Approve as Budgeted 3-0
15	2240	Department of Housing and Community Development	Federal Fund Budget Authority Augmentation	--	56,665,000	--	This proposal provides additional federal authority to allow the department to expend disencumbered funds from prior year allocations.	Approve as Budgeted 3-0
16	2240	Department of Housing and Community Development	Transit - Oriented Development Program Acceleration	--	50,916,000	--	This proposal pairs with the January proposal and allows the department to accelerate the Transit Oriented Development program into a single year.	Approve as Budgeted 3-0

17	2240	Department of Housing and Community Development	COVID-19 CARES Act Augmentation for Housing and Homelessness	--	1,223,000	--	This technical request provides federal authority for the remaining state operations funds received to allow HCD to continue monitoring CARES Act funding through CDBG.	Approve as Budgeted 3-0
18	2240	Department of Housing and Community Development	Mobilehome Park Purchase Fund Loan	15,000,000	-15,000,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted 3-0
19	2240	Department of Housing and Community Development	Rental Housing Construction Fund Loan	3,000,000	-3,000,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted 3-0
20	2240	Department of Housing and Community Development	Predevelopment Loan Fund Loan	1,500,000	-1,500,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted 3-0

21	2240	Department of Housing and Community Development	Emergency Housing and Assistance Fund Loan	1,000,000	-1,000,000	--	Loan to the General Fund, to be repaid at the discretion of the Department of Finance.	Approve as Budgeted 3-0
22	2240	Department of Housing and Community Development	Planning Grants Encumbrance and Liquidation Extension	0	--	--	Technical adjustment to extend the period over which local governments can expend planning grants provided in recent years.	Approve as Budgeted 3-0
23	2240	Department of Housing and Community Development	Housing Rehabilitation Loan Fund Transfer	-95,000,000--	0	--	Provides for a $95 million transfer from the CRLF to the General Fund. Requires trailer bill language.	Approve as Budgeted. Approve placeholder trailer bill language. 2-1
~~24~~	~~2240~~	~~Department of Housing and Community Development~~	~~Transit-Oriented Development Account Transfer~~	~~-19,900,000~~	~~0~~	~~--~~	~~Provides for a $19.9 million transfer from the TODA to the General Fund. Requires trailer bill language.~~	~~Approve as budgeted. Approve placeholder trailer bill language.~~

25	2240	Department of Housing and Community Development	HOME Accelerator	0	--	--	Makes technical conforming changes related to local planning grants, allows certain alternative sites to be included in the regional housing needs allocation, waives special occupancy park requirements for certain emergency parks, and permit certain state housing development on excess sites.	Hold Open pending more information.
26	2240	Department of Housing and Community Development	Housing Navigator Early Reversion	-5,000,000	0		This amount remains unallocated from 2019-20 for housing navigators for young adults.	Reject this proposal for inclusion in the June budget package and defer deliberation for a later date. 3-0

Issues for Discussion

BU 2240 / BU 8860 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT / DEPARTMENT OF FINANCE

Issue 27: Housing and Homelessness Proposals

Request. Specifically, the May Revision includes Control Section 11.90, which the Administration intends to use to allocate roughly $2.5 billion from the state's share of the federal Coronavirus Relief Fund (CRF) for broad housing and homelessness related purposes in the context of COVID-19. This control section will be used to allocate other CRF funds as well, and is discussed in more detail later in this agenda.

Background. The Administration has indicated that the funds will be allocated as follows:

1. $750 million in CRF funding for acquiring hotels, motels, and other properties for homeless housing, including:

- $150 million in General Fund backfill for the $150 million provided by the state in March.
- $600 million to support acquisition and conversion of hotels, motels, and other properties for permanent housing.

2. $1.75 billion in CRF funding for direct aid to locals. This includes:

- Allocation of Supplemental County Funds: ($1.289 billion)
    - 50% ($645 million) to 42 counties with population below 500,000 based on share of population
        - Awards range from $115,000 to $50 million
    - 50% ($645 million) to counties with population over 500,000 of which:

        - 45% ($290 million) divided among five counties who received direct allocations from the federal government for large cities
        - 55% ($354 million) divided among 11 large counties whose cities did not receive a direct allocation
        - Awards range from $12 million to $163 million

- Allocation of Supplemental City Funds: ($450 million)
    - Excludes five cities with population greater than 500,000 that received direct allocations from the federal government
    - 50% to seven cities with population 300,000 - 500,000 ($225 million); share of population
        - Funds will be allocated directly
    - 50% to cities with population under 300,000 ($225 million); share of population
        - Funds will be allocated to these cities through counties where they are located.

Staff Comments. By Federal law all CRF funds must be spent by the end of the calendar year. This limits the ability to provide ongoing support to local housing and homelessness programs through this approach, and raises questions about the ability of the state to acquire $600 million in properties in a six month time period.

Additionally, these funds are not limited to combating homelessness. The Administration has indicated that $1.75 billion in local aid could be used on a wide variety of purposes, including homelessness, public safety, and public health, as long as it is connected to the broader response to the coronavirus pandemic. While there is no reason to not spend these funds, they should be viewed as more general aid to local governments rather than specific funding for homelessness.

Lastly, as proposed, the use of these funds would be at the discretion of the Department of Finance, with minimal oversight or accountability from the Legislature. This sidesteps existing structures that already exist for the management of federal funds, including Control Section 28.00, and raises delegation of authority issues. This issue will be discussed later in this agenda.

Staff Recommendation: Hold Open.

BU 2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 28: National Mortgage Settlement

Request. The May Revision includes trailer bill language related to the National Mortgage Settlement Special Deposit Fund. Specifically, the trailer bill would allocate the $331 million balance of the fund in the budget year.

Background. A 2019 court order required California to return $331 million from the General Fund to the National Mortgage Special Deposit Fund to comply with the terms of the 2012 National Mortgage Settlement. The 2019-20 Budget included trailer bill language stating the Legislature's intent to establish a trust for the funds to provide ongoing mortgage relief, housing counseling, and tenant legal aid, consistent with the terms of the settlement.

Staff Comments. The trailer bill language proposes that the National Mortgage Settlement funds be allocated as follows:

- $300 million for the California Housing Finance Agency for HUD-certified housing counseling services and mortgage assistance for qualified California households.
- $31 million for the Judicial Counsel to provide grants through the Equal Access Program for legal aid for renters and homeowners.

Given the current fiscal situation, it is prudent to put the full balance of the National Mortgage Settlement funds to work, rather than creating a trust that may only provide a portion of these funds in any given year. However, the proposed trailer bill language lacks detail on how the various programs will be managed, who will qualify, and how funds will be distributed. These details should be clarified before the trailer bill language is finalized.

Staff Recommendation. Hold Open.

Issue 29: Housing Reversions

Request. The May Revision includes a number of early reversions of previously-authorized housing appropriations, specifically from funds provided for low and moderate income housing production and infill infrastructure.

Background. AB 101 (Committee on Budget), Chapter 159, Statutes of 2019, provided $500 million over four years to the California Housing Finance Agency for the production of low and moderate income housing, including $200 million in 2019-20 and $95 million in 2020-21. This funding was intended to support mixed-income housing developments. AB 101 additionally provided $500 million for the Infill Infrastructure Grant (IIG) Program of 2019, which provides funding for housing-related infrastructure projects in infill areas. This program is intended to support the development of additional housing by providing for the construction, rehabilitation, demolition, relocation, preservation, and acquisition of infrastructure that supports the development of housing.

Staff Comments. The Administration has indicated that these reversions cover the unencumbered balance of the IIG program, worth roughly $203 million, $45 million of the budget year allocation of the low and moderate housing funding, and the remainder of the out year low and moderate income housing budget allocation totaling roughly $205 million.

While these reversions are clearly beneficial to the General Fund, the chosen programs are legislative priorities and play an important role in supporting the development of additional housing - something of crucial importance to the state given the lack of affordable housing. The Legislature should balance these two priorities - General Fund support during an economic downturn versus supporting housing development - as it considers the overall budget architecture. In doing so, the Legislature may want to consider what investments would not be made, and which projects would not be developed, if these funds are reverted as proposed.

Staff Recommendation. Hold Open.

Issue 30: AB 1783 Clean Up

Request. The May Revision includes trailer bill language modifying the implementation of AB 1783 (Rivas), Chapter 866, Statutes of 2019.

Background. AB 1783 created a streamlined, ministerial approval process for agricultural employee housing, as specified. The bill also prohibits specified state housing funds from being utilized for constructing housing for H-2A workers (nonimmigrant agricultural workers). It also established that predevelopment of, developing, or operating of any housing for farmworkers holding federal H-2A visas shall be ineligible for state funding. It also requires the Department of Housing and Community Development (HCD) to establish an application and review process for certifying that an organization is an affordable housing organization qualified to operate agricultural employee housing.

Staff Comments. The Administration has proposed trailer bill language to clarify when the streamlined approval process could be applied, as well as to clarify HCD's regulatory role and the processes the department is to follow in acting in a regulatory capacity.

Staff Recommendation. Hold Open.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday, May 21, 2020
1:30 PM
State Capitol - Room 4203

Part C – Other State Administration

Consultants:
James Hacker
Hans Hemann
Yong Salas
Joe Stephenshaw
Meron Tesfaye

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Vote-Only Calendar

Items for Discussion

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 FOR GOVERNOR'S BUDGET PROPOSALS FROM JANUARY – WITHDRAWN (ISSUES 1 – 45)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendation
1	0509	Governor's Office of Business and Economic Development (GO-Biz)	Legislative and Inter-governmental Affairs	-127,000	0	-1	Administrative savings.	Approve May Revision withdrawal of the proposal.
2	0509	Governor's Office of Business and Economic Development (GO-Biz)	Human Resources and Administrative Staffing	-72,000	0	-1	Administrative savings.	Approve May Revision withdrawal of the proposal.
3	0509	Governor's Office of Business and Economic Development (GO-Biz)	Climate Catalyst fund	-250,000,000	0	-1	Establish fund.	Approve May Revision withdrawal of the proposal.
4	0650	Office of Planning and Research	Legislative and Legal Staff Increase	-357,000	--	-2	The January budget included several positions related to the increase in legislative bills dealing with OPR, as well as for increasing related workload. This workload can be absorbed internally.	Approve May Revision withdrawal of the proposal.

5	0650	Office of Planning and Research	Withdraw Governor's Budget Proposal and Delay Transportation Plan Assessment (AB 285)	-349,000	--	-1	This proposal includes trailer bill language delaying the implementation of AB 285, which requires OPR to conduct a review of the State Transportation Plan, and withdraws the resources necessary to complete that work. This work remains a legislative priority.	Reject the withdrawal of these positions and the related trailer bill language.
6	0650	Office of Planning and Research	Withdraw Governor's Budget Proposal and Delay AmeriCorps Infrastructure Expansion	-1,742,000	--	-10.0	The January budget included programmatic staffing resources to develop infrastructure for expanded state volunteer programs. The Administration has withdrawn this request and replaced it with a larger proposal, discussed below.	Approve May Revision withdrawal of the proposal.
7	0840	State Controller's Office	Road Maintenance and Rehabilitation Program (RMRP) - Fund Shift	--	0	--	Conduct audits of the programs.	Approve May Revision withdrawal of the proposal.
8	0840	State Controller's Office	Local Government Oversight - Internal Control Reviews - Fund Shift	-486,000	486,000	--	Perform local agency audits/reviews.	Approve May Revision withdrawal of the proposal.
9	0840	State Controller's Office	Proposition 47 - Safe Neighborhoods and Schools Fund (SNSF) - Fund Shift	--	0	--	Perform audits of grants.	Approve May Revision withdrawal of the proposal.

10	0840	State Controller's Office	SCO Administrative Support Costs	-1,141,000	-931,000	--	Address increased admin costs.	Approve May Revision withdrawal of the proposal.
11	0845	Department of Insurance	Hearing Reporter Position	0	-177,000	-1.0		Approve May Revision withdrawal of the proposal.
12	0845	Department of Insurance	Disability Program Administration	0	-120,000	-1.0		Approve May Revision withdrawal of the proposal.
13	0845	Department of Insurance	FI$Cal Resources	0	-1,014,000	-7.0		Approve May Revision withdrawal of the proposal.
14	0890	Secretary of State	Withdrawal of Voter Registration Related Mailings	-847,000	0	0.0		Adopt budget bill language and approve May Revision withdrawal of this proposal.
15	0890	Secretary of State	Withdrawal Staffing Increase for the Human Resources Bureau	-214,000	-577,000	-6.0		Approve May Revision withdrawal of the proposal.
16	0890	Secretary of State	Withdrawal IT Division Resources Workload Growth	-79,000	-214,000	-2.0		Approve May Revision withdrawal of the proposal.
17	1111	Department of Consumer Affairs	Cemetery and Funeral Bureau - Endowment Funds (AB 795)	0	-86,000	-0.5		Hold open.
18	1111	Department of Consumer Affairs	Chief Athletic Inspector and Assistant Chief Athletic Inspector (AB 1523)	0	-296,000	-2.0		Hold open.

19	1111	Department of Consumer Affairs	Information Technology Security	0	-2,004,000	-2.0		Approve May Revision withdrawal of the proposal.
20	1700	Department of Fair Employment and Housing	Source of Income Discrimination (SB 329)	-528,000		-4.0	The May Revision withdraws the January proposal for $528,000 in General Funds for enacting SB 329 (Mitchell, Chapter 600, 2019), a bill protecting tenants from housing income discrimination.	Approve the May Revision withdrawal of the proposal. The department will absorb new workload into existing resources.
21	1700	Department of Fair Employment and Housing	Employment Discrimination (AB 9)	-315,000		-3.0	The May Revision withdraws the January proposal for $315,000 in General Funds for enacting AB 9 (Mitchell, Chapter 600, 2019), a bill extending complaint filing deadline for employment discrimination.	Approve the May Revision withdrawal of the proposal. The department will absorb new workload into existing resources.
22	1701	Department of Business Oversight	Legal Division Rulemaking Workload	0	-406,000	-2	Address increased legal workload.	Approve May Revision withdrawal of the proposal.
23	1701	Department of Business Oversight	Information Technology Security Workload	0	-780,000	-3	Strengthen safeguards and protocols.	Approve May Revision withdrawal of the proposal.
24	2100	Department of Alcoholic Beverage Control	Implementation of Free Goods Exception (AB 1133)	0	-685,000	-4.0		Hold open.

25	2320	Department of Real Estate	Licensing Information Section - Call Workload	0	-663,000	-8.0		Approve May Revision withdrawal of the proposal.
26	7730	Franchise Tax Board	Mainframe Enterprise Server Refresh	-5,801,000	-259,000	--	Replacement of the enterprise server.	Approve May Revision withdrawal of the proposal.
27	7730	Franchise Tax Board	Enterprise Data to Revenue Project (EDR2) - Phase 2	-1,112,000	--	-10	Resources for beginning of EDR2 project	Approve May Revision withdrawal of the proposal.
28	7730	Franchise Tax Board	Vehicle Registration Collections (VRC)	--	-1,903,000	--	Replace Delinquent Vehicle Registration System	Approve May Revision withdrawal of the proposal.
29	7730	Franchise Tax Board	Earned Income Tax Credit (EITC) and Voluntary Income Tax Assistance (VITA) Support	-1,212,000	--	-5	Assist in Administering the Voluntary Income Tax Assistance Program	Approve May Revision withdrawal of the proposal.
30	7730	Franchise Tax Board	EITC and VITA Program Funding	-10,000,000	--	--	Funding provided for free tax services and program outreach.	Reject the $10 million reduction and instead appropriate $5 million.
31	7760	Department of General Services	Withdrawal of 0000952 - Sacramento Region: Gregory Bateson Building Renovation	0	-183,559,000			Approve May Revision withdrawal of the proposal.
32	7760	Department of General Services	Withdrawal of 0000955 - Sacramento Region: Jesse Unruh Building Renovation	0	-116,786,000			Approve May Revision withdrawal of the proposal.
33	7760	Department of General Services	Withdrawal of 0002632 - Sacramento Region: Resources Building Renovation	0	-421,335,000			Approve May Revision withdrawal of the proposal.

34	8260	California Arts Council	Arts Council Investments	-10,500,000	-	-		Adopt budget bill language and approve May Revision proposal.
35	8885	Commission on State Mandates	Withdrawal of Administrative and Budget Staffing	-206,000	--	--		Approve May Revision withdrawal of the proposal.
36	8940	Military Department	Reversion of Funding for Headquarters Relocation Move	-758,000	--	--		Approve May Revision withdrawal of the proposal.
37	8940	Military Department	Reversion of Emergency Preparedness and Response	-3,197,000	--	-21.0		Approve May Revision withdrawal of the proposal.
38	8940	Military Department	Eliminate Military Department from Wildfire Forecast and Threat Intelligence Integration Center (SB 209)	-827,000	--	-5.0		Approve May Revision withdrawal of the proposal.
39	8940	Military Department	Withdrawal of 0006734 - Fairfield: Sustainable Armory Renovation Program - COBCP - D, B	-3,874,000	-3,874,000			Approve May Revision withdrawal of the proposal.
40	8940	Military Department	Withdrawal of 0006735 - Modesto-Rouse: Sustainable Armory Renovation Program - COBCP - D, B	-2,218,000	-2,218,000			Approve May Revision withdrawal of the proposal.
41	8940	Military Department	Withdrawal of 0006736 - Santa Ana: Sustainable Armory Renovation Program - COBCP - D, B	-2,279,000	-2,279,000			Approve May Revision withdrawal of the proposal.

42	8940	Military Department	Withdrawal of 0000705 - Statewide: Advance Plans and Studies	-150,000	-150,000			Approve May Revision withdrawal of the proposal.
43	8940	Military Department	Withdrawal of Reappropriate Various Military Department Projects - COBCP/Reappropriation - B	-9,630,000	-9,630,000			Approve May Revision withdrawal of the proposal.
44	8955	Department of Veterans Affairs	Withdrawal of Facilities Planning and Construction Management Staff	-497,000	--	-3.0		Approve May Revision withdrawal of the proposal.
45	8955	Department of Veterans Affairs	Withdrawal of 0000690 - Southern California Veterans Cemetery - COBCP - S	0	-700,000			Approve May Revision withdrawal of the proposal.

VOTE -ONLY CALENDAR FOR GOVERNOR'S BUDGET PROPOSALS FROM JANUARY – SUSTAIN (ISSUES 46 – 121)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendation
46	0509	Governor's Office of Business and Economic Development (GO-Biz)	CalBIS Regional Specialists	758,000	0	4.0	Business development support for underserved regions.	Approve as budgeted.
47	0509	Governor's Office of Business and Economic Development (GO-Biz)	IBank Workload Increases	0	0	3.0	Accommodate workload increases.	Approve as Budgeted.
48	0509	Governor's Office of Business and Economic Development (GO-Biz)	California Film Commission Baseline Cost Increases	198,000	0	0.0	Increased operating costs.	Hold open.
49	0509	Governor's Office of Business and Economic Development (GO-Biz)	Film and Television Tax Credit TBL				Extend the carryforward period for the previous credit.	Approve as Budgeted.
50	0511	Government Operations Agency	Funding Realignment BCP	252,000	-252,000	-		Approve as budgeted.

51	0511	Government Operations Agency	Workload BCP	286,000	450,000	3.0		Approve as budgeted and adopt placeholder SRL and direct the LAO to work on language with consultants.
52	0650	Office of Planning and Research	Various Technical Adjustments	--	80,758,000	--	The January budget included a technical item to reappropriate carryovers from several past Greenhouse Gas Reduction Fund budget items.	Approve as budgeted.
53	0650	Office of Planning and Research	Cap and Trade Expenditure Plan: Climate Resilience Research, Regional Collaboration, and Implementation	--	18,000,000	--	The January budget included funding for several climate-related research programs housed at the Strategic Growth Council.	Reject this proposal without prejudice for inclusion in the June budget package and defer deliberation for a later date.
54	0840	State Controller	California State Payroll System (CSPS) Project	1,966,000	1,483,000	8.0	Support the project through continuation of CDT process.	Approve as Budgeted.
55	0840	State Controller	California Automated Travel Expense Reimbursement System (CalATERS)	1,764,000	1,332,000	14.5	Continuation of the project.	Approve as Budgeted.
56	0840	State Controller	Other Post-Employment Benefits (OPEB) Deduction Workload	512,000	386,000	7.0	Support employment history, payroll, other functions related to OPEB automation.	Approve as Budgeted.
57	0840	State Controller	Property Tax Postponement (PTP) Program - Continuing Positions and AB 133 Workload	--	540,000	4.0	Administration of the program.	Approve as Budgeted.

58	0845	Department of Insurance	Enhanced Fraud Investigation and Prevention (Fraud Data Analytics/eDiscovery)	840,000	--	--		Approve as budgeted.
59	0890	Secretary of State	HAVA Spending Plan	0	10,966,000	0.0		Approve as budgeted.
60	0890	Secretary of State	HAVA VoteCal	0	9,739,000	0.0		Approve as budgeted.
61	0890	Secretary of State	Domestic Partnerships (SB 30)	0	94,000	1.0		Approve as budgeted.
62	0890	Secretary of State	Vote Centers (SB 450)	0	464,000	0.0		Approve as budgeted.
63	0890	Secretary of State	Cannabis Filings and Trademark Workload	0	448,000	0.0		Approve as budgeted.
64	0950	State Treasurer's Office	Legislative Unit Staff Augmentation	--	148,000	1.0	Address increased workload.	Approve as Budgeted.
65	0959	California Debt Limit Allocation Committee	Staff Augmentation to Accommodate Growth in Workload	--	715,000	4.0	Address increased applications.	Approved as Budgeted-
66	0968	California Tax Credit Allocation Committee	Development and Compliance Section Augmentation	--	1,440,000	8.0	Administer the Low Income Housing Tax Credit.	Approved as Budgeted-
67	0968	California Tax Credit Allocation Committee	State Tax Credit Program Expansion	--	649,000	3.0	Extending limited-term positions.	Approved as Budgeted

68	0971	California Alternative Energy and Advanced Transportation Financing Authority	Extension of the Sales and Use Tax Exclusion (STE) Program - AB 1583	--	263,000	1.0	Administer the Sales and Use Tax Exclusion Program.	Approved as Budgeted
69	0981	California ABLE Act Board	Continued Administration of the California Achieving a Better Life Experience Program	--	1,190,000	3.0	Administration and continued operations.	Approved as Budgeted
70	1045	Cannabis Control Appeals Panel	Cannabis Control Appeals Panel	0	3,033,000	0.0		Approve as budgeted.
71	1045	Cannabis Control Appeals Panel	Technical Adjustment - Employee Compensation and Retirement Rate Adjustments Removal	0	-105,000	0.0		Approve as budgeted.
72	1045	Cannabis Control Appeals Panel	Technical Adjustment - Residual Appropriation Removal	0	-131,000	0.0		Approve as budgeted.
73	1111	Department of Consumer Affairs	Facilities Operations Funding Augmentation	0	3,592,000	0.0		Approve as budgeted.
74	1111	Department of Consumer Affairs	Legislative Workload	0	733,000	4.0		Approve as budgeted.
75	1111	Department of Consumer Affairs	BreEZe System Maintenance and Credit Card Funding	0	15,083,000	-6.0		Adopt proposal on a two-year limited term basis.
76	1111	Department of Consumer Affairs	Business Modernization Continued Implementation	0	5,231,000	0.0		Approve as budgeted.
77	1111	Department of Consumer Affairs	Equipment Adjustment	0	412,000	0.0		Approve as budgeted.

78	1111	Department of Consumer Affairs	Cannabis Residual Funding Back Out	0	-2,134,000	0.0		Approve as budgeted.
79	1111	Department of Consumer Affairs	Cannabis Control Fund BY & Ongoing Employee Comp and Retirement Backout	0	-2,533,000	0.0		Approve as budgeted.
80	1111	Department of Consumer Affairs	Information Technology Classification Consolidation Augmentation	0	525,000	0.0		Approve as budgeted.
81	1111	Department of Consumer Affairs	Attorney General Services Rate Increases	0	15,397,000	0.0		Approve as budgeted.
82	1111	Department of Consumer Affairs	Agency Contract Allocation Increase	0	88,000	0.0		Approve as budgeted.
83	1111	Department of Consumer Affairs	Distributed Prorata Allocation	0	387,000	0.0		Approve as budgeted.
84	1111	Department of Consumer Affairs	BAR Indirect Distributed Correction - Net Zero	0	0	0.0		Approve as budgeted.

85	1700	Department of Fair Employment and Housing	Enforcement and Administrative Resources	5780000	274,000	36.7	The May Revision sustains the January proposal for $6.1 million in 2020-21 and $6.4 million on going in General Funds and Fair Employment and Housing Enforcement and Litigation Funds. The proposal is to support the high increase in volume of administrative and enforcement workload experienced by the department.	Approve the Governor's proposal for $6.1 million in General Fund and Fair Employment and Litigation Fund.
86	1701	Department of Business Oversight	Financial Empowerment Fund (SB 455)	0	0	1.0	Implement provisions of SB 455.	Approved as Budgeted
87	1701	Department of Business Oversight	Public Banking Startup (AB 857)	0	273,000	1.0	Implement provisions of AB 857.	Approved as Budgeted
88	1701	Department of Business Oversight	Administration Workload - FI$Cal	0	281,000	2.0	Increased workload created by the transition.	Approved as Budgeted
89	1701	Department of Business Oversight	Technical adjustment to move expenditures to Fund 3363	0	0	0.0	Financial Protection Fund.	Hold open.
90	1701	Department of Business Oversight	Chapter 478, Statutes of 2019 (SB 455) Financial Empowerment Fund	0	1,345,000	0.0	Non-Budget Act item	Approve as budgeted.

91	2100	Department of Alcoholic Beverage Control	Business Modernization and Responsible Beverage Service	0	3,054,000	6.0	Trailer bill language extends the implementation of the Responsible Beverage Service Act to 2022.	Approve as budgeted and adopt trailer bill language.
92	2100	Department of Alcoholic Beverage Control	Facilities Rent Increases	0	576,000	--		Approve as budgeted.
93	2100	Department of Alcoholic Beverage Control	Attorney General Services Rate Increases	0	89,000	--		Approve as budgeted.
94	7502	Department of Technology	California Cybersecurity Integration Center	1,268,000	-	-		Defer this proposal.
95	7600	California Department of Tax and Fee Administration	Centralized Revenue Opportunity System (CROS) Project Implementation Phase - FY 2020-21	10,557,000	13,966,000	- 19.0	Continue implementation of the CROS Project.	Approve as Budgeted
96	7600	California Department of Tax and Fee Administration	California Heath Care, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56)	-1,395,000	2,303,000	0.0	Address workload associated with cigarettes/tobacco products, including Prop 56 enforcement requirements.	Approve as Budgeted.
97	7600	California Department of Tax and Fee Administration	Cannabis Taxes Program	-666,000	7,766,000	29.8	Administration of the Cannabis Program.	Approve as Budgeted.

98	7600	California Department of Tax and Fee Administration	International Fuel Tax Agreement Workload Augmentation	--	1,376,000	7.0	Ensure compliance with the International Fuel Tax Agreement.	Approve as Budgeted.
99	7600	California Department of Tax and Fee Administration	Local Prepaid MTS Sunset Extension (SB 344)	--	513,000	3.2	Fulfill requirements of the Local Prepaid MTS Collection Act.	Approve as Budgeted.
100	7600	California Department of Tax and Fee Administration	E-Cigarette Tax Program Establishment	--	9,865,000	10.5	Administer proposed E-Cigarette Tax.	Hold open.
101	7600	California Department of Tax and Fee Administration	Sales Tax Extension for Diapers and Menstrual Products TBL				Extends exemptions to 2022-23.	Approve as Budgeted.
102	7730	Franchise Tax Board	California Competes	2,261,000	--	16.0	Convert 14 limited term positions to permanent positions and add two new permanent positions.	Approve as Budgeted
103	7760	Department of General Services	California Commission on Disability Access	700,000	-	2.0		Approve as budgeted.
104	7760	Department of General Services	Facilities Management Division Fire Alarm System Deferred Maintenance	23,600,000	-	-		Approve as budgeted.
105	7760	Department of General Services	Statewide Emergency Management Functions	-	295,000	2.0		Approve as budgeted.

106	7760	Department of General Services	Enterprise Technology Solutions Permanent Positions	-	-	9.0		Approve as budgeted.
107	7760	Department of General Services	California Pharmaceutical Collaborative Local Outreach	-	723,000	4.0		Approve as budgeted and adopt placeholder SRL and direct the LAO to work on language with consultants.
108	7760	Department of General Services	Contracted Fiscal Services Workload Increase	710,000	1,570,000	15.0		Approve as budgeted.
109	7760	Department of General Services	Shift Funding Source for School Facilities Program Administration	-	-	-		Approve as budgeted.
110	7910	Office of Administrative Law	Right-size Funding for Staff and Contracted Services	386,000	258,000	1.0		Approve as budgeted.
111	8620	Fair Political Practices Commission	Contribution Limits (AB 571)	932,000	-	6.0		Approve as budgeted.
112	8820	Commission on the Status of Women and Girls	New Office Space	288,000	--	--		Approve as budgeted.
113	8820	Commission on the Status of Women and Girls	Position Authority to Implement SB 24	--	--	4.0		Approve as budgeted.
114	8885	Commission on State Mandates	Mandate Reimbursements for U Visa 918 Form	3,300,000	--	--		Approve May Revision proposal.
115	8885	Commission on State Mandates	Mandate Reimbursements for Impasse Procedures II	1,009,000	--	--		Approve May Revision proposal.

116	8940	Military Department	California Cybersecurity Integration Center	1,231,000	--	8.0		Defer this proposal.
117	8940	Military Department	0000615 - Consolidated Headquarters Complex - Extension of Liquidation Project - COBCP - D	0	0			Approve May Revision proposal.
118	8955	Department of Veterans Affairs	CalVet Electronic Health Record Project	1,195,000	--	--		Approve as budgeted.
119	8955	Department of Veterans Affairs	Funding for the California Central Coast Veterans Cemetery Phase II	356,000	--	2.4		Approve as budgeted.
120	8955	Department of Veterans Affairs	Care Staffing and Operations	7,322,000	--	2.0		Approve as budgeted.
121	8955	Department of Veterans Affairs	Cemetery Staffing	127,000	--	1.0		Approve as budgeted.

VOTE -ONLY CALENDAR FOR MODIFICATIONS TO THE GOVERNOR'S BUDGET PROPOSALS FROM JANUARY (ISSUES 122 – 143)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos	General Fund	Other Funds	Pos	Staff Comments	Staff Recommendation
122	0890	Secretary of State	Records Management Coordinator (AB 469)	126,000		0.0	-63,000	0	0.0		Approve May Revision proposal.
123	0890	Secretary of State	Increasing Civic Engagement of California's Public Postsecondary Institutions (AB 963)	251,000		2.0	-125,000	0	0.0		Approve May Revision proposal.
124	0890	Secretary of State	Elections Printing Requirements and Ballot Design (AB 623)	50,000		0.0	-25,000	0	0.0		Approve May Revision proposal.
125	0890	Secretary of State	Voter Language Preference on Voter Notification Cards and Vote by Mail Applications (AB 1391)	300,000		0.0	-150,000	0	0.0		Adopt budget bill language and approve May Revision proposal.
126	1111	Department of Consumer Affairs	Board and Bureau Workload		8,316,000	41.5	0	-1,400,000	-5.0		Hold open.

127	1111	Department of Consumer Affairs	Organizational Change Management Process Improvement		1,200,000	7.0	0	-297,000	-2.0			Approve for a three-year limited term.
128	1111	Department of Consumer Affairs	Increased Workload Related to Health Care Practitioners and Unprofessional Conduct - Medical Board (SB 425)		2,057,000	12.5	0	-1,233,000	-8.0			Approve May Revision proposal.
129	1111	Department of Consumer Affairs	Increased Workload Related to Health Care Practitioners and Unprofessional Conduct - Investigation and Enforcement Unit (SB 425)		613,000	3.0	0	-408,000	-2.0			Approve May Revision proposal.
130	1750	California Horse Racing Board	Horse Racing Safety Panel		1,334,000	12.0	0	-1,169,000	-2.5			Approve May Revision proposal.
131	7502	Department of Technology	Statewide Technology Procurement Level of Service	932,000		6.0	-	-460,000	-3.0			Approve May Revision proposal.

132	7502	Department of Technology	California Department of Technology Workload Increase	1,360,000		8.0	-458,000	-196,000	-4.0		Approve May Revision proposal.
133	7502	Department of Technology	Endpoint Protection Platform	5,069,000			-5,069,000	2,535,000	-		Approve May Revision proposal.
134	7502	Department of Technology	Security Operations Center and Audit Program Funding	15,099,000			-15,099,000	15,099,000	-		Approve May Revision proposal.
135	7760	Department of General Services	May Revision Facilities Management Division Elevator Deferred Maintenance	56,433,000			-14,196,000	-	-	Removes the costs related to renovations at Hiram Johnson building.	Approve May Revision proposal.
136	7760	Department of General Services	May Revision Electric Vehicle Service Equipment Assessments and Infrastructure	14,956,000	23,373,000	1.0	-14,956,000	-	-		Approve May Revision proposal.
137	7760	Department of General Services	May Revision Office of Administrative Hearings Special Education Division Workload Increase		1,232,000	10.0	-	-1,232,000	-		Approve May Revision proposal.

138	8940	Military Department	Modification of 0000615 - Consolidated Headquarters Complex Project - Extension of Liquidation - COBCP - Performance Criteria							Extends the liquidation period for the performance criteria phase.	Approve May Revision proposal.
139	8955	Department of Veterans Affairs	Adjustment to Legal Affairs and Investigation Division Staffing	901,000	159,000	7.0	-901,000	-159,000	-5.0		Approve May Revision proposal.
140	8955	Department of Veterans Affairs	Adjustment to Strategic Realignment and Mental Health Support	2,318,000	-	12.5	-1,191,000	--	-7.0	Changes reflect the Barstow home closure and a one year delay at Chula Vista and Yountville.	Approve May Revision proposal.
141	8955	Department of Veterans Affairs	Adjustment to FI$Cal Workload	1,432,000	106,000	13.0	-398,000	-74,000	-4.0		Approve May Revision proposal.

142	8955	Department of Veterans Affairs	Modification of 0000626 - Veterans Home of California, Yountville: Steam Distribution System Renovation - COBCP - C	7,833,000	-	0.0	-7,833,000	7,833,000		Funding source changed from General Fund to lease revenue bond funding through the Public Buildings Construction Fund.	Approve May Revision proposal.
143	9860	Capital Outlay Planning and Studies Funding	0000668 - Modification of Statewide Planning and Studies	2,000,000			-2,000,000	0			Adopt budget bill language to revert $1.5 million from 2019 Budget Act and approve May Revision proposal.

VOTE -ONLY CALENDAR FOR NEW ADMINISTRATION PROPOSALS INTRODUCED IN MAY (ISSUES 144-194)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendations
144	0110 / 0120 / 0130	Legislature	Legislature SAL Adjustment	-2,057,000	--	0.0	SAL adjustment to the Legislature's budget.	Approve May Revision proposal.
145	0650	Office of Planning and Research	Adjust Current Year Precision Medicine to Reflect Available General Fund Savings	--	--	--	This proposal would revert $18.1 million in unencumbered funds for Precision Medicine and redirect the remaining $9.8 million towards the Adverse Childhood Experiences program.	Hold open for future consideration.
146	0890	Secretary of State	California Business Connect Project	0	14,848,000	0.0		Adopt budget bill language and approve May Revision language.

147	0890	Secretary of State	CAL-ACCESS Replacement System Project	13,430,000	700,000	0.0		Approve $14.1 million for the Cal-ACCESS Replacement System Project and adopt reporting language to require SOS to submit a report by December 1, 2020 that demonstrates whether they will be able to meet the February 2020 deadline.
148	0890	Secretary of State	Loan from Victims of Corporate Fraud Compensation (3042) to General Fund (0001) per Item 0890-011-3042, Budget Act of 2020	0	-11,500,000	0.0		Adopt budget bill language and approve May Revision language.
149	0959	California Debt Limit Allocation Committee	Loan from California Debt Limit Allocation Committee Fund (0169) to General Fund (0001) per Item 0959-011-0169, Budget Act of 2020	0	4,000,000	0.0	Special Fund loan.	Approve May Revision proposal.
150	0968	California Tax Credit Allocation Committee	Loan from Occupancy Compliance Monitoring Account (0448) to General Fund (0001) per Item 0968-011-0448, Budget Act of 2020	0	-60,000,000	0.0	Special Fund loan.	Approve May Revision proposal.
151	0968	California Tax Credit Allocation Committee	Loan from Tax Credit Allocation Fee Account (0457) to General Fund (0001) per Item 0968-011-0457, Budget Act of 2020	0	-60,000,000	0.0	Special Fund loan.	Approve May Revision proposal.

152	0971	California Horse Racing Board	Equine Analytical Chemistry Laboratory Funding	0	1,344,000	0.0		Approve May Revision proposal.
153	0971	California Alternative Energy and Advanced Transportation Financing Authority	Administration of the CA Hub for Energy Efficiency Financing Pilot Program	0	2,503,000	0.0	Special Fund loan.	Approve May Revision proposal.
154	1111	Department of Consumer Affairs	Continued Implementation of Cannabis Licensing and Enforcement Activities	0	68,924,000	42.0		Adopt placeholder trailer bill language and budget bill language, and approve May Revision proposal.
155	1111	Department of Consumer Affairs	TBL for Various Fee Increases	0	TBD	0.0		Hold open.
156	1111	Department of Consumer Affairs	Amendments to CS 14.00 of the Budget Bill	0	0	0.0		Adopt May Revision proposal and approve budget control section language.
157	1111	Department of Consumer Affairs	CURES Expenditure Technical Adjustment for Chapter 677 Statutes of 2019 (AB 528)	0	34,000	0.0		Hold open.
158	1111	Department of Consumer Affairs	Fund Mergers	0	0	0.0		Approve May Revision proposal.
159	1111	Department of Consumer Affairs	Pro Rata Adjustment for May Revision Changes	0	0	0.0		Approve May Revision proposal.

160	1111	Department of Consumer Affairs	Loan from the Barbering and Cosmetology Contingent Fund (0069) to the General Fund (0001) per Item 1111-011-0069, Budget Act of 2020	0	-25,000,000	0.0		Adopt budget bill language and approve May Revision proposal.
161	1111	Department of Consumer Affairs	Loan from the Psychology Fund (0310) to the General Fund (0001) per Item 1111-011-0310, Budget Act of 2020	0	-900,000	0.0		Adopt budget bill language and approve May Revision proposal.
162	1111	Department of Consumer Affairs	Loan from the Vehicle Inspection and Repair Fund (0421) to the General Fund (0001) per Item 1111-011-0421, Budget Act of 2020	0	-30,000,000	0.0		Adopt budget bill language and approve May Revision proposal.
163	1111	Department of Consumer Affairs	Loan from the High Polluter Repair or Removal Account(0582) to the General Fund (0001) per Item 1111-011-0582, Budget Act of 2020	0	-60,000,000	0.0		Adopt budget bill language and approve May Revision proposal.
164	1111	Department of Consumer Affairs	Loan from the Accountancy Fund (0704) to the General Fund (0001) per Item 1111-011-0704, Budget Act of 2020	0	-10,000,000	0.0		Adopt budget bill language and approve May Revision proposal.

165	1111	Department of Consumer Affairs	Loan from the State Dentistry Fund (0741) to the General Fund (0001) per Item 1111-011-0741, Budget Act of 2020	0	-5,000,000	0.0		Adopt budget bill language and approve May Revision proposal.
166	1111	Department of Consumer Affairs	Loan from the Board of Registered Nursing Fund (0761) to the General Fund (0001) per Item 1111-011-0761, Budget Act of 2020	0	-30,000,000	0.0		Adopt budget bill language and approve May Revision proposal.
167	1111	Department of Consumer Affairs	Loan from the Pharmacy Board Contingent Fund (0767) to the General Fund (0001) per Item 1111-011-0767, Budget Act of 2020	0	-2,400,000	0.0		Adopt budget bill language and approve May Revision proposal.
168	1111	Department of Consumer Affairs	Loan from the Enhanced Fleet Modernization Subaccount, High Polluter Repair or Removal Account (3122) to the General Fund (0001) per Item 1111-011-3122, Budget Act of 2020	0	-3,400,000	0.0		Adopt budget bill language and approve May Revision proposal.
169	1111	Department of Consumer Affairs	CURES Expenditure Adjustment via AB 528	0	1,567,000	0.0		Hold open.

170	1700	Department of Fair Employment and Housing	Facilities Operations Funding Augmentation	423,000	0	0.0	The May Revision augments the January budget proposal by $423,000 in General Fund to lease office space with the help of Department of General Services in Riverside and East Bay Area to accommodate increased staff.	Approve the Governor's new proposal for $423,000 in General Fund.
171	7600	Alcoholic Beverage Control Appeals Board	Align Resources with Programmatic Needs	0	129,000	0.0		Approve May Revision proposal.
172	7600	Department of Real Estate	Loan from the Real Estate Fund (0317) to the General Fund (0001) per Item 2320-011-0317, Budget Act of 2020	0	(5,000,000)	0.0		Approve May Revision proposal.
173	7600	California Department of Tax and Fee Administration	Tax and Fee Program Changes and Technical Adjustment	3,631,000	8,019,000	11.5	Resources to add the e-cigarette tax to automated system, address increased workload, and reappropriate funds associated with CROS.	1) Approve as budgeted the workload increase and reappropriation, and 2) hold open the resources related to the e-cigarette tax.
174	7600	California Department of Tax and Fee Administration	May Revision Appropriation Adjustment	-25,000,000	0	0.0	Current year position savings.	Approve May Revision proposal.

175	7730	Department of Real Estate	TBL to Eliminate Requirement to Reduce Fees Related to General Fund Loans	0	0	0.0		Approve May Revision proposal.
176	7730	Franchise Tax Board	Reappropriation for Item 7730-001-0001	8,000,000	0	0.0	--	Approve May Revision proposal.
177	7760	Department of General Services	Real Estate Services Division Implementation of SB 6 and AB 1255	-	-	-	This request will provide $1.3 million General Fund and 5 positions to implement a database pursuant to SB 6 (2019) and AB 1255(2019), beginning in 2021-22. $794,000 General Fund is three-year limited term funding.	Approve May Revision proposal.
178	7760	Department of General Services	Toxic Substances Control Account Appropriation for Government Claim Payment	-	25,000	0.0	$25,000 to pay a government claim pursuant to Health and Safety Code Section 25372, which authorizes persons to submit claims related to the release of hazardous materials.	Approve May Revision proposal.
179	7760	Department of General Services	Funding for Unreimbursed Camp Fire Expenditures	-	-	-		Approve May Revision proposal.

180	7760	Department of General Services	Reduction for the R Street Parking Lot		-10,700,000			Hold open.
181	7760	Department of General Services	Loan from Disability Access Account (0006) to General Fund (0001) per Item 7760-011-0006, Budget Act 2020	-	-35,000,000	-		Approve May Revision proposal.
182	7760	Department of General Services	Loan from Public School Planning, Design and Construction Review Revolving Fund (0328) to General Fund (0001) per Item 7760-011-0328, Budget Act of 2020	-	-35,000,000	-		Approve May Revision proposal.
183	7760	Department of General Services	Loan from Building Standards Administration Special Revolving Fund (3144) to General Fund (0001) per Item 7760-011-3144, Budget Act of 2020	-	-7,400,000	-		Approve May Revision proposal.
184	7760	Department of General Services	Transfer from the State Project Infrastructure Fund (3292) to the General Fund	0	0			Hold open.
185	8260	California Arts Council	Reversion of Funding for the Korean American National Museum	-	-	-		Hold open.

186	8940	Military Department	CMD State Network	3,914,000	--	9.0	Establishes a state information tehnology network to allow state service members and employes to administer state functions independently of the federal computer network. The federal government has issued guidelines requiring state functions to be performed outside of the federal network.	Approve May Revision proposal.
187	8940	Military Department	State Active Duty Compensation Adjustment	81,000	27,000	--		Approve May Revision proposal.
188	8940	Military Department	Lathrop-Roth Training Complex: Utilities Connection	1,800,000	--	--		Approve May Revision proposal.
189	8940	Military Department	Reduction to Cadet Corps	-6,286,000	--	-10.0		Approve May Revision proposal.
190	8940	Military Department	0000981 - Los Alamitos: National Guard Readiness Center - COBCP/Reappropriation - C	26,852,000	0			Approve May Revision proposal.

191	8940	Military Department	Revert 2019 Authority for Three Sustainable Armory Renovation Program Projects - COBCP/Reversion - DB	0	0			Approve May Revision proposal.
192	8955	Department of Veterans Affairs	Reversion of Funding for the Veterans Career Pathways in the City of Los Angeles	0	--	0.0		Adopt budget bill language and approve May Revision proposal.
193	8955	Department of Veterans Affairs	0000706 - Veterans Home of Yountville: Skilled Nursing Facility - COBCP - DB	0	317,093,000	0.0	Lease revenue bond financing. VA has accepted California's application.	Approve May Revision proposal.
194	8955	Department of Veterans Affairs	0000690 - Reversion of Southern California Veterans Cemetery Master Development Fund	0	0	0.0	Transfers $24.5 million to the General Fund.	Approve May Revision proposal.
195	9210	Local Government Financing	Revert Funds for Paradise Irrigation District	-7,374,000	--	--		Defer this proposal.

Items for Discussion

BU 0650 GOVERNOR'S OFFICE OF PLANNING AND RESEARCH

Issue 196: California Volunteers' Emergency Support Function-17 and AmeriCorps Funding Strategy

Request. The May Revision includes $13 million General Fund and 18.0 ongoing staff positions in Fiscal Year (FY) 2020-21 and $22.35 million General Fund ongoing in FY 2021-22 for the California Volunteers effort.

Background. The 2019 Budget Act provided $20 million General Fund over two years to California Volunteers as the first step in expanding the AmeriCorps program to 10,000 members. California Volunteers has used this funding to add 471 new members and increased the education grant to $10,000 for 1,913 new and existing members.

In 2006, Executive Order S-04-06 tasked California Volunteers, then the California Service Corps, with ensuring the coordination of volunteer activities related to disaster response and recovery. In 2008, S-04-06 was supplemented by S-02-08, which designated California Volunteers as the lead agency under the California Emergency Services Act for the coordination of volunteer activities, along with monetary and in-kind donations during times of disaster (Emergency Support Function 17). Therefore, in partnership with the California Office of Emergency Services (Cal OES), California Volunteers is tasked with connecting with volunteer and philanthropy stakeholders and establishing systems to support effective collaboration during all phases of emergency management.

Staff Comments. The administration has indicated that $2.9 million will be directly tied to the COVID-19 response and supporting the administrative oversight of the ESF-17 volunteer engagement disaster/emergency strategy. Another $10.1 million will primarily support existing AmeriCorps programs across California.

While there is clearly merit in expanding volunteer opportunities in California, the current fiscal situation may limit the ability of the state to invest new efforts.

Staff Recommendation. Hold open.

COVID-19: NEW AND AMENDED BUDGET CONTROL SECTIONS

Issue 197: Control Section 11.90

Proposal. The May Revision proposes to add Control Section 11.90 to give the Department of Finance the authority to allocate Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. Specifically, the proposed language would authorize allocations received from the Coronavirus Relief Fund for the state's COVID-19 response. These funds are available for specified purposes for costs incurred between March 1, 2020 and December 30, 2020.

Background. The CARES Act, adopted by Congress and signed into law on March 27, 2020, included $2.2 trillion in federal stimulus for the nation. The CARES Act established the Coronavirus Relief Fund and appropriated $150 billion to the Fund. According to the Department of Finance, California will receive $9,525,564,744 for expenditures incurred by the state and local governments due to the COVID-19 public health emergency.

Staff Comment. Section 28.00 already provides for administrative approval of augmentations for the expenditure of federal funds and other non-state funds received after the Legislature has approved a budget. Section 28.00 authorizes the Director of Finance to augment any program with the amount available for the specified expenditure. In addition, it requires the Director to provide the chairperson of the Joint Legislative Budget Committee and the chairpersons of the appropriate budget subcommittees with a notification 30 days prior to any expenditure.

Staff Recommendation. Hold Open.

Issue 198: Control Section 11.95

Proposal. The May Revision proposes to add Control Section 11.95 to give the Department of Finance the authority to allocate funds authorized by federal legislation for the purpose of offsetting state expenditures incurred during the COVID-19 public health emergency and supporting the state's COVID-19 response. The proposed language would allow the Director to adjust any 2020-21 budget item to account for additional federal funding for COVID-19 response.

Staff Comment. The proposed control section grants broad authority to the Administration to adjust any item in the 2020-21 budget with future federal funds "to account for additional federal funding to support the COVID-19 response." Historically, augmentations of unanticipated federal funds and other non-state funds have been made through Section 28.00. As stated above, Section 28.00 authorizes the Director of Finance to augment any program with the amount available for the specified expenditure as long as the Director provides the chairperson of the Joint Legislative Budget Committee and the chairpersons of the appropriate budget subcommittees with a notification 30 days prior to any expenditure.

Staff Recommendation. Hold Open.

Issue 199: Control Section 36.00

Governor's Proposal. The May Revision proposes to include and amend Control Section 36.00 in the Budget Act of 2020-21.

Background. SB 89, which passed the Legislature on March 17, 2020 with bipartisan support, added Section 36.00 to the Budget Act of 2019-20 to address the Governor's March 4, 2020 COVID-19 Proclamation of Emergency. It included an appropriation of $1 billion in General Fund to be utilized, upon the order of the Director of Finance and a 72-hour written notice to the Joint Legislative Budget Committee, for any purpose related to the March 4, 2020 Proclamation of Emergency. To date, the Director has made COVID-19-related augmentations in the amount of $805 million. The May Revision proposes to extend the terms of Section 36.00 in the Budget Act of 2020-21 with an additional augmentation of $2.86 billion.

Staff Comment. In March, the Legislature passed SB 89, with bipartisan support, which added Section 36.00 to the Budget Act of 2019-20. It gave the Administration broad authority to spend up to $1 billion to support the state's emergency response to the COVID-19 crisis while the Legislature was in recess because of the statewide stay-at-home order. $195 million of the $1 billion remains available for urgent spending needs until June 30, 2020. Even though the Legislature is back in session, the Administration is seeking the same broad spending authority for an additional $2.86 billion in the Budget Act of 2020-21.

Staff Recommendation. Hold Open.

Federal Fund Items for Discussion

BU 1701: DEPARTMENT OF BUSINESS OVERSIGHT (DBO)

Issue 200: Expanding DBO into Department of Consumer Financial Protection and Innovation

The Governor's Proposal. Retaining all powers, duties, responsibilities and functions of DBO, the Governor's proposal seeks to expand DBO with new divisions and offices into the new Department of Financial Protection Innovation (DFPI). The May Revision maintains the January proposal and makes requested resources contingent upon the Legislature passing the necessary statutory changes needed for the new program. The DFPI request is for $10.2 million and 44 positions in 2020-21 (increase of 9.4 percent in expenditure, 7.4 percent in staffing), $14.8 million and 28 positions in 2021-22 (increase of 12 percent in expenditure, 4 percent in staffing), $19.3 million and an additional 18 staff positions in 2022-23 (increase of 14 percent in expenditure, 3 percent in staffing), and ongoing funding. Upon full implementation the new DFPI department will total $152.4 million in operational expenditure and be staffed with approximately 705 personnel, a total increase 44.3 million and 90 positions relative to current baseline.

Background. DBO was established in 2013 with the merger of regulatory activities of Department of Corporations (which regulated financial entities such as securities brokers and dealers, financial planners, and mortgage lenders unaffiliated with banks) with the Department of Financial Institutions (which had regulatory powers over state-chartered banks, credit unions, money transmitters, and savings and loan associations). As the state's main financial marketplace regulator, DBO licenses and regulates financial services and providers, oversees and enforces safe and sound financial practices, and provides consumer services and education around financial services and products. At the beginning of 2018, DBO reported maintaining oversight of 23 financial service industries, and licensing and supervising more than 360,000 individuals and businesses. DBO carries out its responsibilities and functions with 615 staff positions and an operational budget totaling $108 million. Current activities of DBO are funded with a combination of special funds from the State Corporations Fund, the Financial Institutions Fund, the Credit Union Fund and the Local Agency Deposit Security Fund. These funds are largely drawn from licensing fees, examination fees, penalty assessments, reimbursements, settlements or other monies charged by the department from financial service providers currently overseen by DBO.

Key Motivations. There are four key motivations for proposed expanded consumer protection:

Consumer financial protection has been weakened at the federal level. The federal agency singularly tasked to ensure banks, lenders, and other financial service companies treat consumers fairly is the Consumer Financial Protection Bureau (CFPB). Under the Trump Administration, the CFPB has seen severe drop in enforcement cases and actions, reductions in examination of military lending protection compliance and the dismantling of CFPB's unit dedicated to students and young consumers in addition to various efforts to delay and in effectuate proposed consumer protection regulations.

There is high and increasing demand on DBO's existing infrastructure. At the end of 2019, the DBO was overseeing businesses with a cumulative total of over $1.1 trillion in assets in the banked sector alone. In 2019, in its supervisory and enforcement capacity, DBO undertook more than 480 enforcement actions against financial service providers. The department's responsibility continues to expand as it has been entrusted to enact approximately 80 Chaptered Bills between 2015 and 2019. Currently, DBO is overtasked in one area as it spends 70 percent or more of its operational expenditure on licensing and supervising activities of banked businesses and transactions. It was in this spirit that Assembly Member Limón introduced legislation, AB 1048, seeking to enhance DBO's capacity for enforcement and investigation of potential for financial harm in 2019.

	Expenditure		**Fund Condition**		
State Special Funds: ($ in thousands)	**Actual 2018-19**	**Est. 2019-20**	**2018-19**	**2019-20**	**2020-21**
State Corporations Fund	$ 54,479	$ 60,689	$ 87,189	$ 103,484	
Financial Institutions Fund	$ 32,977	$ 35,063	$ 44,263	$ 40,346	
Local Agency Deposit Security Fund	$ 535	$ 587	$ 95	$ 132	$ 132
Credit Union Fund	$ 10,898	$ 11,450	$ 980	$ 577	$ 577
Financial Protection Fund [new]					$ 138,477
Financial Empowerment Fund [new]					$ 5,353
Total	$ 98,889	$ 107,789	$ 132,527	$ 144,539	$ 144,539

There is fragmented oversight over financial products and services. While many depositories and non-depositories are subject to DBO regulation and oversight, many other financial services and products are regulated by a fragmented set of financial laws and state and federal entities. For example, auto-financing is subject to consumer protections under the Rees-Levering Act, check cashers are regulated by the Department of Justice, consumer credit reporting agencies are regulated at the federal level, while pawn brokers are licensed at the local level. Other financial services and providers like debt collectors, lead generation, earned income access providers, franchise brokers and retail-sales financing are subject to certain financial laws but not regulated by any regulatory entity.

COVID-19 and economic downturn could worsen financial vulnerability of consumers. In a 2017 U.S. survey by the Federal Trade Commission, nearly 16 percent of consumers were victims of fraud like falsely being told that they owed money to the government or unauthorized billing by service providers. A majority of fraudulent activities were pushed through internet transactions and those who have recently experienced negative life events like severe illness or death of a loved one were shown to be 2.5 times more vulnerable. Given the unique impact of COVID-19 on both health and finances of consumers, and the rapid transition to online services due to the pandemic, it is likely that consumers will be at greater risk to financial victimization.

Proposed New Offices and Activities for DFPI. More than half of the proposed staffing increase is going to new roles and new units to establish the new DFPI. The following are key highlights:

- DFPI merges the traditionally separated Division of Financial Institutions and Division of Corporations under one division and a senior deputy commissioner.
- A new Division of Consumer Financial Protection will be created. This division will house Supervision and Registration Office for registering and supervising new classes of financial services and products, an Analytics office which will focus on financial market monitoring and research activities and a Targeted Consumer Education office designed to provide financial empowerment tools and information to students, seniors, military service members, new Californians.
- DFPI will have a new Financial Technology Office which is proposed to encourage innovation, enable fintech to operate nationwide, and research emerging and new innovative technologies.
- DFPI will also have a new Office of Ombudsperson which will have a single staff to act as an independent, impartial resource for stakeholders.
- The budget change proposal also seeks to revamp staffing in the existing Legal and Enforcement division.

Proposed Statutory Authority and New Powers for DFPI. The Governor's accompanying trailer bill language seeks to expand DBO's powers as follows:

Newly Covered Persons (NCPs) and Service Providers and Registration. The proposed trailer bill language defines a covered person as any person that engages in offering or providing a consumer financial product or service, and a service provider as any person that provides a material service to a covered person in connection with the offering of a consumer financial product or service (with additional clarifications). Since many existing DBO licensees fall under these definitions, the revised trailer bill language limits the DFPI to prescribe rules regarding registration fees and requirements only to NCPs and service providers, exempting current licensees and those licensed or registered by other state or federal agencies. DBO estimates 9000 NCPs to register annually.

Unfair, Deceptive, Abusive Acts and Practices (UDAAP). The proposed trailer bill gives DFPI authority to prescribe rules applicable to covered persons and service providers, identifying certain UDAAP as unlawful in connection with the offer or provision of a consumer financial product. The trailer bill also provides DFPI authority to bring enforcement actions against any covered person that engages, has previously engaged, or proposes to engage in UDAAP. Along with the CFPB, local district attorneys and the Attorney General, DBO already enjoys the authority to enforce "unfair" and "deceptive" practices provisions over most of its existing licensees under the California under Business and Professions Code Section 17200. The term "abusive" is defined in the trailer bill consistent with Dodd-Frank. The CFPB has recently issued a policy statement regarding the lack of certainty in scope and meaning of the abusiveness standard contained in Dodd-Frank. As a result, it has mostly appeared alongside unfairness or deceptive claims.

Enforcement Tools. Proposed trailer bill empowers DFPI with enforcement tools, including the ability to order rescission or reformation of contracts, refund of moneys or return of real property, restitution, disgorgement or compensation for unjust enrichment, and a range of civil and administrative monetary penalties based on violation.

Fund Reorganization. The trailer bill proposes to merge two of DBO's four existing funds (the Financial Institutions Fund and the State Corporations Fund) into a new Financial Protection and Innovation Fund to fund the transition from DBO to DFPI over the coming three years. However, DBO continues to maintain the other two funds as stand-alone.

LAO's May Revise Recommendation. Consistent with our February analysis, we recommend that the Legislature consider this proposal through the policy process. We recommend this approach due to the number of policy questions involved and the lack of time for Legislature to consider the proposal this year as part of the budget process. After policy decisions are made, we recommend providing funding at a level that is adjusted, as relevant, depending on policy changes that are adopted. To the extent funding is provided in the budget year, we recommend that the Legislature reject the funding requested for positions that are not needed in the budget year, and that the Legislature fund some activities on a limited-term, pilot basis, which is also consistent with our February analysis.

Staff Recommendation. Hold open.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 201: Used Car Dealer Sales Tax and Private Party Vehicle Sales - Valuation

Request. The May Revision includes the following two proposals that result in increased revenue:

1. **Used Car Dealer Sales Tax.** The May Revision would require motor vehicle dealers, other than new motor vehicle dealers, as defined, to remit to the Department of Motor Vehicles (DMV) applicable sales tax, measured by the sales price of the vehicle with the registration fee. This requirement would be effective January 1, 2021 and generate $12 million of revenue in 2020-21 and $24 million in 2021-22.
2. **Private Party Vehicle Sales – Valuation.** The May Revision would require the Department of Motor Vehicles (DMV) to collect use tax from purchasers in private-party sales, and would require the DMV to calculate use tax as the greater of the vehicle's sale price or the vehicle's standard presumptive value. This requirement would be effective January 1, 2021.

Background.

Used Car Dealer Sales Tax. Used motor vehicle dealers are required to register vehicles with the DMV and pay the registration fee when a used car is sold. Separately, the used vehicle dealers are required to report the sale and remit sales tax to CDTFA.

CDTFA receives data from the DMV on vehicle registrations quarterly and uses it to estimate the value of vehicles sold based on the DMV's registration fee schedules. CDTFA has used this data to determine that there is a significant gap between the amount of sales tax paid on used car sales and the amount that would be expected to be paid based on the DMV's registration data. CDTFA believes that this tax gap consists of both sales by dealers who do not have active seller's permits and by dealers' intentional underreporting sales value. For example, CDTFA knows of 46 separate dealers that have registered vehicles with DMV since 1996 but not reported sales tax, accounting for a total of $280 million in unreported tax.

Private Party Vehicle Sales – Valuation. Under current law, the California Department of Tax and Fee Administration (CDTFA) contracts with DMV to collect use tax from vehicle purchasers on private party sales. Vehicle purchasers are required to pay this tax to the DMV when they register the vehicle. Use tax paid is based on the self-reported sales price of the vehicle, an amount that is difficult for CDTFA to verify. CDTFA believes this amount is frequently underreported, allowing the purchaser to avoid tax and fee liability on the purchase. DMV data indicates that private party vehicle sales prices are 33 percent lower on average than similar cars sold through a dealer and that the sale amount is often zero.

This proposal would require that the sales price used to calculate use tax owed in a private party sale would equal the greater of:

- The amount paid or to be paid for the vehicle, or
- 80% of the vehicle's standard presumptive value, which is defined as the value as provided in the Kelley Blue Book or other similar motor vehicle guide as prescribed by the DMV.

If the value of the vehicle is lower than 80% of the car's presumptive value, the purchaser would be required to provide the DMV with a certified appraisal valuing the car at that lower amount within 20 days of the date of purchase.

Legislative Analyst's Office (LAO). According to the LAO, data provided by the administration suggest there are substantial use tax compliance problems for private party vehicle sales. The Governor's proposed solution, however, would place unreasonable burdens on taxpayers who already comply with the law. In particular, the proposal likely would require many compliant taxpayers either to overpay use tax or to incur the hassle and expense of obtaining a certified appraisal and submitting it to DMV. This problem would arise because the proposal does not adequately account for variation in legitimate sale prices. The estimates provided by standard vehicle guides depend crucially on information that DMV does not collect, such as the condition of the vehicle. Even if DMV collected more detailed information about vehicles, many legitimate sale prices still likely would fall below the 80 percent threshold. Research suggests that retail prices of identical goods tend to vary widely—even in the same geographic area and time period—with a substantial share falling below 80 percent of the average price.

Staff Recommendation. Hold open.

Issue 202: Vaping Tax

The Governor's Proposal. The Governor's January proposal introduced statutory trailer bill language to levy an additional, nicotine-based tax on vaping (e-cigarette) products. The May Revision maintains the January proposal. The proposed tax set to begin on January 1, 2021 will be $2 per 40 milligrams of nicotine. The Administration intends to create a system of tax stamps analogous to the state's cigarette tax program. Revenue is proposed to be deposited into a new special fund to be used for administration of law, carrying out enforcement activities and for youth health programs. The Administration projects $33 million in revenue from this proposal in 2020-21 and $66 million ongoing.

Background. E-cigarettes (vaping products) refer to a diverse group of products that produce a heated aerosol containing nicotine which is inhaled by users via a mouthpiece. Common components of e-cigarette devices include a battery, heating coil, atomizer (transforms the e-liquid into an aerosol), cartridge containing e-liquid, and mouthpiece. Next generations of e-cigarettes are often odorless, rechargeable, designed in shapes that are easy to conceal, and come in various flavors like fruit and candy. As a result, these products are increasingly attractive to adolescents.

According to the 2019 National Youth Tobacco Survey conducted by the Centers for Disease Control (CDC) and the federal Food and Drug Administration (FDA), 27.5 percent of high school students and 10.5 percent of middle school students in the US use e-cigarettes or vape as compared to 5.8 percent of high school students and 2.3 percent of middle school students who use conventional combustible cigarettes. In addition to the various lung and heart health impacts of nicotine, exposure to nicotine in adolescents' brains can impact learning, memory, and attention, and increase risk for future addiction. A 2018 RAND study of California youth also demonstrated that adolescents who use vaping products are more likely to smoke cigarettes and increase their use of both products as they become adults. In addition to nicotine, e-cigarette e-liquids also contain and emit potentially toxic substances depending on use and device characteristics.

Although youth are overwhelmingly represented in vaping statistics, millions of American adults also use e-cigarettes albeit at a relatively lower rate than combustible cigarettes. A 2018 review by National Academy of Sciences (NAS) committee experts reports that while e-cigarette aerosols contain fewer and lower levels of toxicants than smoke from combustible tobacco cigarettes, the level of nicotine exposure can be similar. Although proponents argue that use of e-cigarettes aid the adult cessation of combustible tobacco, the NAS report concludes that there is limited existing evidence to support this claim. However, there is conclusive evidence that complete substitution of e-cigarettes from combustible tobacco has harm reduction benefits as it significantly reduces users' exposure to various toxicants and carcinogens present in combustible tobacco. Therefore, there is some need to balance the harm-reducing benefits of e-cigarettes relative to conventional tobacco use among adults with the harmful effects of growing e-cigarettes use among adolescents.

In 2016, in a move to reduce access to teen smokers, California raised the lawful age to buy tobacco products from 18 to 21. In 2017, after Proposition 56, California began imposing excise taxes on cigarettes and non-cigarette tobacco-containing products, including e-cigarettes. California currently levies a 59 percent excise tax on the wholesale price of e-cigarettes and revenues are deposited into a special fund going to various activities including administrative costs and Medi-Cal programs for low-income Californians.

Nationally, the CDC and the FDA have raised alarm around the eruption of severe cases of lung illnesses linked with vaping in many states last summer, and moved to enact bans on select flavors like mint and fruit in January 2020. In California, the Governor issued an executive order in September of 2019 directing CDTFA and the Department of Public Health to develop recommendations related to e-cigarettes. Localities like San Francisco City and Los Angeles County have already taken action and banned flavored e-cigarettes since 2018 and 2019 respectively. Currently in the state Legislature, SB 793 (Hill) seeks to enact a statewide ban on all flavored e-cigarettes including menthol which was exempted in the federal ban.

The current respiratory-system-impacting pandemic (COVID-19) introduces an additional factor to consider for policy makers. If passed, the Governor's nicotine-based tax would be the first in the country. The Governor's proposal seeks to employ a stamps-based system where distributors would purchase tax stamps from the state-approved vendor, then affix them to e-cigarette products before they sell to wholesalers or retailers. Distributors would round up the total amount of nicotine in their product to the next-highest multiple of 20 mg, and assess a $1 tax per 20 mg. Revenues are proposed to be deposited into a new special fund to increase enforcement activities and to offset Medi-Cal costs. The proposal also includes $13.9 million and 10.5 positions for the CDTFA to administer the proposed tax and $7 million for the California Highway Patrol to establish a task force in collaboration with the Department of Justice dedicated to combating the underground market for vaping products.

LAO Comments. Following are some of the comments that the LAO had regarding this proposal.

Effects on Vaping and Smoking. Our review of available evidence suggests that the proposed tax likely would reduce both youth and adult e-cigarette use substantially. The tax also likely would increase adult cigarette smoking. The effects on youth cigarette smoking are unclear.

Tax Structure. If the Legislature wishes to enact a new tax on e-cigarettes, the proposed nicotine-based tax structure is reasonable. If the Legislature agrees with the Governor's focus on reducing youth e-cigarette use, we suggest it consider alternative nicotine-based taxes that place higher rates on products that tend to encourage or enable youth use.

Governor's Proposed Tax Rate. The administration estimates that its proposal would result in roughly the same state tax rate on nicotine intake, whether that intake comes from e-cigarettes or conventional cigarettes. The administration, however, has not presented a compelling argument for this rate. In particular, it has not made a case that e-cigarettes and cigarettes are equally harmful, nor that the current cigarette tax is set at the right rate. The administration's comparison also does not account for federal taxes.

Initial Tax Rate. As the Legislature considers what tax rate to set on e-cigarettes, it faces six key questions: How harmful are e-cigarettes? To what extent do vapers' choices account for these harms? How would the tax rate affect e-cigarette use? How would the tax rate affect other outcomes, such as cigarette smoking? How would the tax rate affect compliance with the tax? How would the tax interact with other state and federal policies?

Future Tax Rates. We recommend that the Legislature index the tax rate to inflation to keep its economic value steady over time. We also recommend that the Legislature revisit the rate frequently in the coming years.

Tax Stamps. The Governor proposes $8 million in 2020-21 and ongoing for a stamp contract. In the cigarette tax program, stamps help distinguish tax-paid cigarettes from others. Stamps could have similar enforcement benefits for e-cigarettes, but they would need to be more complex. The administration does not appear to have considered this complexity carefully enough to justify the requested appropriation.

Staff Recommendation. Hold Open.

7730 FRANCHISE TAX BOARD

Issue 203: Net Operating Loss Suspension and Business Tax Credit Limitation

Request. The May Revision includes the following two revenue proposals related to business and personal income taxes:

1. **Net Operating Loss Suspension.** The May Revise Budget proposes to temporarily suspend the use of net operating loss (NOL) deductions for taxpayers with business income in excess of $1 million for 2020, 2021 and 2022. This suspension applies to both personal income tax and corporation tax taxpayers and is estimated to raise $1.8 billion in 2020-21, $1.3 billion in 2021-22, and about $400 million in 2022-23.
2. **Business Tax Credit Limitation.** May Revise Budget proposes to temporarily limit the use of business incentive tax credits to offset no more than $5 million in tax liability for 2020, 2021 and 2022. This suspension applies to both personal income tax and corporation tax taxpayers and is estimated to raise $2 billion in 2020-21, $1.5 billion in 2021-22, and $900 million in 2022-23. In 2018, businesses reduced their corporate tax liability by over $2.9 billion through the use of credits, with $2.4 billion from the research and development tax credit. Business credits used on the personal income tax side are much smaller, but still significant.

Note: There is a revenue interaction effect between this proposal and the limitation of business incentive tax credits. Enacting both provisions would prevent taxpayers from using one provision in lieu of the other and affect the tax liabilities of these taxpayers because it would both increase their taxable income (through the NOL suspension) and reduce their ability to use tax credits to offset the pre-credit tax. The interaction revenue impact is estimated to be $600 million in 2020-21, $450 million in 2021-22, and $200 million in 2022-23.

Background.

NOLs. Businesses incur NOLs for tax purposes if their allowable deductions and losses exceed their taxable income. Under current California law, taxpayers are allowed to use NOLs from prior years to offset up to 100 percent of current year income. Taxpayers are allowed to carry forward NOLs for 20 years from the year that loss was incurred.

The amount of NOLs used and the number of taxpayers claiming NOLs can vary from year to year. But from 2013 through 2018, the number of corporations claiming NOLs has averaged over 144,000 per year and the amount of NOLs claimed has averaged over $29 billion. There are significant NOLs claimed on the personal income tax side, as well. Since the suspension is limited to taxpayers with income over $1 million, it is expected that the majority of taxpayers will still be allowed the full extent of their current law NOL deductions, but the amount of deductions claimed is expected to drop significantly.

Taxpayers who have their NOLs suspended will be allowed to carry forward their NOLs for an additional 3 years beyond the 20-year carryover limit allowed under current law. It is expected that much of the suspended NOLs will eventually be used.

Business Tax Credit Limitation. This provisions limits credit usage to $5 million per year. Structured as a dollar limit, however, the Administration proposes that it would provide definite protection to small firms, for whom $5 million in credits would be more than they would need in any one year. In general, a corporation would need to have income over $56 million to be affected by this limitation and a personal income taxpayer would need to have an income over $40 million to be affected.

In addition, this limitation only affects business incentive credits. As such, it would not limit taxpayer's ability to use other personal credits. Finally, to the extent that any credit affected by this provision has a limited carryover period, this trailer bill would grant that the carryover period for that credit be extended for the number of years that the credit was limited. As such, it is expected that much of the credits limited under this proposal will eventually be used.

Legislative Analyst's Office (LAO). The LAO has found that these May Revision proposals are worth consideration. They note that the state has suspended NOLs and limited business tax credits during prior recessions and find that these actions generally are considered somewhat less burdensome on taxpayers than other actions like increasing tax rates. This is because they largely would change only the timing of tax payments (causing payments to be made sooner than they otherwise would) but would not significantly increase the total amount of taxes businesses pay over the next several years. However, the LAO also notes some concerns. For example, the LAO finds that net income is an imperfect way to identify small businesses. In addition, the LAO questions whether these proposals will result in the amount of revenue that the Administration is projecting.

Staff Recommendation. Hold open.

Issue 204: Minimum Franchise Tax

Request. The May Revision maintains the Governor's Budget proposal to expand the first-year exemption from the $800 minimum franchise tax to Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs). The Governor's budget assumes the expansion of the exemption will result in a reduction of $50 million in General Fund revenues in 2020-21 and $100 million in 2021-22 and out-years. The exemption would sunset on January 1, 2026. The Franchise Tax Board (FTB) also would be required to annually report the number of first-year businesses that are affected by the exemption.

Background. Corporations doing business in California must pay a state corporation tax (CT) on their net income. Many corporations have no net income in California, but are still required to pay an annual minimum franchise tax of $800. Other types of non-corporate businesses are not subject to the CT, but many also are required to pay an annual minimum franchise tax of $800. The most common non-corporate businesses subject to the minimum franchise tax include limited liability companies LLCs, limited partnerships LPs, and limited liability partnerships LLPs. We describe these in the nearby box.

Since 1998, newly formed corporations have been exempted from paying the $800 minimum franchise tax in their first year of business. About 100,000 new corporations are formed each year. However, the FTB reports that only about three-quarters of new corporations claim the exemption because many new corporations do not understand their tax filing requirements. Overall, the exemption reduced state revenue by $60 million in.

Legislative Analyst's Office (LAO). The LAO made of number of findings regarding this proposal, including:

- **Current Exemption and Proposal Lack a Strong Policy Justification.** The stated Legislative intent of the current first-year minimum franchise tax exemption is to promote small businesses by reducing the burden of the minimum franchise tax. The Governor's proposal to extend the exemption to new non-corporate businesses uses similar language. There are several reasons to think the exemption is an ineffective and poorly targeted means of promoting small business.

- **Difficult to Identify Small Businesses.** Small businesses are difficult to target in the tax code. In large part, this is because a "small business" is difficult to define and the definitions that currently are used can vary across different industries. In addition, definitions typically rely on simple thresholds, such as the number of employees or annual revenue, for practical reasons.

- **Exemption Poorly Targets Small Business.** The exemption attempts to avoid the challenge of defining which taxpayers are small businesses by instead targeting benefits at newly formed companies. This strategy poorly targets small business. Benefits from the exemption go to many companies that do not seem to meet any reasonable definition of a small business. For example, major companies routinely form new corporations to facilitate financial transactions, raise capital, and manage risk. About one-third of LLCs, LPs, and LLPs are owned by corporations or other companies and not by individuals. In addition, as discussed earlier, many new LLCs, LPs, and LLPs are formed to hold and manage real estate property and other investments. Many of these companies have significant assets, but generate comparatively little economic activity in the way of buying and selling goods or employing workers.

- **Provides Limited Relief to Businesses.** Many businesses undoubtedly consider the $800 minimum franchise tax an unwelcome cost of doing business in California. In most cases, however, the one-time tax exemption provides a relatively limited amount of financial assistance to new businesses relative to the overall cost of starting a new business. These costs—such as equipment, construction costs, employee salaries, and rent—often sum to tens of thousands of dollars, or considerably more. The number of LLCs (which do not receive an exemption) has grown more quickly than the number of corporations (which do receive an exemption) in recent years. While not conclusive, this suggests that the lack of the first-year minimum franchise tax exemption has not significantly hindered the formation of new businesses.

Staff Recommendation. Hold open.

0509 GOVERNOR'S OFFICE OF BUSINESS DEVELOPMENT

Issue 205: Small Business Assistance

Request. The May Revision proposes $50 million one-time General Fund for the California Infrastructure and Economic Development Bank, Small Business Finance Center to support its guarantee programs that provide financial assistance needed by small businesses and will contribute to the long-term recovery of California's economy. This allocation will be available to all of its guarantee programs, to allow the Small Business Finance Center to adjust to the rapidly evolving needs of its lender network and the constantly evolving small business lending environment. The IBank also requests similar flexibility on the original $50 million one-time General Fund allocation issued on April 3, 2020 to ensure that it can respond to the evolving needs and ensure maximum leverage in its programs to address those needs.

Background. The Small Business Loan Guarantee Program (SBLGP) promotes statewide economic development by providing loan guarantees that serve as a credit enhancement and incentive to financial institutions. A loan guarantee is the incentive that gives a lender the comfort to fund loans to small businesses that otherwise would not qualify for a loan or line of credit. As a result, eligible small businesses are able to secure financing that allows growth and expansion of its business.

The SBLGP incentivizes Lenders to make loans to small businesses by offering guarantees up to 80 percent of eligible loan amounts. Small business borrowers can seek financing either through Financial Development Corporations (FDC) or a Lender. The Lender and FDC work together to find the best financing, technical assistance services, and solutions for businesses.

Today, California's priority is to get as many of its small businesses into federal forgivable loan programs as possible through Small Business Administration (SBA) stimulus programs such as the Payroll Protection Program (PPP) and the Economic Injury Disaster Loan Program (EIDL). These programs have been overwhelmed with applicants, some who cannot access the internet portals or receive miniscule amounts due to strict guidelines. Many who applied were left in limbo when the original funding was drained, being forced to wait for additional stimulus release. Once SBA PPP funds are exhausted, IBank's small business programs are expected to substantially increase in activity and funds will be fully depleted with anticipated demand.

IBank is requesting flexibility on the original $50 million one-time General Fund allocation issued on April 3, 2020 to ensure that it can respond to the evolving needs and ensure maximum leverage to address those needs. The allocation was specific to those who did not qualify for federal funding, yet there are many businesses that qualify, yet remain underfunded or still do not have access to those funds.

Staff Comment. Staff notes that $50 million was provided through the Section 36.00 process to provide loan guarantees to small businesses that are low-income businesses that have low credit scores and/or businesses that are unbanked or underbanked. According to the Administration at the time, these types of businesses did not qualify for the small business loans being offered through the federal stimulus package. The committee may wish to ask the following questions:

How has the originally $50 million been deployed to this point?

How will the additional flexibility impact the ability of the businesses that were originally targeted, low-income or unbanked/underbanked, to access these loans?

Staff Recommendation. Hold open.

0890 SECRETARY OF STATE

Issue 205: Federal CARES Act Elections Funding

May Revision Proposal. The Secretary of State requests $65.5 million in federal fund authority to provide additional resources to protect the 2020 elections from the effects of COVID-19, and budget bill language that allows the Department of Finance to transfer federal funds for counties to state operations.

Background. The Coronavirus Aid, Relief, and Economic Security (CARES) Act included $400 million in new Help America Vote Act (HAVA) funds, made available to states to prevent, prepare for, and respond to the Coronavirus for the 2020 federal election cycle. Among other things, the funding can be used to increase California's ability to vote-by-mail, expand early voting and online registration, and improve the safety of voting in-person by providing additional voting facilities, more polling place workers, and personal protective equipment.

The Governor's Budget included nearly $11 million in federal HAVA funds (excluding HAVA funds used for the state's VoteCal project), of which $6.8 million is for local assistance and $4.2 million is for state operations. The $36.3 million from the CARES Act would increase funding for local assistance to $43.1 million. California has approximately 20.3 million voters.

On May 8, 2020, the Governor signed an executive order that allowed all voters to vote by mail, and set a deadline for May 30, 2020 to clarify requirements on in-person voting opportunities.

Staff Recommendation. Approve the federal fund authority, and adopt placeholder budget bill language that allows the Department of Finance, upon notification to the JLBC, to transfer funds from the 0890-101-0890 to 0890-001-0890.

8955 California Department of Veterans Affairs (CalVet)

Issue 206: Closure of Barstow Veterans Home

May Proposal. The Administration proposes the closure of the Barstow Veterans Home, with a correlating $400,000 in General Fund savings and a reduction of two positions. These cuts will be triggered off if federal funds are received, and plans to close the Barstow home will be canceled. The Administration estimates that General Fund savings will be $14 million at full closure in 2022-23.

Background. The Veterans Home in Barstow opened in 1996, and is budgeted for 220 beds, with a capacity for 400 beds, with 177 beds occupied. The closest VA facility is an hour and a half away in Loma Linda. The 2019 Budget included $26.5 million for the Barstow home.

CalVet released its Master Plan 2020 for the Veterans Homes in January 2020. An assessment of the Veterans Homes based on veteran need, proximity to VA Care, appropriate levels of care, local healthcare infrastructure, and hiring compatibility found that the Barstow home met none of these criteria satisfactorily.

Assessment Summary of Individual Veterans Homes

Veterans Home	Veteran Need	Proximity to VA Care	Appropriate Levels of Care	Local Healthcare Infrastructure	Hiring Compatibility
Yountville	✓	✗	☐	☐	✗
Barstow	✗	✗	✗	✗	☐
Chula Vista	✓	✓	☐	✓	☐
Lancaster	☐	✗	☐	✓	✓
Ventura	✓	✗	✓	✓	☐
West Los Angeles	✓	✓	✓	✓	✗
Fresno	✓	✓	✓	✓	✓
Redding	☐	✗	✓	✓	✓

The Barstow Veterans Home is not in an appropriate location. The Barstow Home was constructed with the intent of expanding services to veterans in Southern California. However, the Home's placement in the high desert region hampers its operations and limits demand for care.[i]

Veteran Need	A large veteran population is located nearby, with evidence that the population has sufficient need for facility-based long-term care.	✗ Does Not Meet the Criteria
Proximity to VA Care	A VA medical facility that provides comprehensive specialty services for veteran residents is located no more than 60 minutes away, and ideally less than 30 minutes away.	✗ Does Not Meet the Criteria
Appropriate Levels of Care	The levels of care or other services provided at the Veterans Home are reflective of veterans' needs, which are otherwise unmet by other service providers.	✗ Does Not Meet the Criteria
Local Healthcare Infrastructure	The local healthcare infrastructure is sufficient to meet the Home's operational and clinical needs, based on the size of the Home.	✗ Does Not Meet the Criteria
Hiring Compatibility	The local cost of living is affordable and the local workforce of nurses and other licensed or certified specialists is of sufficient size to hire facility staff.	☐ Partially Meets the Criteria

A conforming adjustment was also included in CalVet's proposal for strategic realignment, which originally shifted resources at Barstow to provide higher levels of care and gradually reduce its domiciliary care.

The Administration states that the initial steps toward a closure would result in a General Fund revenue reduction of $2.4 million and consists of various sources such as federal per diem, member fees, Medicare, Medi-Cal, and Aid and Attendance using the same methodology used to currently estimate revenues. The reduction is based on a drawdown of approximately 4 residents a month beginning in September increasing to a drawdown of 8 residents a month beginning in November. The drawdown in census is an estimate based on moving a mix of the levels of care, but is subject to bed availability in the other homes and the needs of the resident. There is also an overall estimated General Fund revenue reduction from veterans of $600,000.

Additionally, the proposal requests a $400,000 budget reduction in 2020-21, which is comprised of the equivalent of two full-time positions, and correlated food, pharmaceuticals, and other costs associated with a reduction.

Staff Comment. The collective impact of the General Fund revenue reductions and the expenditure savings from the staff reductions resulting from the closure alone is a $2 million cost to the General Fund in 2020-21 – taking no action in staff or resident reduction results in a $2 million General Fund savings. Additionally, should another surge in coronavirus infections occur in the fall, transferring elderly veteran residents from one veterans home to another may be a questionable decision.

While a fiscal crisis like the one we are currently facing due to the coronavirus should not be taken lightly, staff believes that a closure of a veterans home should not be rushed, and a thoughtful approach, while working closely with legislative and community stakeholder partners, can help ensure that no harm occurs to the veteran residents. A closure plan can help address questions around resident safety, fiscal solvency, logistics and other questions that this proposal raises.

Staff Recommendation. Reject the May Revision proposal to close the Barstow home and adopt placeholder budget bill language to require CalVet to submit a closure plan to the Legislature and work with stakeholders in the coming year for contemplation in the 2021-22 budget.

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

Senator Anna Caballero, Chair
Senator Jim Nielsen
Senator Maria Elena Durazo

Thursday, May 21, 2020
1:30 PM
State Capitol - Room 4203
OUTCOMES
Part C – Other State Administration

Consultants:
James Hacker
Hans Hemann
Yong Salas
Joe Stephenshaw
Meron Tesfaye

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Vote-Only Calendar

See Chart Below for Outcomes

Items for Discussion

VOTE -ONLY CALENDAR FOR GOVERNOR'S BUDGET PROPOSALS FROM JANUARY – WITHDRAWN (ISSUES 1 – 45)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendation
1	0509	Governor's Office of Business and Economic Development (GO-Biz)	Legislative and Inter-governmental Affairs	-127,000	0	-1	Administrative savings.	Approve May Revision withdrawal of the proposal. 3-0
2	0509	Governor's Office of Business and Economic Development (GO-Biz)	Human Resources and Administrative Staffing	-72,000	0	-1	Administrative savings.	Approve May Revision withdrawal of the proposal. 3-0
3	0509	Governor's Office of Business and Economic Development (GO-Biz)	Climate Catalyst fund	-250,000,000	0	-1	Establish fund.	Approve May Revision withdrawal of the proposal. 3-0
4	0650	Office of Planning and Research	Legislative and Legal Staff Increase	-357,000	--	-2	The January budget included several positions related to the increase in legislative bills dealing with OPR, as well as for increasing related workload. This workload can be absorbed internally.	Approve May Revision withdrawal of the proposal. 3-0

5	0650	Office of Planning and Research	Withdraw Governor's Budget Proposal and Delay Transportation Plan Assessment (AB 285)	-349,000	--	-1	This proposal includes trailer bill language delaying the implementation of AB 285, which requires OPR to conduct a review of the State Transportation Plan, and withdraws the resources necessary to complete that work. This work remains a legislative priority.	Reject the withdrawal of these positions and the related trailer bill language. 2-1
6	0650	Office of Planning and Research	Withdraw Governor's Budget Proposal and Delay AmeriCorps Infrastructure Expansion	-1,742,000	--	-10.0	The January budget included programmatic staffing resources to develop infrastructure for expanded state volunteer programs. The Administration has withdrawn this request and replaced it with a larger proposal, discussed below.	Approve May Revision withdrawal of the proposal. 3-0
7	0840	State Controller's Office	Road Maintenance and Rehabilitation Program (RMRP) - Fund Shift	--	0	--	Conduct audits of the programs.	Approve May Revision withdrawal of the proposal. 3-0
8	0840	State Controller's Office	Local Government Oversight - Internal Control Reviews - Fund Shift	-486,000	486,000	--	Perform local agency audits/reviews.	Approve May Revision withdrawal of the proposal. 2-1
9	0840	State Controller's Office	Proposition 47 - Safe Neighborhoods and Schools Fund (SNSF) - Fund Shift	--	0	--	Perform audits of grants.	Approve May Revision withdrawal of the proposal. 3-0

10	0840	State Controller's Office	SCO Administrative Support Costs	-1,141,000	-931,000	--	Address increased admin costs.	Approve May Revision withdrawal of the proposal. 3-0
11	0845	Department of Insurance	Hearing Reporter Position	0	-177,000	-1.0		Approve May Revision withdrawal of the proposal. 3-0
12	0845	Department of Insurance	Disability Program Administration	0	-120,000	-1.0		Approve May Revision withdrawal of the proposal. 3-0
13	0845	Department of Insurance	FI$Cal Resources	0	-1,014,000	-7.0		Approve May Revision withdrawal of the proposal. 3-0
14	0890	Secretary of State	Withdrawal of Voter Registration Related Mailings	-847,000	0	0.0		Adopt budget bill language and approve May Revision withdrawal of this proposal. 3-0
15	0890	Secretary of State	Withdrawal Staffing Increase for the Human Resources Bureau	-214,000	-577,000	-6.0		Approve May Revision withdrawal of the proposal. 3-0
16	0890	Secretary of State	Withdrawal IT Division Resources Workload Growth	-79,000	-214,000	-2.0		Approve May Revision withdrawal of the proposal. 3-0
17	1111	Department of Consumer Affairs	Cemetery and Funeral Bureau - Endowment Funds (AB 795)	0	-86,000	-0.5		Hold open.

18	1111	Department of Consumer Affairs	Chief Athletic Inspector and Assistant Chief Athletic Inspector (AB 1523)	0	-296,000	-2.0		Hold open.
19	1111	Department of Consumer Affairs	Information Technology Security	0	-2,004,000	-2.0		Approve May Revision withdrawal of the proposal. 3-0
20	1700	Department of Fair Employment and Housing	Source of Income Discrimination (SB 329)	-528,000		-4.0	The May Revision withdraws the January proposal for $528,000 in General Funds for enacting SB 329 (Mitchell, Chapter 600, 2019), a bill protecting tenants from housing income discrimination.	Approve the May Revision withdrawal of the proposal. The department will absorb new workload into existing resources. 3-0
21	1700	Department of Fair Employment and Housing	Employment Discrimination (AB 9)	-315,000		-3.0	The May Revision withdraws the January proposal for $315,000 in General Funds for enacting AB 9 (Mitchell, Chapter 600, 2019), a bill extending complaint filing deadline for employment discrimination.	Approve the May Revision withdrawal of the proposal. The department will absorb new workload into existing resources. 3-0
22	1701	Department of Business Oversight	Legal Division Rulemaking Workload	0	-406,000	-2	Address increased legal workload.	Approve May Revision withdrawal of the proposal. 3-0
23	1701	Department of Business Oversight	Information Technology Security Workload	0	-780,000	-3	Strengthen safeguards and protocols.	Approve May Revision withdrawal of the proposal. 3-0

24	2100	Department of Alcoholic Beverage Control	Implementation of Free Goods Exception (AB 1133)	0	-685,000	-4.0		Hold open.
25	2320	Department of Real Estate	Licensing Information Section - Call Workload	0	-663,000	-8.0		Approve May Revision withdrawal of the proposal. 3-0
26	7730	Franchise Tax Board	Mainframe Enterprise Server Refresh	-5,801,000	-259,000	--	Replacement of the enterprise server.	Approve May Revision withdrawal of the proposal. 3-0
27	7730	Franchise Tax Board	Enterprise Data to Revenue Project (EDR2) - Phase 2	-1,112,000	--	-10	Resources for beginning of EDR2 project	Approve May Revision withdrawal of the proposal. 3-0
28	7730	Franchise Tax Board	Vehicle Registration Collections (VRC)	--	-1,903,000	--	Replace Delinquent Vehicle Registration System	Approve May Revision withdrawal of the proposal. 3-0
29	7730	Franchise Tax Board	Earned Income Tax Credit (EITC) and Voluntary Income Tax Assistance (VITA) Support	-1,212,000	--	-5	Assist in Administering the Voluntary Income Tax Assistance Program	Approve May Revision withdrawal of the proposal. 3-0
30	7730	Franchise Tax Board	EITC and VITA Program Funding	-10,000,000	--	--	Funding provided for free tax services and program outreach.	Reject the $10 million reduction and instead appropriate $5 million. 2-1
31	7760	Department of General Services	Withdrawal of 0000952 - Sacramento Region: Gregory Bateson Building Renovation	0	-183,559,000			Approve May Revision withdrawal of the proposal. HELD OPEN

32	7760	Department of General Services	Withdrawal of 0000955 - Sacramento Region: Jesse Unruh Building Renovation	0	-116,786,000			Approve May Revision withdrawal of the proposal. 3-0
33	7760	Department of General Services	Withdrawal of 0002632 - Sacramento Region: Resources Building Renovation	0	-421,335,000			Approve May Revision withdrawal of the proposal. 3-0
34	8260	California Arts Council	Arts Council Investments	-10,500,000	-	-		Adopt budget bill language and approve May Revision proposal. 2-0
35	8885	Commission on State Mandates	Withdrawal of Administrative and Budget Staffing	-206,000	--	--		Approve May Revision withdrawal of the proposal. 3-0
36	8940	Military Department	Reversion of Funding for Headquarters Relocation Move	-758,000	--	--		Approve May Revision withdrawal of the proposal. 3-0
37	8940	Military Department	Reversion of Emergency Preparedness and Response	-3,197,000	--	-21.0		Approve May Revision withdrawal of the proposal. 3-0
38	8940	Military Department	Eliminate Military Department from Wildfire Forecast and Threat Intelligence Integration Center (SB 209)	-827,000	--	-5.0		Approve May Revision withdrawal of the proposal. 3-0
39	8940	Military Department	Withdrawal of 0006734 - Fairfield: Sustainable Armory Renovation Program - COBCP - D, B	-3,874,000	-3,874,000			Approve May Revision withdrawal of the proposal. 3-0

40	8940	Military Department	Withdrawal of 0006735 - Modesto-Rouse: Sustainable Armory Renovation Program - COBCP - D, B	-2,218,000	-2,218,000			Approve May Revision withdrawal of the proposal. 3-0
41	8940	Military Department	Withdrawal of 0006736 - Santa Ana: Sustainable Armory Renovation Program - COBCP - D, B	-2,279,000	-2,279,000			Approve May Revision withdrawal of the proposal. 3-0
42	8940	Military Department	Withdrawal of 0000705 - Statewide: Advance Plans and Studies	-150,000	-150,000			Approve May Revision withdrawal of the proposal. 3-0
43	8940	Military Department	Withdrawal of Reappropriate Various Military Department Projects - COBCP/Reappropriation - B	-9,630,000	-9,630,000			Approve May Revision withdrawal of the proposal. 3-0
44	8955	Department of Veterans Affairs	Withdrawal of Facilities Planning and Construction Management Staff	-497,000	--	-3.0		Approve May Revision withdrawal of the proposal. 3-0
45	8955	Department of Veterans Affairs	Withdrawal of 0000690 - Southern California Veterans Cemetery - COBCP - S	0	-700,000			Approve May Revision withdrawal of the proposal. 3-0

VOTE -ONLY CALENDAR FOR GOVERNOR'S BUDGET PROPOSALS FROM JANUARY – SUSTAIN (ISSUES 46 – 121)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendation
46	0509	Governor's Office of Business and Economic Development (GO-Biz)	CalBIS Regional Specialists	758,000	0	4.0	Business development support for underserved regions.	Approve as budgeted. 2-1
47	0509	Governor's Office of Business and Economic Development (GO-Biz)	IBank Workload Increases	0	0	3.0	Accommodate workload increases.	Approve as Budgeted. 3-0
48	0509	Governor's Office of Business and Economic Development (GO-Biz)	California Film Commission Baseline Cost Increases	198,000	0	0.0	Increased operating costs.	Hold open.
49	0509	Governor's Office of Business and Economic Development (GO-Biz)	Film and Television Tax Credit TBL				Extend the carryforward period for the previous credit.	Approve as Budgeted. 2-1
50	0511	Government Operations Agency	Funding Realignment BCP	252,000	-252,000	-		Approve as budgeted. 2-1

51	0511	Government Operations Agency	Workload BCP	286,000	450,000	3.0		Approve as budgeted and adopt placeholder SRL and direct the LAO to work on language with consultants. 2-1
52	0650	Office of Planning and Research	Various Technical Adjustments	--	80,758,000	--	The January budget included a technical item to reappropriate carryovers from several past Greenhouse Gas Reduction Fund budget items.	Approve as budgeted. 2-1
53	0650	Office of Planning and Research	Cap and Trade Expenditure Plan: Climate Resilience Research, Regional Collaboration, and Implementation	--	18,000,000	--	The January budget included funding for several climate-related research programs housed at the Strategic Growth Council.	Reject this proposal without prejudice for inclusion in the June budget package and defer deliberation for a later date. 2-0
54	0840	State Controller	California State Payroll System (CSPS) Project	1,966,000	1,483,000	8.0	Support the project through continuation of CDT process.	Approve as Budgeted. 2-1
55	0840	State Controller	California Automated Travel Expense Reimbursement System (CalATERS)	1,764,000	1,332,000	14.5	Continuation of the project.	Approve as Budgeted. 2-1
56	0840	State Controller	Other Post-Employment Benefits (OPEB) Deduction Workload	512,000	386,000	7.0	Support employment history, payroll, other functions related to OPEB automation.	Approve as Budgeted. 2-1
57	0840	State Controller	Property Tax Postponement (PTP) Program - Continuing Positions and AB 133 Workload	--	540,000	4.0	Administration of the program.	Approve as Budgeted. 3-0

58	0845	Department of Insurance	Enhanced Fraud Investigation and Prevention (Fraud Data Analytics/eDiscovery)	840,000	--	--		Approve as budgeted. 3-0
59	0890	Secretary of State	HAVA Spending Plan	0	10,966,000	0.0		Approve as budgeted. 3-0
60	0890	Secretary of State	HAVA VoteCal	0	9,739,000	0.0		Approve as budgeted. 3-0
61	0890	Secretary of State	Domestic Partnerships (SB 30)	0	94,000	1.0		Approve as budgeted. 2-1
62	0890	Secretary of State	Vote Centers (SB 450)	0	464,000	0.0		Approve as budgeted. 2-1
63	0890	Secretary of State	Cannabis Filings and Trademark Workload	0	448,000	0.0		Approve as budgeted. 2-1
64	0950	State Treasurer's Office	Legislative Unit Staff Augmentation	--	148,000	1.0	Address increased workload.	Approve as Budgeted. 2-1
65	0959	California Debt Limit Allocation Committee	Staff Augmentation to Accommodate Growth in Workload	--	715,000	4.0	Address increased applications.	Approved as Budgeted. 2-1
66	0968	California Tax Credit Allocation Committee	Development and Compliance Section Augmentation	--	1,440,000	8.0	Administer the Low Income Housing Tax Credit.	Approved as Budgeted. 2-1
67	0968	California Tax Credit Allocation Committee	State Tax Credit Program Expansion	--	649,000	3.0	Extending limited-term positions.	Approved as Budgeted. 2-1

68	0971	California Alternative Energy and Advanced Transportation Financing Authority	Extension of the Sales and Use Tax Exclusion (STE) Program - AB 1583	--	263,000	1.0	Administer the Sales and Use Tax Exclusion Program.	Approved as Budgeted. 2-1
69	0981	California ABLE Act Board	Continued Administration of the California Achieving a Better Life Experience Program	--	1,190,000	3.0	Administration and continued operations.	Approved as Budgeted 3-0
70	1045	Cannabis Control Appeals Panel	Cannabis Control Appeals Panel	0	3,033,000	0.0		Approve as budgeted. 2-1
71	1045	Cannabis Control Appeals Panel	Technical Adjustment - Employee Compensation and Retirement Rate Adjustments Removal	0	-105,000	0.0		Approve as budgeted. 3-0
72	1045	Cannabis Control Appeals Panel	Technical Adjustment - Residual Appropriation Removal	0	-131,000	0.0		Approve as budgeted. 3-0
73	1111	Department of Consumer Affairs	Facilities Operations Funding Augmentation	0	3,592,000	0.0		Approve as budgeted. 3-0
74	1111	Department of Consumer Affairs	Legislative Workload	0	733,000	4.0		Approve as budgeted. 2-1
75	1111	Department of Consumer Affairs	BreEZe System Maintenance and Credit Card Funding	0	15,083,000	-6.0		Adopt proposal on a two-year limited term basis. 2-1
76	1111	Department of Consumer Affairs	Business Modernization Continued Implementation	0	5,231,000	0.0		Approve as budgeted. 2-1
77	1111	Department of Consumer Affairs	Equipment Adjustment	0	412,000	0.0		Approve as budgeted. 2-1

78	1111	Department of Consumer Affairs	Cannabis Residual Funding Back Out	0	-2,134,000	0.0		Approve as budgeted. 3-0
79	1111	Department of Consumer Affairs	Cannabis Control Fund BY & Ongoing Employee Comp and Retirement Backout	0	-2,533,000	0.0		Approve as budgeted. 3-0
80	1111	Department of Consumer Affairs	Information Technology Classification Consolidation Augmentation	0	525,000	0.0		Approve as budgeted. 3-0
81	1111	Department of Consumer Affairs	Attorney General Services Rate Increases	0	15,397,000	0.0		Approve as budgeted. 2-1
82	1111	Department of Consumer Affairs	Agency Contract Allocation Increase	0	88,000	0.0		Approve as budgeted. 2-1
83	1111	Department of Consumer Affairs	Distributed Prorata Allocation	0	387,000	0.0		Approve as budgeted. 3-0
84	1111	Department of Consumer Affairs	BAR Indirect Distributed Correction - Net Zero	0	0	0.0		Approve as budgeted. 3-0

85	1700	Department of Fair Employment and Housing	Enforcement and Administrative Resources	5780000	274,000	36.7	The May Revision sustains the January proposal for $6.1 million in 2020-21 and $6.4 million on going in General Funds and Fair Employment and Housing Enforcement and Litigation Funds. The proposal is to support the high increase in volume of administrative and enforcement workload experienced by the department.	Approve the Governor's proposal for $6.1 million in General Fund and Fair Employment and Litigation Fund. 2-1
86	1701	Department of Business Oversight	Financial Empowerment Fund (SB 455)	0	0	1.0	Implement provisions of SB 455.	Approved as Budgeted 2-1
87	1701	Department of Business Oversight	Public Banking Startup (AB 857)	0	273,000	1.0	Implement provisions of AB 857.	Approved as Budgeted 2-1
88	1701	Department of Business Oversight	Administration Workload - FI$Cal	0	281,000	2.0	Increased workload created by the transition.	Approved as Budgeted 2-1
89	1701	Department of Business Oversight	Technical adjustment to move expenditures to Fund 3363	0	0	0.0	Financial Protection Fund.	Hold open.
90	1701	Department of Business Oversight	Chapter 478, Statutes of 2019 (SB 455) Financial Empowerment Fund	0	1,345,000	0.0	Non-Budget Act item	Approve as budgeted. 2-1

91	2100	Department of Alcoholic Beverage Control	Business Modernization and Responsible Beverage Service	0	3,054,000	6.0	Trailer bill language extends the implementation of the Responsible Beverage Service Act to 2022.	Approve as budgeted and adopt trailer bill language. 2-1
92	2100	Department of Alcoholic Beverage Control	Facilities Rent Increases	0	576,000	--		Approve as budgeted. 3-0
93	2100	Department of Alcoholic Beverage Control	Attorney General Services Rate Increases	0	89,000	--		Approve as budgeted. 2-1
94	7502	Department of Technology	California Cybersecurity Integration Center	1,268,000	-	-		Defer this proposal. 2-0
95	7600	California Department of Tax and Fee Administration	Centralized Revenue Opportunity System (CROS) Project Implementation Phase - FY 2020-21	10,557,000	13,966,000	-19.0	Continue implementation of the CROS Project.	Approve as Budgeted 2-1
96	7600	California Department of Tax and Fee Administration	California Heath Care, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56)	-1,395,000	2,303,000	0.0	Address workload associated with cigarettes/tobacco products, including Prop 56 enforcement requirements.	Approve as Budgeted. 3-0
97	7600	California Department of Tax and Fee Administration	Cannabis Taxes Program	-666,000	7,766,000	29.8	Administration of the Cannabis Program.	Approve as Budgeted. 2-1

98	7600	California Department of Tax and Fee Administration	International Fuel Tax Agreement Workload Augmentation	--	1,376,000	7.0	Ensure compliance with the International Fuel Tax Agreement.	Approve as Budgeted. 3-0
99	7600	California Department of Tax and Fee Administration	Local Prepaid MTS Sunset Extension (SB 344)	--	513,000	3.2	Fulfill requirements of the Local Prepaid MTS Collection Act.	Approve as Budgeted. 3-0
100	7600	California Department of Tax and Fee Administration	E-Cigarette Tax Program Establishment	--	9,865,000	10.5	Administer proposed E-Cigarette Tax.	Hold open.
101	7600	California Department of Tax and Fee Administration	Sales Tax Extension for Diapers and Menstrual Products TBL				Extends exemptions to 2022-23.	Approve as Budgeted. 2-0
102	7730	Franchise Tax Board	California Competes	2,261,000	--	16.0	Convert 14 limited term positions to permanent positions and add two new permanent positions.	Approve as Budgeted 2-1
103	7760	Department of General Services	California Commission on Disability Access	700,000	-	2.0		Approve as budgeted. 2-1
104	7760	Department of General Services	Facilities Management Division Fire Alarm System Deferred Maintenance	23,600,000	-	-		Approve as budgeted. 3-0
105	7760	Department of General Services	Statewide Emergency Management Functions	-	295,000	2.0		Approve as budgeted. 2-1

106	7760	Department of General Services	Enterprise Technology Solutions Permanent Positions	-	-	9.0		Approve as budgeted. 2-1
107	7760	Department of General Services	California Pharmaceutical Collaborative Local Outreach	-	723,000	4.0		Approve as budgeted and adopt placeholder SRL and direct the LAO to work on language with consultants. 2-1
108	7760	Department of General Services	Contracted Fiscal Services Workload Increase	710,000	1,570,000	15.0		Approve as budgeted. 3-0
109	7760	Department of General Services	Shift Funding Source for School Facilities Program Administration	-	-	-		Approve as budgeted. 3-0
110	7910	Office of Administrative Law	Right-size Funding for Staff and Contracted Services	386,000	258,000	1.0		Approve as budgeted. 3-0
111	8620	Fair Political Practices Commission	Contribution Limits (AB 571)	932,000	-	6.0		Approve as budgeted. 2-1
112	8820	Commission on the Status of Women and Girls	New Office Space	288,000	--	--		Approve as budgeted. 2-1
113	8820	Commission on the Status of Women and Girls	Position Authority to Implement SB 24	--	--	4.0		Approve as budgeted. 2-1
114	8885	Commission on State Mandates	Mandate Reimbursements for U Visa 918 Form	3,300,000	--	--		Approve May Revision proposal. 2-0
115	8885	Commission on State Mandates	Mandate Reimbursements for Impasse Procedures II	1,009,000	--	--		Approve May Revision proposal. 2-0

116	8940	Military Department	California Cybersecurity Integration Center	1,231,000	--	8.0		Defer this proposal. 2-0
117	8940	Military Department	0000615 - Consolidated Headquarters Complex - Extension of Liquidation Project - COBCP - D	0	0			Approve May Revision proposal. 3-0
118	8955	Department of Veterans Affairs	CalVet Electronic Health Record Project	1,195,000	--	--		Approve as budgeted. 3-0
119	8955	Department of Veterans Affairs	Funding for the California Central Coast Veterans Cemetery Phase II	356,000	--	2.4		Approve as budgeted. 3-0
120	8955	Department of Veterans Affairs	Care Staffing and Operations	7,322,000	--	2.0		Approve as budgeted. 3-0
121	8955	Department of Veterans Affairs	Cemetery Staffing	127,000	--	1.0		Approve as budgeted. 3-0

VOTE -ONLY CALENDAR FOR MODIFICATIONS TO THE GOVERNOR'S BUDGET PROPOSALS FROM JANUARY (ISSUES 122 – 143)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos	General Fund	Other Funds	Pos	Staff Comments	Staff Recommendation
122	0890	Secretary of State	Records Management Coordinator (AB 469)	126,000		0.0	-63,000	0	0.0		Approve May Revision proposal. 2-1
123	0890	Secretary of State	Increasing Civic Engagement of California's Public Postsecondary Institutions (AB 963)	251,000		2.0	-125,000	0	0.0		Approve May Revision proposal. 2-1
124	0890	Secretary of State	Elections Printing Requirements and Ballot Design (AB 623)	50,000		0.0	-25,000	0	0.0		Approve May Revision proposal. 2-1
125	0890	Secretary of State	Voter Language Preference on Voter Notification Cards and Vote by Mail Applications (AB 1391)	300,000		0.0	-150,000	0	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
126	1111	Department of Consumer Affairs	Board and Bureau Workload		8,316,000	41.5	0	-1,400,000	-5.0		Hold open.

127	1111	Department of Consumer Affairs	Organizational Change Management Process Improvement		1,200,000	7.0	0	-297,000	-2.0		Approve for a three-year limited term. 2-1
128	1111	Department of Consumer Affairs	Increased Workload Related to Health Care Practitioners and Unprofessional Conduct - Medical Board (SB 425)		2,057,000	12.5	0	-1,233,000	-8.0		Approve May Revision proposal. 2-1
129	1111	Department of Consumer Affairs	Increased Workload Related to Health Care Practitioners and Unprofessional Conduct - Investigation and Enforcement Unit (SB 425)		613,000	3.0	0	-408,000	-2.0		Approve May Revision proposal. 2-1
130	1750	California Horse Racing Board	Horse Racing Safety Panel		1,334,000	12.0	0	-1,169,000	-2.5		Approve May Revision proposal. 3-0
131	7502	Department of Technology	Statewide Technology Procurement Level of Service	932,000		6.0	-	-460,000	-3.0		Approve May Revision proposal. 2-1

132	7502	Department of Technology	California Department of Technology Workload Increase	1,360,000		8.0	-458,000	-196,000	-4.0		Approve May Revision proposal. 2-1
133	7502	Department of Technology	Endpoint Protection Platform	5,069,000			-5,069,000	2,535,000	-		Approve May Revision proposal. 2-1
134	7502	Department of Technology	Security Operations Center and Audit Program Funding	15,099,000			-15,099,000	15,099,000	-		Approve May Revision proposal. 2-1
135	7760	Department of General Services	May Revision Facilities Management Division Elevator Deferred Maintenance	56,433,000			-14,196,000	-	-	Removes the costs related to renovations at Hiram Johnson building.	Approve May Revision proposal. 3-0
136	7760	Department of General Services	May Revision Electric Vehicle Service Equipment Assessments and Infrastructure	14,956,000	23,373,000	1.0	-14,956,000	-	-		Approve May Revision proposal. 2-1
137	7760	Department of General Services	May Revision Office of Administrative Hearings Special Education Division Workload Increase		1,232,000	10.0	-	-1,232,000	-		Approve May Revision proposal. 2-1

138	8940	Military Department	Modification of 0000615 - Consolidated Headquarters Complex Project - Extension of Liquidation - COBCP - Performance Criteria							Extends the liquidation period for the performance criteria phase.	Approve May Revision proposal. 3-0
139	8955	Department of Veterans Affairs	Adjustment to Legal Affairs and Investigation Division Staffing	901,000	159,000	7.0	-901,000	-159,000	-5.0		Approve May Revision proposal. 3-0
140	8955	Department of Veterans Affairs	Adjustment to Strategic Realignment and Mental Health Support	2,318,000	-	12.5	-1,191,000	--	-7.0	Changes reflect the Barstow home closure and a one year delay at Chula Vista and Yountville.	Approve May Revision proposal. 3-0
141	8955	Department of Veterans Affairs	Adjustment to FI$Cal Workload	1,432,000	106,000	13.0	-398,000	-74,000	-4.0		Approve May Revision proposal. 3-0

142	8955	Department of Veterans Affairs	Modification of 0000626 - Veterans Home of California, Yountville: Steam Distribution System Renovation - COBCP - C	7,833,000	-	0.0	-7,833,000	7,833,000		Funding source changed from General Fund to lease revenue bond funding through the Public Buildings Construction Fund.	Approve May Revision proposal. 3-0
143	9860	Capital Outlay Planning and Studies Funding	0000668 - Modification of Statewide Planning and Studies	2,000,000			-2,000,000	0			Adopt budget bill language to revert $1.5 million from 2019 Budget Act and approve May Revision proposal. 3-0

VOTE -ONLY CALENDAR FOR NEW ADMINISTRATION PROPOSALS INTRODUCED IN MAY (ISSUES 144-194)

Issue #	BU	Department	BR Title	General Fund	Other Funds	Pos.	Staff Comments	Staff Recommendations
144	0110 / 0120 / 0130	Legislature	Legislature SAL Adjustment	-2,057,000	--	0.0	SAL adjustment to the Legislature's budget.	Approve May Revision proposal. 3-0
145	0650	Office of Planning and Research	Adjust Current Year Precision Medicine to Reflect Available General Fund Savings	--	--	--	This proposal would revert $18.1 million in unencumbered funds for Precision Medicine and redirect the remaining $9.8 million towards the Adverse Childhood Experiences program.	Hold open for future consideration.
146	0890	Secretary of State	California Business Connect Project	0	14,848,000	0.0		Adopt budget bill language and approve May Revision language. 2-1

147	0890	Secretary of State	CAL-ACCESS Replacement System Project	13,430,000	700,000	0.0		Approve $14.1 million for the Cal-ACCESS Replacement System Project and adopt reporting language to require SOS to submit a report by December 1, 2020 that demonstrates whether they will be able to meet the February 2020 deadline. 2-1
148	0890	Secretary of State	Loan from Victims of Corporate Fraud Compensation (3042) to General Fund (0001) per Item 0890-011-3042, Budget Act of 2020	0	-11,500,000	0.0		Adopt budget bill language and approve May Revision language. 3-0
149	0959	California Debt Limit Allocation Committee	Loan from California Debt Limit Allocation Committee Fund (0169) to General Fund (0001) per Item 0959-011-0169, Budget Act of 2020	0	4,000,000	0.0	Special Fund loan.	Approve May Revision proposal. 3-0
150	0968	California Tax Credit Allocation Committee	Loan from Occupancy Compliance Monitoring Account (0448) to General Fund (0001) per Item 0968-011-0448, Budget Act of 2020	0	-60,000,000	0.0	Special Fund loan.	Approve May Revision proposal. 3-0
151	0968	California Tax Credit Allocation Committee	Loan from Tax Credit Allocation Fee Account (0457) to General Fund (0001) per Item 0968-	0	-60,000,000	0.0	Special Fund loan.	Approve May Revision proposal. 3-0

			011-0457, Budget Act of 2020					
152	0971	California Horse Racing Board	Equine Analytical Chemistry Laboratory Funding	0	1,344,000	0.0		Approve May Revision proposal. 2-1
153	0971	California Alternative Energy and Advanced Transportation Financing Authority	Administration of the CA Hub for Energy Efficiency Financing Pilot Program	0	2,503,000	0.0	Special Fund loan.	Approve May Revision proposal. 2-1
154	1111	Department of Consumer Affairs	Continued Implementation of Cannabis Licensing and Enforcement Activities	0	68,924,000	42.0		Adopt placeholder trailer bill language and budget bill language, and approve May Revision proposal. 2-1
155	1111	Department of Consumer Affairs	TBL for Various Fee Increases	0	TBD	0.0		Hold open.
156	1111	Department of Consumer Affairs	Amendments to CS 14.00 of the Budget Bill	0	0	0.0		Adopt May Revision proposal and approve budget control section language. 3-0
157	1111	Department of Consumer Affairs	CURES Expenditure Technical Adjustment for Chapter 677 Statutes of 2019 (AB 528)	0	34,000	0.0		Hold open.
158	1111	Department of Consumer Affairs	Fund Mergers	0	0	0.0		Approve May Revision proposal. 3-0

159	1111	Department of Consumer Affairs	Pro Rata Adjustment for May Revision Changes	0	0	0.0		Approve May Revision proposal. 3-0

160	1111	Department of Consumer Affairs	Loan from the Barbering and Cosmetology Contingent Fund (0069) to the General Fund (0001) per Item 1111-011-0069, Budget Act of 2020	0	-25,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
161	1111	Department of Consumer Affairs	Loan from the Psychology Fund (0310) to the General Fund (0001) per Item 1111-011-0310, Budget Act of 2020	0	-900,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
162	1111	Department of Consumer Affairs	Loan from the Vehicle Inspection and Repair Fund (0421) to the General Fund (0001) per Item 1111-011-0421, Budget Act of 2020	0	-30,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
163	1111	Department of Consumer Affairs	Loan from the High Polluter Repair or Removal Account(0582) to the General Fund (0001) per Item 1111-011-0582, Budget Act of 2020	0	-60,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
164	1111	Department of Consumer Affairs	Loan from the Accountancy Fund (0704) to the General Fund (0001) per Item 1111-011-0704, Budget Act of 2020	0	-10,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1

165	1111	Department of Consumer Affairs	Loan from the State Dentistry Fund (0741) to the General Fund (0001) per Item 1111-011-0741, Budget Act of 2020	0	-5,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
166	1111	Department of Consumer Affairs	Loan from the Board of Registered Nursing Fund (0761) to the General Fund (0001) per Item 1111-011-0761, Budget Act of 2020	0	-30,000,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
167	1111	Department of Consumer Affairs	Loan from the Pharmacy Board Contingent Fund (0767) to the General Fund (0001) per Item 1111-011-0767, Budget Act of 2020	0	-2,400,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
168	1111	Department of Consumer Affairs	Loan from the Enhanced Fleet Modernization Subaccount, High Polluter Repair or Removal Account (3122) to the General Fund (0001) per Item 1111-011-3122, Budget Act of 2020	0	-3,400,000	0.0		Adopt budget bill language and approve May Revision proposal. 2-1
169	1111	Department of Consumer Affairs	CURES Expenditure Adjustment via AB 528	0	1,567,000	0.0		Hold open.

170	1700	Department of Fair Employment and Housing	Facilities Operations Funding Augmentation	423,000	0	0.0	The May Revision augments the January budget proposal by $423,000 in General Fund to lease office space with the help of Department of General Services in Riverside and East Bay Area to accommodate increased staff.	Approve the Governor's new proposal for $423,000 in General Fund. 2-1
171	7600	Alcoholic Beverage Control Appeals Board	Align Resources with Programmatic Needs	0	129,000	0.0		Approve May Revision proposal. 3-0
172	7600	Department of Real Estate	Loan from the Real Estate Fund (0317) to the General Fund (0001) per Item 2320-011-0317, Budget Act of 2020	0	(5,000,000)	0.0		Approve May Revision proposal. 2-1
173	7600	California Department of Tax and Fee Administration	Tax and Fee Program Changes and Technical Adjustment	3,631,000	8,019,000	11.5	Resources to add the e-cigarette tax to automated system, address increased workload, and reappropriate funds associated with CROS.	1) Approve as budgeted the workload increase and reappropriation, and 2) hold open the resources related to the e-cigarette tax. 2-1
174	7600	California Department of Tax and Fee Administration	May Revision Appropriation Adjustment	-25,000,000	0	0.0	Current year position savings.	Approve May Revision proposal. 3-0

175	7730	Department of Real Estate	TBL to Eliminate Requirement to Reduce Fees Related to General Fund Loans	0	0	0.0		Approve May Revision proposal. 2-1
176	7730	Franchise Tax Board	Reappropriation for Item 7730-001-0001	8,000,000	0	0.0	--	Approve May Revision proposal. 2-1
177	7760	Department of General Services	Real Estate Services Division Implementation of SB 6 and AB 1255	-	-	-	This request will provide $1.3 million General Fund and 5 positions to implement a database pursuant to SB 6 (2019) and AB 1255(2019), beginning in 2021-22. $794,000 General Fund is three-year limited term funding.	Approve May Revision proposal. 2-1
178	7760	Department of General Services	Toxic Substances Control Account Appropriation for Government Claim Payment	-	25,000	0.0	$25,000 to pay a government claim pursuant to Health and Safety Code Section 25372, which authorizes persons to submit claims related to the release of hazardous materials.	Approve May Revision proposal. 3-0
179	7760	Department of General Services	Funding for Unreimbursed Camp Fire Expenditures	-	-	-		Approve May Revision proposal. 3-0

180	7760	Department of General Services	Reduction for the R Street Parking Lot		-10,700,000			Hold open.
181	7760	Department of General Services	Loan from Disability Access Account (0006) to General Fund (0001) per Item 7760-011-0006, Budget Act 2020	-	-35,000,000	-		Approve May Revision proposal. 3-0
182	7760	Department of General Services	Loan from Public School Planning, Design and Construction Review Revolving Fund (0328) to General Fund (0001) per Item 7760-011-0328, Budget Act of 2020	-	-35,000,000	-		Approve May Revision proposal. 3-0
183	7760	Department of General Services	Loan from Building Standards Administration Special Revolving Fund (3144) to General Fund (0001) per Item 7760-011-3144, Budget Act of 2020	-	-7,400,000	-		Approve May Revision proposal. 3-0
184	7760	Department of General Services	Transfer from the State Project Infrastructure Fund (3292) to the General Fund	0	0			Hold open.
185	8260	California Arts Council	Reversion of Funding for the Korean American National Museum	-	-	-		Hold open.

186	8940	Military Department	CMD State Network	3,914,000	--	9.0	Establishes a state information tehnology network to allow state service members and employes to administer state functions independently of the federal computer network. The federal government has issued guidelines requiring state functions to be performed outside of the federal network.	Approve May Revision proposal. 3-0
187	8940	Military Department	State Active Duty Compensation Adjustment	81,000	27,000	--		Approve May Revision proposal. 3-0
188	8940	Military Department	Lathrop-Roth Training Complex: Utilities Connection	1,800,000	--	--		Approve May Revision proposal. 3-0
189	8940	Military Department	Reduction to Cadet Corps	-6,286,000	--	-10.0		Approve May Revision proposal. 3-0
190	8940	Military Department	0000981 - Los Alamitos: National Guard Readiness Center - COBCP/Reappropriation - C	26,852,000	0			Approve May Revision proposal. 3-0

191	8940	Military Department	Revert 2019 Authority for Three Sustainable Armory Renovation Program Projects - COBCP/Reversion - DB	0	0			Approve May Revision proposal. 3-0
192	8955	Department of Veterans Affairs	Reversion of Funding for the Veterans Career Pathways in the City of Los Angeles	0	--	0.0		Adopt budget bill language and approve May Revision proposal. 3-0
193	8955	Department of Veterans Affairs	0000706 - Veterans Home of Yountville: Skilled Nursing Facility - COBCP - DB	0	317,093,000	0.0	Lease revenue bond financing. VA has accepted California's application.	Approve May Revision proposal. 3-0
194	8955	Department of Veterans Affairs	0000690 - Reversion of Southern California Veterans Cemetery Master Development Fund	0	0	0.0	Transfers $24.5 million to the General Fund.	Approve May Revision proposal. 3-0
195	9210	Local Government Financing	Revert Funds for Paradise Irrigation District	-7,374,000	--	--		Defer this proposal. 2-0

Items for Discussion

BU 0650 Governor's Office of Planning and Research

Issue 196: California Volunteers' Emergency Support Function-17 and AmeriCorps Funding Strategy

Request. The May Revision includes $13 million General Fund and 18.0 ongoing staff positions in Fiscal Year (FY) 2020-21 and $22.35 million General Fund ongoing in FY 2021-22 for the California Volunteers effort.

Background. The 2019 Budget Act provided $20 million General Fund over two years to California Volunteers as the first step in expanding the AmeriCorps program to 10,000 members. California Volunteers has used this funding to add 471 new members and increased the education grant to $10,000 for 1,913 new and existing members.

In 2006, Executive Order S-04-06 tasked California Volunteers, then the California Service Corps, with ensuring the coordination of volunteer activities related to disaster response and recovery. In 2008, S-04-06 was supplemented by S-02-08, which designated California Volunteers as the lead agency under the California Emergency Services Act for the coordination of volunteer activities, along with monetary and in-kind donations during times of disaster (Emergency Support Function 17). Therefore, in partnership with the California Office of Emergency Services (Cal OES), California Volunteers is tasked with connecting with volunteer and philanthropy stakeholders and establishing systems to support effective collaboration during all phases of emergency management.

Staff Comments. The administration has indicated that $2.9 million will be directly tied to the COVID-19 response and supporting the administrative oversight of the ESF-17 volunteer engagement disaster/emergency strategy. Another $10.1 million will primarily support existing AmeriCorps programs across California.

While there is clearly merit in expanding volunteer opportunities in California, the current fiscal situation may limit the ability of the state to invest new efforts.

Staff Recommendation. Hold open.

COVID-19: NEW AND AMENDED BUDGET CONTROL SECTIONS

Issue 197: Control Section 11.90

Proposal. The May Revision proposes to add Control Section 11.90 to give the Department of Finance the authority to allocate Coronavirus Aid, Relief, and Economic Security (CARES) Act funds. Specifically, the proposed language would authorize allocations received from the Coronavirus Relief Fund for the state's COVID-19 response. These funds are available for specified purposes for costs incurred between March 1, 2020 and December 30, 2020.

Background. The CARES Act, adopted by Congress and signed into law on March 27, 2020, included $2.2 trillion in federal stimulus for the nation. The CARES Act established the Coronavirus Relief Fund and appropriated $150 billion to the Fund. According to the Department of Finance, California will receive $9,525,564,744 for expenditures incurred by the state and local governments due to the COVID-19 public health emergency.

Staff Comment. Section 28.00 already provides for administrative approval of augmentations for the expenditure of federal funds and other non-state funds received after the Legislature has approved a budget. Section 28.00 authorizes the Director of Finance to augment any program with the amount available for the specified expenditure. In addition, it requires the Director to provide the chairperson of the Joint Legislative Budget Committee and the chairpersons of the appropriate budget subcommittees with a notification 30 days prior to any expenditure.

Staff Recommendation. Hold Open.

Issue 198: Control Section 11.95

Proposal. The May Revision proposes to add Control Section 11.95 to give the Department of Finance the authority to allocate funds authorized by federal legislation for the purpose of offsetting state expenditures incurred during the COVID-19 public health emergency and supporting the state's COVID-19 response. The proposed language would allow the Director to adjust any 2020-21 budget item to account for additional federal funding for COVID-19 response.

Staff Comment. The proposed control section grants broad authority to the Administration to adjust any item in the 2020-21 budget with future federal funds "to account for additional federal funding to support the COVID-19 response." Historically, augmentations of unanticipated federal funds and other non-state funds have been made through Section 28.00. As stated above, Section 28.00 authorizes the Director of Finance to augment any program with the amount available for the specified expenditure as long as the Director provides the chairperson of the Joint Legislative Budget Committee and the chairpersons of the appropriate budget subcommittees with a notification 30 days prior to any expenditure.

Staff Recommendation. Hold Open.

Issue 199: Control Section 36.00

Governor's Proposal. The May Revision proposes to include and amend Control Section 36.00 in the Budget Act of 2020-21.

Background. SB 89, which passed the Legislature on March 17, 2020 with bipartisan support, added Section 36.00 to the Budget Act of 2019-20 to address the Governor's March 4, 2020 COVID-19 Proclamation of Emergency. It included an appropriation of $1 billion in General Fund to be utilized, upon the order of the Director of Finance and a 72-hour written notice to the Joint Legislative Budget Committee, for any purpose related to the March 4, 2020 Proclamation of Emergency. To date, the Director has made COVID-19-related augmentations in the amount of $805 million. The May Revision proposes to extend the terms of Section 36.00 in the Budget Act of 2020-21 with an additional augmentation of $2.86 billion.

Staff Comment. In March, the Legislature passed SB 89, with bipartisan support, which added Section 36.00 to the Budget Act of 2019-20. It gave the Administration broad authority to spend up to $1 billion to support the state's emergency response to the COVID-19 crisis while the Legislature was in recess because of the statewide stay-at-home order. $195 million of the $1 billion remains available for urgent spending needs until June 30, 2020. Even though the Legislature is back in session, the Administration is seeking the same broad spending authority for an additional $2.86 billion in the Budget Act of 2020-21.

Staff Recommendation. Hold Open.

Federal Fund Items for Discussion

BU 1701: Department of Business Oversight (DBO)

Issue 200: Expanding DBO into Department of Consumer Financial Protection and Innovation

The Governor's Proposal. Retaining all powers, duties, responsibilities and functions of DBO, the Governor's proposal seeks to expand DBO with new divisions and offices into the new Department of Financial Protection Innovation (DFPI). The May Revision maintains the January proposal and makes requested resources contingent upon the Legislature passing the necessary statutory changes needed for the new program. The DFPI request is for $10.2 million and 44 positions in 2020-21 (increase of 9.4 percent in expenditure, 7.4 percent in staffing), $14.8 million and 28 positions in 2021-22 (increase of 12 percent in expenditure, 4 percent in staffing), $19.3 million and an additional 18 staff positions in 2022-23 (increase of 14 percent in expenditure, 3 percent in staffing), and ongoing funding. Upon full implementation the new DFPI department will total $152.4 million in operational expenditure and be staffed with approximately 705 personnel, a total increase 44.3 million and 90 positions relative to current baseline.

Background. DBO was established in 2013 with the merger of regulatory activities of Department of Corporations (which regulated financial entities such as securities brokers and dealers, financial planners, and mortgage lenders unaffiliated with banks) with the Department of Financial Institutions (which had regulatory powers over state-chartered banks, credit unions, money transmitters, and savings and loan associations). As the state's main financial marketplace regulator, DBO licenses and regulates financial services and providers, oversees and enforces safe and sound financial practices, and provides consumer services and education around financial services and products. At the beginning of 2018, DBO reported maintaining oversight of 23 financial service industries, and licensing and supervising more than 360,000 individuals and businesses. DBO carries out its responsibilities and functions with 615 staff positions and an operational budget totaling $108 million. Current activities of DBO are funded with a combination of special funds from the State Corporations Fund, the Financial Institutions Fund, the Credit Union Fund and the Local Agency Deposit Security Fund. These funds are largely drawn from licensing fees, examination fees, penalty assessments, reimbursements, settlements or other monies charged by the department from financial service providers currently overseen by DBO.

Key Motivations. There are four key motivations for proposed expanded consumer protection:

Consumer financial protection has been weakened at the federal level. The federal agency singularly tasked to ensure banks, lenders, and other financial service companies treat consumers fairly is the Consumer Financial Protection Bureau (CFPB). Under the Trump Administration, the CFPB has seen severe drop in enforcement cases and actions, reductions in examination of military lending protection compliance and the dismantling of CFPB's unit dedicated to students and young consumers in addition to various efforts to delay and in effectuate proposed consumer protection regulations.

There is high and increasing demand on DBO's existing infrastructure. At the end of 2019, the DBO was overseeing businesses with a cumulative total of over $1.1 trillion in assets in the banked sector alone. In 2019, in its supervisory and enforcement capacity, DBO undertook more than 480 enforcement actions against financial service providers. The department's responsibility continues to expand as it has been entrusted to enact approximately 80 Chaptered Bills between 2015 and 2019. Currently, DBO is overtasked in one area as it spends 70 percent or more of its operational expenditure on licensing and supervising activities of banked businesses and transactions. It was in this spirit that Assembly Member Limón introduced legislation, AB 1048, seeking to enhance DBO's capacity for enforcement and investigation of potential for financial harm in 2019.

	Expenditure		**Fund Condition**		
State Special Funds: ($ in thousands)	**Actual 2018-19**	**Est. 2019-20**	**2018-19**	**2019-20**	**2020-21**
State Corporations Fund	$ 54,479	$ 60,689	$ 87,189	$ 103,484	
Financial Institutions Fund	$ 32,977	$ 35,063	$ 44,263	$ 40,346	
Local Agency Deposit Security Fund	$ 535	$ 587	$ 95	$ 132	$ 132
Credit Union Fund	$ 10,898	$ 11,450	$ 980	$ 577	$ 577
Financial Protection Fund [new]					$ 138,477
Financial Empowerment Fund [new]					$ 5,353
Total	$ 98,889	$ 107,789	$ 132,527	$ 144,539	$ 144,539

There is fragmented oversight over financial products and services. While many depositories and non-depositories are subject to DBO regulation and oversight, many other financial services and products are regulated by a fragmented set of financial laws and state and federal entities. For example, auto-financing is subject to consumer protections under the Rees-Levering Act, check cashers are regulated by the Department of Justice, consumer credit reporting agencies are regulated at the federal level, while pawn brokers are licensed at the local level. Other financial services and providers like debt collectors, lead generation, earned income access providers, franchise brokers and retail-sales financing are subject to certain financial laws but not regulated by any regulatory entity.

COVID-19 and economic downturn could worsen financial vulnerability of consumers. In a 2017 U.S. survey by the Federal Trade Commission, nearly 16 percent of consumers were victims of fraud like falsely being told that they owed money to the government or unauthorized billing by service providers. A majority of fraudulent activities were pushed through internet transactions and those who have recently experienced negative life events like severe illness or death of a loved one were shown to be 2.5 times more vulnerable. Given the unique impact of COVID-19 on both health and finances of consumers, and the rapid transition to online services due to the pandemic, it is likely that consumers will be at greater risk to financial victimization.

Proposed New Offices and Activities for DFPI. More than half of the proposed staffing increase is going to new roles and new units to establish the new DFPI. The following are key highlights:

- DFPI merges the traditionally separated Division of Financial Institutions and Division of Corporations under one division and a senior deputy commissioner.
- A new Division of Consumer Financial Protection will be created. This division will house Supervision and Registration Office for registering and supervising new classes of financial services and products, an Analytics office which will focus on financial market monitoring and research activities and a Targeted Consumer Education office designed to provide financial empowerment tools and information to students, seniors, military service members, new Californians.
- DFPI will have a new Financial Technology Office which is proposed to encourage innovation, enable fintech to operate nationwide, and research emerging and new innovative technologies.
- DFPI will also have a new Office of Ombudsperson which will have a single staff to act as an independent, impartial resource for stakeholders.
- The budget change proposal also seeks to revamp staffing in the existing Legal and Enforcement division.

Proposed Statutory Authority and New Powers for DFPI. The Governor's accompanying trailer bill language seeks to expand DBO's powers as follows:

Newly Covered Persons (NCPs) and Service Providers and Registration. The proposed trailer bill language defines a covered person as any person that engages in offering or providing a consumer financial product or service, and a service provider as any person that provides a material service to a covered person in connection with the offering of a consumer financial product or service (with additional clarifications). Since many existing DBO licensees fall under these definitions, the revised trailer bill language limits the DFPI to prescribe rules regarding registration fees and requirements only to NCPs and service providers, exempting current licensees and those licensed or registered by other state or federal agencies. DBO estimates 9000 NCPs to register annually.

Unfair, Deceptive, Abusive Acts and Practices (UDAAP). The proposed trailer bill gives DFPI authority to prescribe rules applicable to covered persons and service providers, identifying certain UDAAP as unlawful in connection with the offer or provision of a consumer financial product. The trailer bill also provides DFPI authority to bring enforcement actions against any covered person that engages, has previously engaged, or proposes to engage in UDAAP. Along with the CFPB, local district attorneys and the Attorney General, DBO already enjoys the authority to enforce "unfair" and "deceptive" practices provisions over most of its existing licensees under the California under Business and Professions Code Section 17200. The term "abusive" is defined in the trailer bill consistent with Dodd-Frank. The CFPB has recently issued a policy statement regarding the lack of certainty in scope and meaning of the abusiveness standard contained in Dodd-Frank. As a result, it has mostly appeared alongside unfairness or deceptive claims.

Enforcement Tools. Proposed trailer bill empowers DFPI with enforcement tools, including the ability to order rescission or reformation of contracts, refund of moneys or return of real property, restitution, disgorgement or compensation for unjust enrichment, and a range of civil and administrative monetary penalties based on violation.

Fund Reorganization. The trailer bill proposes to merge two of DBO's four existing funds (the Financial Institutions Fund and the State Corporations Fund) into a new Financial Protection and Innovation Fund to fund the transition from DBO to DFPI over the coming three years. However, DBO continues to maintain the other two funds as stand-alone.

LAO's May Revise Recommendation. Consistent with our February analysis, we recommend that the Legislature consider this proposal through the policy process. We recommend this approach due to the number of policy questions involved and the lack of time for Legislature to consider the proposal this year as part of the budget process. After policy decisions are made, we recommend providing funding at a level that is adjusted, as relevant, depending on policy changes that are adopted. To the extent funding is provided in the budget year, we recommend that the Legislature reject the funding requested for positions that are not needed in the budget year, and that the Legislature fund some activities on a limited-term, pilot basis, which is also consistent with our February analysis.

Staff Recommendation. Hold open.

7600 DEPARTMENT OF TAX AND FEE ADMINISTRATION (CDTFA)

Issue 201: Used Car Dealer Sales Tax and Private Party Vehicle Sales - Valuation

Request. The May Revision includes the following two proposals that result in increased revenue:

1. **Used Car Dealer Sales Tax.** The May Revision would require motor vehicle dealers, other than new motor vehicle dealers, as defined, to remit to the Department of Motor Vehicles (DMV) applicable sales tax, measured by the sales price of the vehicle with the registration fee. This requirement would be effective January 1, 2021 and generate $12 million of revenue in 2020-21 and $24 million in 2021-22.
2. **Private Party Vehicle Sales – Valuation.** The May Revision would require the Department of Motor Vehicles (DMV) to collect use tax from purchasers in private-party sales, and would require the DMV to calculate use tax as the greater of the vehicle's sale price or the vehicle's standard presumptive value. This requirement would be effective January 1, 2021.

Background.

Used Car Dealer Sales Tax. Used motor vehicle dealers are required to register vehicles with the DMV and pay the registration fee when a used car is sold. Separately, the used vehicle dealers are required to report the sale and remit sales tax to CDTFA.

CDTFA receives data from the DMV on vehicle registrations quarterly and uses it to estimate the value of vehicles sold based on the DMV's registration fee schedules. CDTFA has used this data to determine that there is a significant gap between the amount of sales tax paid on used car sales and the amount that would be expected to be paid based on the DMV's registration data. CDTFA believes that this tax gap consists of both sales by dealers who do not have active seller's permits and by dealers' intentional underreporting sales value. For example, CDTFA knows of 46 separate dealers that have registered vehicles with DMV since 1996 but not reported sales tax, accounting for a total of $280 million in unreported tax.

Private Party Vehicle Sales – Valuation. Under current law, the California Department of Tax and Fee Administration (CDTFA) contracts with DMV to collect use tax from vehicle purchasers on private party sales. Vehicle purchasers are required to pay this tax to the DMV when they register the vehicle. Use tax paid is based on the self-reported sales price of the vehicle, an amount that is difficult for CDTFA to verify. CDTFA believes this amount is frequently underreported, allowing the purchaser to avoid tax and fee liability on the purchase. DMV data indicates that private party vehicle sales prices are 33 percent lower on average than similar cars sold through a dealer and that the sale amount is often zero.

This proposal would require that the sales price used to calculate use tax owed in a private party sale would equal the greater of:

- The amount paid or to be paid for the vehicle, or
- 80% of the vehicle's standard presumptive value, which is defined as the value as provided in the Kelley Blue Book or other similar motor vehicle guide as prescribed by the DMV.

If the value of the vehicle is lower than 80% of the car's presumptive value, the purchaser would be required to provide the DMV with a certified appraisal valuing the car at that lower amount within 20 days of the date of purchase.

Legislative Analyst's Office (LAO). According to the LAO, data provided by the administration suggest there are substantial use tax compliance problems for private party vehicle sales. The Governor's proposed solution, however, would place unreasonable burdens on taxpayers who already comply with the law. In particular, the proposal likely would require many compliant taxpayers either to overpay use tax or to incur the hassle and expense of obtaining a certified appraisal and submitting it to DMV. This problem would arise because the proposal does not adequately account for variation in legitimate sale prices. The estimates provided by standard vehicle guides depend crucially on information that DMV does not collect, such as the condition of the vehicle. Even if DMV collected more detailed information about vehicles, many legitimate sale prices still likely would fall below the 80 percent threshold. Research suggests that retail prices of identical goods tend to vary widely—even in the same geographic area and time period—with a substantial share falling below 80 percent of the average price.

Staff Recommendation. Hold open.

Issue 202: Vaping Tax

The Governor's Proposal. The Governor's January proposal introduced statutory trailer bill language to levy an additional, nicotine-based tax on vaping (e-cigarette) products. The May Revision maintains the January proposal. The proposed tax set to begin on January 1, 2021 will be $2 per 40 milligrams of nicotine. The Administration intends to create a system of tax stamps analogous to the state's cigarette tax program. Revenue is proposed to be deposited into a new special fund to be used for administration of law, carrying out enforcement activities and for youth health programs. The Administration projects $33 million in revenue from this proposal in 2020-21 and $66 million ongoing.

Background. E-cigarettes (vaping products) refer to a diverse group of products that produce a heated aerosol containing nicotine which is inhaled by users via a mouthpiece. Common components of e-cigarette devices include a battery, heating coil, atomizer (transforms the e-liquid into an aerosol), cartridge containing e-liquid, and mouthpiece. Next generations of e-cigarettes are often odorless, rechargeable, designed in shapes that are easy to conceal, and come in various flavors like fruit and candy. As a result, these products are increasingly attractive to adolescents.

According to the 2019 National Youth Tobacco Survey conducted by the Centers for Disease Control (CDC) and the federal Food and Drug Administration (FDA), 27.5 percent of high school students and 10.5 percent of middle school students in the US use e-cigarettes or vape as compared to 5.8 percent of high school students and 2.3 percent of middle school students who use conventional combustible cigarettes. In addition to the various lung and heart health impacts of nicotine, exposure to nicotine in adolescents' brains can impact learning, memory, and attention, and increase risk for future addiction. A 2018 RAND study of California youth also demonstrated that adolescents who use vaping products are more likely to smoke cigarettes and increase their use of both products as they become adults. In addition to nicotine, e-cigarette e-liquids also contain and emit potentially toxic substances depending on use and device characteristics.

Although youth are overwhelmingly represented in vaping statistics, millions of American adults also use e-cigarettes albeit at a relatively lower rate than combustible cigarettes. A 2018 review by National Academy of Sciences (NAS) committee experts reports that while e-cigarette aerosols contain fewer and lower levels of toxicants than smoke from combustible tobacco cigarettes, the level of nicotine exposure can be similar. Although proponents argue that use of e-cigarettes aid the adult cessation of combustible tobacco, the NAS report concludes that there is limited existing evidence to support this claim. However, there is conclusive evidence that complete substitution of e-cigarettes from combustible tobacco has harm reduction benefits as it significantly reduces users' exposure to various toxicants and carcinogens present in combustible tobacco. Therefore, there is some need to balance the harm-reducing benefits of e-cigarettes relative to conventional tobacco use among adults with the harmful effects of growing e-cigarettes use among adolescents.

In 2016, in a move to reduce access to teen smokers, California raised the lawful age to buy tobacco products from 18 to 21. In 2017, after Proposition 56, California began imposing excise taxes on cigarettes and non-cigarette tobacco-containing products, including e-cigarettes. California currently levies a 59 percent excise tax on the wholesale price of e-cigarettes and revenues are deposited into a special fund going to various activities including administrative costs and Medi-Cal programs for low-income Californians.

Nationally, the CDC and the FDA have raised alarm around the eruption of severe cases of lung illnesses linked with vaping in many states last summer, and moved to enact bans on select flavors like mint and fruit in January 2020. In California, the Governor issued an executive order in September of 2019 directing CDTFA and the Department of Public Health to develop recommendations related to e-cigarettes. Localities like San Francisco City and Los Angeles County have already taken action and banned flavored e-cigarettes since 2018 and 2019 respectively. Currently in the state Legislature, SB 793 (Hill) seeks to enact a statewide ban on all flavored e-cigarettes including menthol which was exempted in the federal ban.

The current respiratory-system-impacting pandemic (COVID-19) introduces an additional factor to consider for policy makers. If passed, the Governor's nicotine-based tax would be the first in the country. The Governor's proposal seeks to employ a stamps-based system where distributors would purchase tax stamps from the state-approved vendor, then affix them to e-cigarette products before they sell to wholesalers or retailers. Distributors would round up the total amount of nicotine in their product to the next-highest multiple of 20 mg, and assess a $1 tax per 20 mg. Revenues are proposed to be deposited into a new special fund to increase enforcement activities and to offset Medi-Cal costs. The proposal also includes $13.9 million and 10.5 positions for the CDTFA to administer the proposed tax and $7 million for the California Highway Patrol to establish a task force in collaboration with the Department of Justice dedicated to combating the underground market for vaping products.

LAO Comments. Following are some of the comments that the LAO had regarding this proposal.

Effects on Vaping and Smoking. Our review of available evidence suggests that the proposed tax likely would reduce both youth and adult e-cigarette use substantially. The tax also likely would increase adult cigarette smoking. The effects on youth cigarette smoking are unclear.

Tax Structure. If the Legislature wishes to enact a new tax on e-cigarettes, the proposed nicotine-based tax structure is reasonable. If the Legislature agrees with the Governor's focus on reducing youth e-cigarette use, we suggest it consider alternative nicotine-based taxes that place higher rates on products that tend to encourage or enable youth use.

Governor's Proposed Tax Rate. The administration estimates that its proposal would result in roughly the same state tax rate on nicotine intake, whether that intake comes from e-cigarettes or conventional cigarettes. The administration, however, has not presented a compelling argument for this rate. In particular, it has not made a case that e-cigarettes and cigarettes are equally harmful, nor that the current cigarette tax is set at the right rate. The administration's comparison also does not account for federal taxes.

Initial Tax Rate. As the Legislature considers what tax rate to set on e-cigarettes, it faces six key questions: How harmful are e-cigarettes? To what extent do vapers' choices account for these harms? How would the tax rate affect e-cigarette use? How would the tax rate affect other outcomes, such as cigarette smoking? How would the tax rate affect compliance with the tax? How would the tax interact with other state and federal policies?

Future Tax Rates. We recommend that the Legislature index the tax rate to inflation to keep its economic value steady over time. We also recommend that the Legislature revisit the rate frequently in the coming years.

Tax Stamps. The Governor proposes $8 million in 2020-21 and ongoing for a stamp contract. In the cigarette tax program, stamps help distinguish tax-paid cigarettes from others. Stamps could have similar enforcement benefits for e-cigarettes, but they would need to be more complex. The administration does not appear to have considered this complexity carefully enough to justify the requested appropriation.

Staff Recommendation. Hold Open.

7730 Franchise Tax Board

Issue 203: Net Operating Loss Suspension and Business Tax Credit Limitation

Request. The May Revision includes the following two revenue proposals related to business and personal income taxes:

1. **Net Operating Loss Suspension.** The May Revise Budget proposes to temporarily suspend the use of net operating loss (NOL) deductions for taxpayers with business income in excess of $1 million for 2020, 2021 and 2022. This suspension applies to both personal income tax and corporation tax taxpayers and is estimated to raise $1.8 billion in 2020-21, $1.3 billion in 2021-22, and about $400 million in 2022-23.
2. **Business Tax Credit Limitation.** May Revise Budget proposes to temporarily limit the use of business incentive tax credits to offset no more than $5 million in tax liability for 2020, 2021 and 2022. This suspension applies to both personal income tax and corporation tax taxpayers and is estimated to raise $2 billion in 2020-21, $1.5 billion in 2021-22, and $900 million in 2022-23. In 2018, businesses reduced their corporate tax liability by over $2.9 billion through the use of credits, with $2.4 billion from the research and development tax credit. Business credits used on the personal income tax side are much smaller, but still significant.

Note: There is a revenue interaction effect between this proposal and the limitation of business incentive tax credits. Enacting both provisions would prevent taxpayers from using one provision in lieu of the other and affect the tax liabilities of these taxpayers because it would both increase their taxable income (through the NOL suspension) and reduce their ability to use tax credits to offset the pre-credit tax. The interaction revenue impact is estimated to be $600 million in 2020-21, $450 million in 2021-22, and $200 million in 2022-23.

Background.

NOLs. Businesses incur NOLs for tax purposes if their allowable deductions and losses exceed their taxable income. Under current California law, taxpayers are allowed to use NOLs from prior years to offset up to 100 percent of current year income. Taxpayers are allowed to carry forward NOLs for 20 years from the year that loss was incurred.

The amount of NOLs used and the number of taxpayers claiming NOLs can vary from year to year. But from 2013 through 2018, the number of corporations claiming NOLs has averaged over 144,000 per year and the amount of NOLs claimed has averaged over $29 billion. There are significant NOLs claimed on the personal income tax side, as well. Since the suspension is limited to taxpayers with income over $1 million, it is expected that the majority of taxpayers will still be allowed the full extent of their current law NOL deductions, but the amount of deductions claimed is expected to drop significantly.

Taxpayers who have their NOLs suspended will be allowed to carry forward their NOLs for an additional 3 years beyond the 20-year carryover limit allowed under current law. It is expected that much of the suspended NOLs will eventually be used.

Business Tax Credit Limitation. This provisions limits credit usage to $5 million per year. Structured as a dollar limit, however, the Administration proposes that it would provide definite protection to small firms, for whom $5 million in credits would be more than they would need in any one year. In general, a corporation would need to have income over $56 million to be affected by this limitation and a personal income taxpayer would need to have an income over $40 million to be affected.

In addition, this limitation only affects business incentive credits. As such, it would not limit taxpayer's ability to use other personal credits. Finally, to the extent that any credit affected by this provision has a limited carryover period, this trailer bill would grant that the carryover period for that credit be extended for the number of years that the credit was limited. As such, it is expected that much of the credits limited under this proposal will eventually be used.

Legislative Analyst's Office (LAO). The LAO has found that these May Revision proposals are worth consideration. They note that the state has suspended NOLs and limited business tax credits during prior recessions and find that these actions generally are considered somewhat less burdensome on taxpayers than other actions like increasing tax rates. This is because they largely would change only the timing of tax payments (causing payments to be made sooner than they otherwise would) but would not significantly increase the total amount of taxes businesses pay over the next several years. However, the LAO also notes some concerns. For example, the LAO finds that net income is an imperfect way to identify small businesses. In addition, the LAO questions whether these proposals will result in the amount of revenue that the Administration is projecting.

Staff Recommendation. Hold open.

Issue 204: Minimum Franchise Tax

Request. The May Revision maintains the Governor's Budget proposal to expand the first-year exemption from the $800 minimum franchise tax to Limited Liability Companies (LLCs), Limited Partnerships (LPs), and Limited Liability Partnerships (LLPs). The Governor's budget assumes the expansion of the exemption will result in a reduction of $50 million in General Fund revenues in 2020-21 and $100 million in 2021-22 and out-years. The exemption would sunset on January 1, 2026. The Franchise Tax Board (FTB) also would be required to annually report the number of first-year businesses that are affected by the exemption.

Background. Corporations doing business in California must pay a state corporation tax (CT) on their net income. Many corporations have no net income in California, but are still required to pay an annual minimum franchise tax of $800. Other types of non-corporate businesses are not subject to the CT, but many also are required to pay an annual minimum franchise tax of $800. The most common non-corporate businesses subject to the minimum franchise tax include limited liability companies LLCs, limited partnerships LPs, and limited liability partnerships LLPs. We describe these in the nearby box.

Since 1998, newly formed corporations have been exempted from paying the $800 minimum franchise tax in their first year of business. About 100,000 new corporations are formed each year. However, the FTB reports that only about three-quarters of new corporations claim the exemption because many new corporations do not understand their tax filing requirements. Overall, the exemption reduced state revenue by $60 million in.

Legislative Analyst's Office (LAO). The LAO made of number of findings regarding this proposal, including:

- **Current Exemption and Proposal Lack a Strong Policy Justification.** The stated Legislative intent of the current first-year minimum franchise tax exemption is to promote small businesses by reducing the burden of the minimum franchise tax. The Governor's proposal to extend the exemption to new non-corporate businesses uses similar language. There are several reasons to think the exemption is an ineffective and poorly targeted means of promoting small business.

- **Difficult to Identify Small Businesses.** Small businesses are difficult to target in the tax code. In large part, this is because a "small business" is difficult to define and the definitions that currently are used can vary across different industries. In addition, definitions typically rely on simple thresholds, such as the number of employees or annual revenue, for practical reasons.

- **Exemption Poorly Targets Small Business.** The exemption attempts to avoid the challenge of defining which taxpayers are small businesses by instead targeting benefits at newly formed companies. This strategy poorly targets small business. Benefits from the exemption go to many companies that do not seem to meet any reasonable definition of a small business. For example, major companies routinely form new corporations to facilitate financial transactions, raise capital, and manage risk. About one-third of LLCs, LPs, and LLPs are owned by corporations or other companies and not by individuals. In addition, as discussed earlier, many new LLCs, LPs, and LLPs are formed to hold and manage real estate property and other investments. Many of these companies have significant assets, but generate comparatively little economic activity in the way of buying and selling goods or employing workers.

- **Provides Limited Relief to Businesses.** Many businesses undoubtedly consider the $800 minimum franchise tax an unwelcome cost of doing business in California. In most cases, however, the one-time tax exemption provides a relatively limited amount of financial assistance to new businesses relative to the overall cost of starting a new business. These costs—such as equipment, construction costs, employee salaries, and rent—often sum to tens of thousands of dollars, or considerably more. The number of LLCs (which do not receive an exemption) has grown more quickly than the number of corporations (which do receive an exemption) in recent years. While not conclusive, this suggests that the lack of the first-year minimum franchise tax exemption has not significantly hindered the formation of new businesses.

Staff Recommendation. Hold open.

0509 Governor's Office of Business Development

Issue 205: Small Business Assistance

Request. The May Revision proposes $50 million one-time General Fund for the California Infrastructure and Economic Development Bank, Small Business Finance Center to support its guarantee programs that provide financial assistance needed by small businesses and will contribute to the long-term recovery of California's economy. This allocation will be available to all of its guarantee programs, to allow the Small Business Finance Center to adjust to the rapidly evolving needs of its lender network and the constantly evolving small business lending environment. The IBank also requests similar flexibility on the original $50 million one-time General Fund allocation issued on April 3, 2020 to ensure that it can respond to the evolving needs and ensure maximum leverage in its programs to address those needs.

Background. The Small Business Loan Guarantee Program (SBLGP) promotes statewide economic development by providing loan guarantees that serve as a credit enhancement and incentive to financial institutions. A loan guarantee is the incentive that gives a lender the comfort to fund loans to small businesses that otherwise would not qualify for a loan or line of credit. As a result, eligible small businesses are able to secure financing that allows growth and expansion of its business.

The SBLGP incentivizes Lenders to make loans to small businesses by offering guarantees up to 80 percent of eligible loan amounts. Small business borrowers can seek financing either through Financial Development Corporations (FDC) or a Lender. The Lender and FDC work together to find the best financing, technical assistance services, and solutions for businesses.

Today, California's priority is to get as many of its small businesses into federal forgivable loan programs as possible through Small Business Administration (SBA) stimulus programs such as the Payroll Protection Program (PPP) and the Economic Injury Disaster Loan Program (EIDL). These programs have been overwhelmed with applicants, some who cannot access the internet portals or receive miniscule amounts due to strict guidelines. Many who applied were left in limbo when the original funding was drained, being forced to wait for additional stimulus release. Once SBA PPP funds are exhausted, IBank's small business programs are expected to substantially increase in activity and funds will be fully depleted with anticipated demand.

IBank is requesting flexibility on the original $50 million one-time General Fund allocation issued on April 3, 2020 to ensure that it can respond to the evolving needs and ensure maximum leverage to address those needs. The allocation was specific to those who did not qualify for federal funding, yet there are many businesses that qualify, yet remain underfunded or still do not have access to those funds.

Staff Comment. Staff notes that $50 million was provided through the Section 36.00 process to provide loan guarantees to small businesses that are low-income businesses that have low credit scores and/or businesses that are unbanked or underbanked. According to the Administration at the time, these types of businesses did not qualify for the small business loans being offered through the federal stimulus package. The committee may wish to ask the following questions:

How has the originally $50 million been deployed to this point?

How will the additional flexibility impact the ability of the businesses that were originally targeted, low-income or unbanked/underbanked, to access these loans?

Staff Recommendation. Hold open.

0890 SECRETARY OF STATE

Issue 205: Federal CARES Act Elections Funding

May Revision Proposal. The Secretary of State requests $65.5 million in federal fund authority to provide additional resources to protect the 2020 elections from the effects of COVID-19, and budget bill language that allows the Department of Finance to transfer federal funds for counties to state operations.

Background. The Coronavirus Aid, Relief, and Economic Security (CARES) Act included $400 million in new Help America Vote Act (HAVA) funds, made available to states to prevent, prepare for, and respond to the Coronavirus for the 2020 federal election cycle. Among other things, the funding can be used to increase California's ability to vote-by-mail, expand early voting and online registration, and improve the safety of voting in-person by providing additional voting facilities, more polling place workers, and personal protective equipment.

The Governor's Budget included nearly $11 million in federal HAVA funds (excluding HAVA funds used for the state's VoteCal project), of which $6.8 million is for local assistance and $4.2 million is for state operations. The $36.3 million from the CARES Act would increase funding for local assistance to $43.1 million. California has approximately 20.3 million voters.

On May 8, 2020, the Governor signed an executive order that allowed all voters to vote by mail, and set a deadline for May 30, 2020 to clarify requirements on in-person voting opportunities.

Staff Recommendation. Approve the federal fund authority, and adopt placeholder budget bill language that allows the Department of Finance, upon notification to the JLBC, to transfer funds from the 0890-101-0890 to 0890-001-0890.

8955 California Department of Veterans Affairs (CalVet)

Issue 206: Closure of Barstow Veterans Home

May Proposal. The Administration proposes the closure of the Barstow Veterans Home, with a correlating $400,000 in General Fund savings and a reduction of two positions. These cuts will be triggered off if federal funds are received, and plans to close the Barstow home will be canceled. The Administration estimates that General Fund savings will be $14 million at full closure in 2022-23.

Background. The Veterans Home in Barstow opened in 1996, and is budgeted for 220 beds, with a capacity for 400 beds, with 177 beds occupied. The closest VA facility is an hour and a half away in Loma Linda. The 2019 Budget included $26.5 million for the Barstow home.

CalVet released its Master Plan 2020 for the Veterans Homes in January 2020. An assessment of the Veterans Homes based on veteran need, proximity to VA Care, appropriate levels of care, local healthcare infrastructure, and hiring compatibility found that the Barstow home met none of these criteria satisfactorily.

Assessment Summary of Individual Veterans Homes

Veterans Home	Veteran Need	Proximity to VA Care	Appropriate Levels of Care	Local Healthcare Infrastructure	Hiring Compatibility
Yountville	✓	✗	□	□	✗
Barstow	✗	✗	✗	✗	□
Chula Vista	✓	✓	□	✓	□
Lancaster	□	✗	□	✓	✓
Ventura	✓	✗	✓	✓	□
West Los Angeles	✓	✓	✓	✓	✗
Fresno	✓	✓	✓	✓	✓
Redding	□	✗	✓	✓	✓

The Barstow Veterans Home is not in an appropriate location. The Barstow Home was constructed with the intent of expanding services to veterans in Southern California. However, the Home's placement in the high desert region hampers its operations and limits demand for care.[i]

Veteran Need	A large veteran population is located nearby, with evidence that the population has sufficient need for facility-based long-term care.	✗ Does Not Meet the Criteria
Proximity to VA Care	A VA medical facility that provides comprehensive specialty services for veteran residents is located no more than 60 minutes away, and ideally less than 30 minutes away.	✗ Does Not Meet the Criteria
Appropriate Levels of Care	The levels of care or other services provided at the Veterans Home are reflective of veterans' needs, which are otherwise unmet by other service providers.	✗ Does Not Meet the Criteria
Local Healthcare Infrastructure	The local healthcare infrastructure is sufficient to meet the Home's operational and clinical needs, based on the size of the Home.	✗ Does Not Meet the Criteria
Hiring Compatibility	The local cost of living is affordable and the local workforce of nurses and other licensed or certified specialists is of sufficient size to hire facility staff.	□ Partially Meets the Criteria

A conforming adjustment was also included in CalVet's proposal for strategic realignment, which originally shifted resources at Barstow to provide higher levels of care and gradually reduce its domiciliary care.

The Administration states that the initial steps toward a closure would result in a General Fund revenue reduction of $2.4 million and consists of various sources such as federal per diem, member fees, Medicare, Medi-Cal, and Aid and Attendance using the same methodology used to currently estimate revenues. The reduction is based on a drawdown of approximately 4 residents a month beginning in September increasing to a drawdown of 8 residents a month beginning in November. The drawdown in census is an estimate based on moving a mix of the levels of care, but is subject to bed availability in the other homes and the needs of the resident. There is also an overall estimated General Fund revenue reduction from veterans of $600,000.

Additionally, the proposal requests a $400,000 budget reduction in 2020-21, which is comprised of the equivalent of two full-time positions, and correlated food, pharmaceuticals, and other costs associated with a reduction.

Staff Comment. The collective impact of the General Fund revenue reductions and the expenditure savings from the staff reductions resulting from the closure alone is a $2 million cost to the General Fund in 2020-21 – taking no action in staff or resident reduction results in a $2 million General Fund savings. Additionally, should another surge in coronavirus infections occur in the fall, transferring elderly veteran residents from one veterans home to another may be a questionable decision.

While a fiscal crisis like the one we are currently facing due to the coronavirus should not be taken lightly, staff believes that a closure of a veterans home should not be rushed, and a thoughtful approach, while working closely with legislative and community stakeholder partners, can help ensure that no harm occurs to the veteran residents. A closure plan can help address questions around resident safety, fiscal solvency, logistics and other questions that this proposal raises.

Staff Recommendation. Reject the May Revision proposal to close the Barstow home and adopt placeholder budget bill language to require CalVet to submit a closure plan to the Legislature and work with stakeholders in the coming year for contemplation in the 2021-22 budget.