Senate Budget and Fiscal Review

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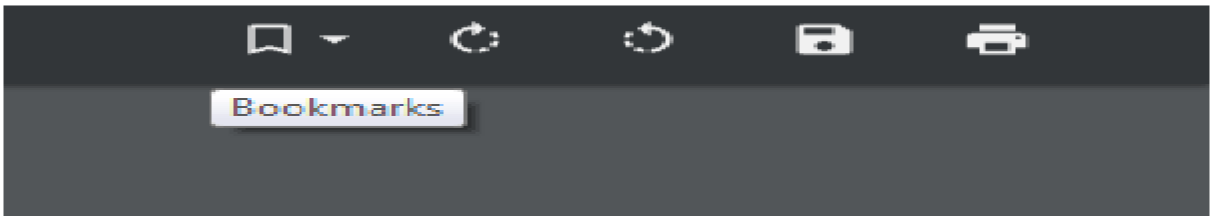

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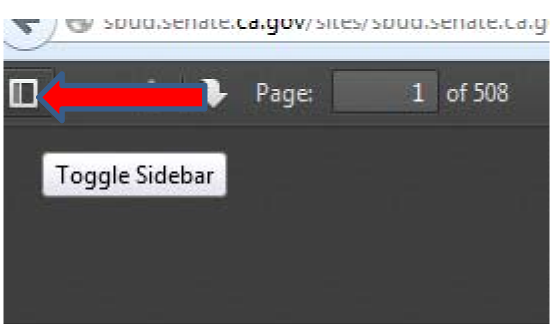

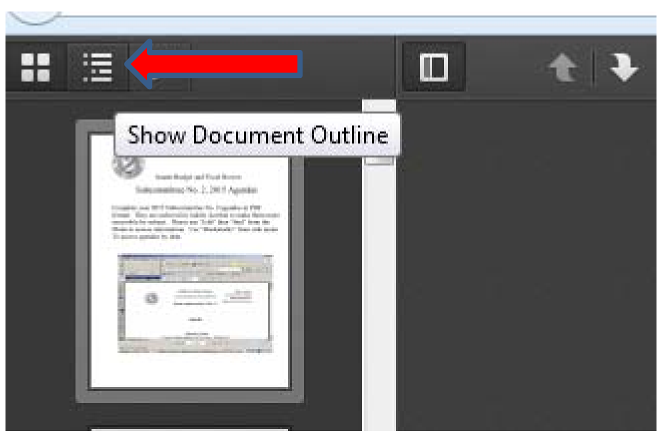

Senate Budget and Fiscal Review—Holly J. Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 2, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

Consultant: Mark Ibele

ITEMS PROPOSED FOR VOTE-ONLY

ITEMS FOR DISCUSSION AND VOTE

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ISSUES PROPOSED FOR VOTE ONLY

0950 STATE TREASURER'S OFFICE

Issue 1: Information Security Program (BCP)

Governor's Proposal. The budget includes a request from the State Treasurer's Office (STO) for $330,000 (General Fund) to maintain the department's information security tools and administration, and sustain adequate support for the cyber risk management program and security defense systems. The augmentation will fund additional threat detection and eradication tools through information technology solutions and one full-time permanent position (systems software specialist).

Staff Comments. Staff has no concerns with this proposal.

Staff Recommendation. Approve as budgeted.

Vote:

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Issue 1: Implementation of SB 1029 (Hertzberg) (BCP)

Governor's Proposal. The budget includes a request from the California Debt and Investment Advisory Commission (CDIAC) of $139,000 (special funds) and one position to administer the reporting and data maintenance requirements put in place by SB 1029 (Hertzberg), Chapter 307, Statutes of 2016.

Background. SB 1029 requires CDIAC to track and report on all outstanding state and local debt. California debt issuers are required to submit annual reports to CDIAC that will provide, among other things, the amount of previously reported debt outstanding and how the debt proceeds were spent during the reporting period. The requirements continue until the debt is fully repaid or redeemed.

Staff Comments. Staff has no concerns with the proposal.

Staff Recommendation. Approve as budgeted.

Vote:

0968 CALIFORNIA TAX CREDIT ALLOCATION COMMITTEE

Issue 1: Compliance and Monitoring Staff Support (BCP)

Governor's Proposal. The budget proposes $107,000 (special funds) for one permanent position for the California Tax Credit Allocation Committee (TCAC) for support of compliance-related workload. The workload is associated with monitoring low-income housing tax credit projects to ensure compliance with state and federal law.

Background. TCAC administers both federal and state low-income housing tax credit programs. Both programs encourage private investment in rental housing development for low and very low-income families and individuals. The program helps private developers/owners create and preserve affordable housing and raises project equity through the sale of tax benefits to investors who hold an ownership interest in the property. To assure federal compliance and properly maintained properties, TCAC must perform federally-mandated compliance monitoring functions. Regulations require that the states conduct physical inspections of each property every three years and also impose a more rigorous physical inspection standard than formerly in place. Property inspections must include a physical inspection of all building exteriors and common spaces, and physical inspections of at least 20 percent of the units in each of the properties. Last year, TCAC received additional resources and positions for monitoring and compliance activities; this position will help provide administrative support for those positions.

Staff Comments. Staff has no concerns with this proposal.

Staff Recommendation. Approve as budgeted.

Vote:

ISSUES FOR DISCUSSION AND VOTE

California Credit and Debt Overview

Presenter: State Treasurer's Office
Public Finance Division

Comments: Legislative Analyst's Office

Background. The state uses general obligation (GO) bonds to borrow funds for spending – primarily for infrastructure and other capital investments. The use of bonds to accelerate capital projects is a commonly-used practice of government entities. GO bonds must be approved by voters and bond proceeds are either continuously appropriated (immediately available for expenditure) or require an appropriation from the Legislature. All bond debt service is continuously appropriated and, therefore, not considered in the annual budget bill process except as an informational item. Based on December 2015 data, the state has $73.7 billion in outstanding GO bond debt (including self-liquidating bonds). Another $35.6 billion in bonds are authorized, but remain unissued. In most instances, bonds are sold at different lengths of maturity such that repayment is spread over about 30 years. The chart below displays the state's authorized, outstanding and unissued bonds, by program area.

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

Activity or Program	Authorized	Outstanding	Unissued
Health and Hospitals	$1,730	$1,272	$352
Water Quality/Disaster Preparation	31,073	12,950	12,189
Higher Education	14,462	8,474	2,106
K-12 Education	49,785	28,469	7,522
Housing	5,700	1,809	1,519
Stem Cell	3,000	1,166	1,032
Transportation/Air Quality	34,865	19,152	10,762
Other Infrastructure	3,734	429	81
Total	**$144,349**	**$73,722**	**$35,564**

[1] Non self-liquidating.

The state generally goes to market to sell GO bonds twice annually – once in the spring and once in the fall. Bond structures are often tailored to meet market demand and investor appetite. This tailoring includes tinkering with variables such as fixed and variable rates, call features and premiums, and various security enhancements. Bonds are sold in amounts necessary to meet expenditure needs, plus an additional cash cushion to account for flexibility reflecting how fast projects will expend funds and uncertainty about the timing of the next bond sale. Based on November 2016 data, there is about $1.4 billion in bond cash-on-hand, distributed across various bond programs. This is about the same level of unspent bond proceeds as there was at this same time last year. Reducing the level of unused bond proceeds is generally considered to constitute wise bond-proceeds management, as it minimizes the amount of idle cash upon which interest must continue to be paid.

General Obligation Bonds and Debt Service. Expenditure of bond proceeds is reflected in the budgets of individual departments, with the payment of bond debt service consolidated in Item 9600 in the Governor's budget. It is the repayment of bond debt that is reflected as a General Fund expense. Some bond costs are offset by special funds or federal funds. Other bonds are 'self-liquidating,' or have their own dedicated revenue source.

The Governor's budget includes $4.8 billion in General Fund costs for GO bond debt service and related costs. In addition, about $1.9 billion in debt costs are scheduled to be funded from special funds. Finally, federal bond subsidies, through the Build America Bonds (BABs) program, will provide an estimated $352 million in 2017-18, allowing for a reduction in General Fund expenses. The Governor's proposed budget includes about $124 billion in General Fund available for debt service – including carry-over balances, but excluding amounts to be transferred to the state's Budget Stabilization Account (BSA). The net General Fund debt service for GO bonds, as a percentage of General Fund resources, is less than four percent.

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

Category	2015-16 Actual Cost	2016-17 Estimated Cost	2017-18 Forecasted Cost
Gross Debt Service[1]	$6,577	$6,777	$7,102
Other Funds and Department Costs[2]	-1,492	-1,665	-1,879
Federal Subsidy[3]	-327	-343	-352
Total Net Debt Service	**$4,759**	**$4,769**	**$4,872**

[1] Includes variable rate bond and commercial paper expenses.
[2] Debt incurred for transportation, higher education and water resources purposes.
[3] Build America Bonds subsidy.

Debt service is expected to be relatively stable in the budget year based on past bond sales and anticipated issuances. The State Treasurer's Office (STO) plan includes an assumption that $4.1 billion in GO bonds will be sold (or have been sold) in 2016-17, and that $4 billion will be sold in 2017-18. In recent years, the state's GO bond debt service cost per borrowed dollar had been declining, although in the last year there has been a slight uptick in rates. This general post-recession decline has occurred not only because of the general decline in interest rates, but also the state's improved credit rating based on sound financial management. In 2010, the spread between California's 30-year borrowing costs was 150 basis points (1.5 percent) higher than term-comparable AAA-rated paper; while the current spread is closer to 10 basis points. The STO has taken advantage of this dynamic and maintained an active refinancing program.

Infrastructure Plan. Infrastructure is one of the core missions of state government. It is also a core foundation of economic growth for the state, as we discussed in the *Overview of the 2015-16 Budget Bill.*[1] The California Infrastructure Planning Act requires the Governor to annually submit a five-year infrastructure plan to the Legislature for consideration with the budget bill. The Governor's *2017 California Five-Year Infrastructure Plan* calls for an investment of $43 billion over the next five years, using a variety of financing methods. The great bulk of this is in the transportation area. Unlike last year, there is less in General Fund resources available for infrastructure, and the plan reflects a greater reliance on debt issuance to make critical infrastructure investments. The plan also reflects the Governor's proposed transportation package, discussed in the transportation section of the *Overview of the 2017-18 Budget Bill.*[2] The plan financing and the uses of the funding are presented below:

2017 Five-Year Infrastructure Plan
(Dollars in Millions)

Funding Sources	Amount
General Fund	$524
Special Funds	8,100
Lease Revenue Bond Funds	1,700
General Obligation Bond Funds	$338
Federal Funds	13,600
Reimbursements and Cost Funds	4,100
High-Speed Rail Funds	14,600
Total	**$42,962**
Spending Plan	**Amount**
Transportation and High-Speed Rail	$39,647
Natural Resources	869
California Environmental Protection Agency	413
Health and Human Services	44
Corrections and Rehabilitation	197
Education	182
General Government	1,534
Total	**$42,886**

In addition to the identification of capital financing, the plan also identifies some $78 billion in deferred maintenance needs across the state. Of this amount, 72.9 percent is in transportation, 16.6 percent in water resources, 4.5 percent in higher education, and 1.5 percent in parks and recreation. The Governor notes that the 2015 and 2016 budgets allocated slightly under a billion dollars to address this maintenance backlog. The proposed budget for 2017-18 does not provide additional funds for these purposes.

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[1] Senate Committee on Budget and Fiscal Review, *Overview of the 2015-16 Budget Bill*, February 2015 http://sbud.senate.ca.gov/sites/sbud/senate.ca.gov/files/overview/2015overview2015-16Budget.pdf.

[2] Senate Committee on Budget and Fiscal Review, *Overview of the 2017-18 Budget Bill*, February 2017, http://sbud.senate.ca.gov/sites/sbud/senate.ca.gov/files/overview/2017overview2017-18Budget.pdf.

Budget and Bonds. Paying GO bond debt is a significant General Fund expense. State and federal tax exemptions for interest income received by investors ensure that GO bond debt is a low-cost financing alternative. To the extent bond costs do not exceed a government's long-term ability to fund other commitments, bonds typically allow the public to enjoy the benefits of infrastructure investment more quickly than would otherwise be the case. The Legislative Analyst's Office (LAO) indicates that the state's gross debt service requirements for infrastructure for bonds already sold will drop steadily over the next few years to around three to four percent of General Fund revenues, resulting in a cost of roughly $6 billion annually over the same time period. This issue is discussed further below.

Voters must authorize GO bonds, but the timing of the issuance of the bonds is the responsibility of the STO. In November 2016, voters approved over $9 billion in additional school bonds. During difficult budget times, such as the recent great recession, bonds enable the state to invest in infrastructure while the need for economic stimulus is most acute, borrowing costs are low, and construction procurement is favorable. Despite the benefits of bonds, they come with the cost of many years of debt service. Assuming that a bond carries an interest rate of five percent, the cost of paying it off with level payments over 30 years is close to $2 for each dollar borrowed – $1 for repaying the amount borrowed and close to $1 for interest. This cost, however, spread over a 30-year period, after adjusting for inflation is considerably less – about $1.30 for each $1 borrowed (based on the current inflation range). The Legislature can increase or limit bond funding through the budget process as overall expenditures are prioritized.

Despite the interest costs associated with debt, the decision to issue bonds comes with numerous advantages, as outlined above. In addition to these benefits, the current interest rate environment, which continues to display very low long-term rates, presents unique advantages for the issuance of long-term debt for the state. For California AA-rated twenty year paper, the representative yield is 3.28 percent[3] (compared to 2.93 percent for municipal AAA paper). California bond yields are up slightly from the comparable figure 3.05 percent of last year, but are still in the historically low range. However, this could change if the economy continues to improve and places upward pressure on interest rates.

The Administration proposes maintaining its current market level of bond issuance and, given the budget problem identified by the Administration, has pulled back on some of its previous commitment of cash for substantial capital improvements. While California should guard its vastly improved credit rating and lower interest costs, the Legislature could also consider initiatives that take advantage of the continuing low interest rate environment. In particular, the significant backlog of deferred maintenance of almost $80 billion would benefit from a sustained effort of reinvestment in these capital assets. Without such a sustained effort, the backlog will continue to grow – and at an increasingly rapid rate.

Debt Capacity. One indicator of the state's debt situation is its debt service ratio. This ratio indicates the portion of the state's annual General Fund revenues that must be set aside for debt-service payments on infrastructure bonds and, therefore, are not available for other state

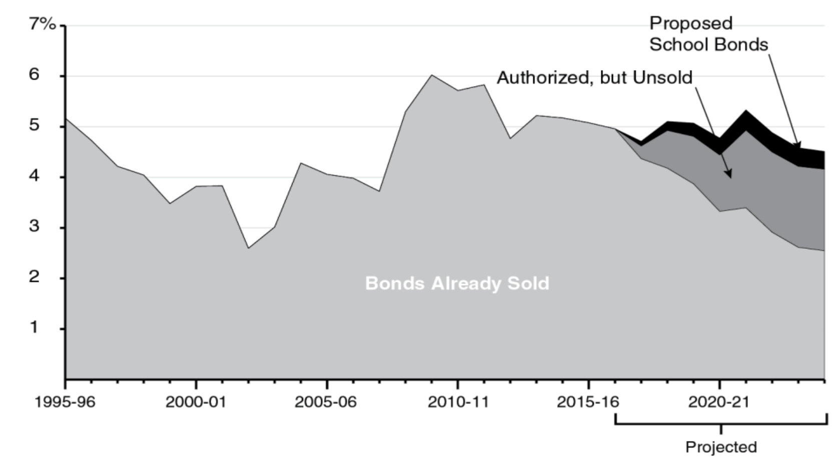
[3] California's current long-term General Obligation bond ratings from the three major services are: Moody's Aa3; Standard & Poor's AA-; Fitch A+.

programs. As shown in the LAO figure below, the debt service ratio is now about five percent of annual General Fund revenues. Assuming the state's schedule of GO bond issuance is similar to past years, the approval of the school bond in November 2016, and the continued issuance of previously authorized bonds, will result in debt service remaining at about the five percent over the next several years, and declining thereafter. Thus, these bond sales would increase the debt service ratio by about one-third of a percentage point compared to what it would otherwise have been. The state's future debt service ratio would be higher than those shown in the figure if the state and voters approve additional bonds in the future.

Figure 1

General Fund Debt-Service Ratio

Percent of General Fund Revenues Spent on Debt Service



Source: Legislative Analyst's Office

An alternative measure of debt affordability is the ratio of total state debt to personal income. Among the ten most populous states, California is in the upper tier with state debt accounting for 4.7 percent of personal income in 2016. With respect to this measure, New York was the highest with debt equal to 5.7 percent of personal income, followed by Illinois at 5.2 percent. It should be noted that California's percentage has dropped steadily from six percent in 2012 to 5.4 percent in 2014, then to its current level in 2016. This ratio is a key component of credit analysis conducted by the various bond rating agencies. California's improved ratio can have an impact on bond ratings and thus directly affect the interest costs associated with the issuance of debt.

Bond Management. As the state's cash situation deteriorated with the steep recession, the Administration changed the methodology for managing bond cash. Prior to the recession, reserve cash funded project costs in advance of bond sales, and then bond sales replenished cash reserves. When reserve cash declined, the state had to instead sell bonds in advance of expenditures. Due to project expenditures occurring slower than anticipated at the time of bond sales, large bond cash balances developed – about $9.7 billion as of December 2011. As a result, the Administration implemented a plan to utilize commercial paper to aid cash flow, thus reducing the need to carry large bond cash balances. As part of this effort, the Administration requires GO bond programs to demonstrate an immediate need for additional bond proceeds prior to issuing new bonds. Progress has been made to reduce bond cash, and cash reserves have dropped to just under $1.4 billion by the end of December 2016. At budget hearings, the Administration could be asked to discuss their management of bond proceeds, forecasts of project expenditures, and the optimal level of cash balances.

Staff Comments. The ability to issue debt on the capital markets is a key component of state financial health. Over the last decade, the state has made significant strides in improving its fiscal health, which has been reflected in an improved credit rating, resulting in lower borrowing costs. How the state takes advantage of its improved status is a key question for the Legislature, since astute and strategic borrowing for capital investment can have significant positive impact on state economic performance. In addition, constant reinvestment in existing infrastructure can prevent deterioration and more expensive and comprehensive restoration at a later date.

Recent events have starkly illuminated the result of the failure to reinvest consistently in maintaining the state's dams, roads and bridges. In considering the schedule for issuing additional debt approved by the voters (including the most recent bonds approved for educational facilities), the Legislature should consider additional efforts to improve the state's infrastructure through debt issuance. While additional burden debt must be considered carefully, prudent investment can be of great benefit to the state's and regional economies. The committee may consider how to balance needed capital investment and maintenance with measured fiscal control.

In its February 2017 letter report, the Little Hoover Commission made two recommendations regarding the oversight of state debt. It recommended that the state adopt a consistent system to improve transparency and oversight of all statewide bonds, particularly the 2008 high-speed rail bonds and the 2016 school facility construction bonds, which currently lack such requirements, as well as for all future statewide bond measures. It also recommended adequate funding for the implementation of SB 1029 (Hertzberg), Chapter 307, Statutes of 2016, which requires the monitoring and tracking of state and local debt while it remains outstanding. Funding for this required activity is addressed later in this agenda.

Staff Recommendation: Informational item.

0950 STATE TREASURER'S OFFICE

Department Overview. The State Treasurer's Office (STO), a constitutionally-established office, provides banking services for state government with goals to minimize interest and service costs and to maximize yield on investments. The Treasurer is responsible for the custody of all monies and securities belonging to or held in trust by the state; investment of temporarily idle state monies; administration of the sale of state bonds, their redemption and interest payments; and payment of warrants or checks drawn by the State Controller and other state agencies. In addition, the Treasurer sits on numerous boards and commissions that deal with state, programs, investments and financing.

Budget Overview. The STO receives the great majority of its funding – roughly 80 percent – from reimbursements. The General Fund contribution to the office is roughly 13 percent of the total. As shown in the table below, position authority has remained relatively stable.

State Treasurer's Office
Program Expenditure
(dollars in thousands)

Program	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Investment Services	$3,676	$3,508	$3,525
Centralized Treasury & Securities Management	12,958	13,796	13,846
Public Finance	10,963	17,183	15,831
Administration	15,602	15,855	6,201
Distributed Administration	-10,850	-9,926	0
Total Expenditures	**$32,349**	**$40,416**	**$39,403**

State Treasurer's Office
Position Authority
(actual positions)

Program	Actual 2014-15	Estimated 2015-16	Proposed 2016-17
Investment Services	18.0	18.0	18.0
Centralized Treasury & Securities Management	63.5	65.5	65.5
Public Finance	53.3	56.3	56.3
Administration	91.1	92.9	93.4
Total Positions	**225.9**	**232.7**	**233.2**

Issue 1: Debt Management System II (BCP)

Governor's Proposal. The 2017-18 budget includes a request from the STO of $5.8 million (reimbursements) to continue the funding of its Debt Management System (DMS) II. The project, which was initially funded in 2013-14, is a replacement system for the STO's existing debt management system. The debt management system is used to administer the state's outstanding debt, monitor and pay debt services and fees on outstanding debt, and track and validate the authority to issue new debt. Of the budget request, $4.0 million will be used for the system integrator (vendor) payment, $981,000 for staff funding, $49,000 for project management support, $174,000 for independent verification and validation, $113,000 for independent project oversight, and the remainder for hardware and software licensing.

Background. In 2015-16, the STO received continued funding for the replacement of the department's debt management system. The $1.4 million (reimbursements) consisted of $302,000 for a project management support vendor, $200,000 for Department of Technology (CalTech) procurement assistance, $97,000 for the procurement assistance vendor, $140,000 for independent verification and validation services, $113,000 for CalTech project oversight, and $530,000 of continued funding for positions (data processing manager, senior programmer analyst, system software specialist, and treasury program manager).

In conjunction with this funding, the STO changed the procurement strategy for the DMS II Project from what was as previously submitted in SPR1, based on vendor feedback provided to the STO from the pre-solicitation request for proposals and resulting analysis. Subsequent to the submission of the May Revision request, staff was notified of requested change in the procurement strategy. In 2013, the STO had determined that replacing the existing debt management system with a solution-based procurement using a systems integrator was in the state's best interest, due to available expertise staffing. However, STO subsequently determined, based on potential vendor feedback, that it would be very difficult to completely satisfy business requirements at an acceptable cost and/or within a reasonable timeframe. Following more in depth vendor conversations, STO explored alternative procurement strategies and models and determined the debt management system replacement could be better addressed by using the existing debt management system and expert-level technicians rather than STO staff. CalTech agreed with this decision and approved the SPR 2 reflecting this change in April 2016.

The STO received funding for this project in 2013-14 and 2014-15. The new system is necessary for debt administration, including duties associated with trustee, registrar and paying agent responsibilities, payment of debt service, disclosure and analysis of debt issuances. Given the increased legal and financial complexities in the debt markets, the STO indicates a need for a new system to administer outstanding debt, track and pay debt service and fees on outstanding debt, and track and validate the issuance of new debt. The existing system dates to 2004.

Staff Comments. The debt management system is an essential component for the STO to follow-through on its essential services. The STO has adjusted its procurement plan in response to concerns raised through the interested parties' process, as well as a result of concerns voiced by the Legislature, including this committee. The proposal is consistent with what has been approved previously with the exception of an upgrade in one position. The progress of the STO's debt management system should continue to be monitored by the subcommittee in order to help ensure that the project is delivered in a satisfactory manner. The change in approach last year allowed for an acceleration of the project. The project is currently being implemented, after the contract was awarded in May 2016. Full implementation is expected in December 2018. The subcommittee may pursue questions regarding the payment process to the vendor, and whether these payments are tied directly to deliverables for, or functionality of, the system. Expectations regarding additional funding are also of some concern.

State Recommendation. Approve as budgeted.

Vote:

Issue 2: Data and Government Transparency (BCP)

Governor's Proposal. The budget proposes $799,000 (reimbursements) to fund five permanent positions for data and government transparency efforts. The resources for these positions will be provided by the various boards, commissions and authorities associated with the STO. The funding will provide support for five technology positions – three senior programmer analysts, one systems software specialists III, and one staff information systems analyst. These positions are currently in place on a limited-term basis which expires at the end of the current year.

Background. The overall project is an effort to increase the public access to programs, data and information provided by STO and the associated boards, commissions and authorities through various web based programs, including: Debtwatch debt data website; California Debt and Investment Advisory Commission (CDIAC) Issuance Documents project, California Business Incentives Gateway (CBIG); Treasurer's Awards Transparency project; BuyCaliforniaBonds website upgrade project; and various other programs.

The STO indicates that services currently identified include providing:

- State and local debt data collected by CDIAC (DebtWatch) – allows access to information regarding California government debt, state and local debt load, and the issues associated with that debt.

- Economic incentive program information (CBIG) – provides California businesses with information on business incentives in the state offered by the STO and other state and local entities.

- Debt source documents (CDIAC Documents Project) – makes publicly available a repository of all debt official statements and alternative documents regarding details of debts issued by California state and local government agencies.

- Financial awards of the Treasurer's office BCAs (Treasurer's Awards Transparency Project) – makes publicly available information about financial awards made by the Treasurer's office BCAs, including award type, award date, awardee, award amount, and award purpose.

- State-issued bonds details (BuyCaliforniaBonds website upgrade project) – gives public access to additional details of state issued debt in support of improved investor relations with the STO.

The positions associated with instituting the web-based information services were approved in the 2015-16 budget for a two-year, limited-term basis. During this period, the program has resulted in the implementation of one web application, Debtwatch. The program has three more projects identified for completion before the end of the two-year period.

Legislative Analyst's Office Comments. The LAO indicates that there is insufficient justification of ongoing workload. STO has identified a few upcoming new projects for the unit through December 2018. STO has not identified new projects beyond 2018 but has indicated that it would continue to require staff resources to maintain the new sites. While there is likely to be some level of ongoing workload associated with maintaining these sites once they are created, LAO anticipates this to be at a lower level than what is associated with creating new sites. LAO raises no specific concerns with the proposed funding to implement new projects in the next couple of years, but recommends providing the requested funding on a two-year, limited-term basis. Additionally, it suggests that to the extent that STO believes there is ongoing workload associated with maintaining the various sites, it will be in a better position to assess the level of this workload once all the proposed sites have been launched.

Staff Comments. Overall, the activities designated in the proposal would be useful for businesses and the public, although do not rise to the level of essentiality. The additional work designated in the proposal includes: creating websites to identify the awards made by STO; modifying the DebtWatch site; and, launching a marketing campaign for the CBIG website. In addition, the data and information conveyed through the STO initiative may be substantially redundant. Much of the data to be provided is already available on the STO website, and other data are readily available on other state and local websites. Specifically, the Governor's Office of Business and Economic Development (GO-Biz) provides significant web-accessible information regarding the availability of state economic incentives, and local governments provide information regarding incentives that they offer. If the state provides a centralized source of information on local incentives, the cost of such efforts should be borne by the local governments; however, this cost sharing has not been built into the financing plan. Finally, it is not at all clear what activities will extend beyond the implementation period, or if they do, what the costs will be. While the activities do not rise to the level of essentiality, funding on a temporary basis would at least be consistent with previous subcommittee actions; permanent funding seems inappropriate at this time. The department has raised issues regarding the difficulty of retaining existing trained staff for the program, given the restrictions on limited-term positions. Potentially, this issue could be addressed through budget bill language that would allow retaining the experienced staff for the next two years of implementation.

Staff Recommendation. Hold open.

Vote:

Issue 3: Fiscal Recovery Fund Termination (TBL)

Governor's Proposal. The budget includes proposed trailer bill language (TBL) that would require that, after transferring required amounts in the Fiscal Recovery Fund (FRF) to the counties, any remaining amounts be transferred to the General Fund.

Background. The FRF was established in conjunction with the issuance of the state fiscal recovery bonds, which were authorized by the voters in 2004. Revenues raised by 0.25 percent of the statewide sales tax were deposited to the FRF and used to pay debt service on the bonds. The bonds have been paid off and are no longer outstanding. Under current law, certain remaining funds in the FRF are to be transferred to the counties and the remainder subject to appropriation.

Staff Comments. Staff has no concerns with the proposed language.

Staff Recommendation. Approve proposed trailer bill language.

Vote:

0956 California Debt and Investment Advisory Commission

Issue 1: Personal Services Augmentation (BCP)

Governor's Proposal. The California Debt and Investment Advisory Commission (CDIAC) has requested an increase of $200,000 (special funds) in its expenditure authority for personal services (wages, salaries and benefits) to offset the growth of personal services expenditures that has occurred at the expense of other mandated activities.

Background. CDIAC provides information, education and technical assistance regarding debt issuance and public funds investing to state and local public agencies and other public finance professionals. CDIAC was created in 1981 for the purpose of serving as the state's clearinghouse for public debt issuance information and assisting state and local agencies with the issuance, monitoring, and management of public financings. The scope of responsibilities of CDIAC was later expanded to include assistance activities related to public investing.

Staff Comments. CDIAC has made a reasonable case for the augmentation in expenditure authority to offset the growth in personal services that has occurred as staff vacancies have been filled. As a percentage of the overall budget authority, these expenses have grown from about 50 percent in 2012-13 to a projected 63 percent in 2017-18. This has left a declining share of the overall budget authority for other discretionary purposes, including operational expenses to improve services. The LAO has made the salient point that for the last five years, CDIAC has underspent its budgeted authority by at least $200,000 and thus, it does not appear that an increase is warranted, unless additional activities are identified. CDIAC should identify the nature of these specific activities at the hearing.

Staff Recommendation. Hold open.

Vote:

0971 California Alternative Energy and Advanced Transportation Financing Authority

Issue 1: Administration of California Hub for Energy Efficiency Financing Pilot Programs (BCP)

Governor's Proposal. The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) has requested an adjustment to its spending authority and a budget augmentation for additional staff, pursuant to its administration of California Hub for Energy Efficiency Financing (CHEEF) pilot programs. The budget request would rely on ratepayer funds (non-General Fund) and includes: reimbursement and expenditure authority in the amount of $3.7 million in 2017-18, $3.5 million in 2018-19 and $3.0 million in 2019-20; extended authority for nine existing positions through 2019-20; an additional three staff positions; and, an upgrade of two existing positions. The request re-appropriates $1.8 million from previous years and includes $8.4 million in additional ratepayer funds pending formal approval by California Public Utilities Commission (PUC).

Background. The CHEEF pilot programs are designed to encourage private lenders to develop financial products for energy efficiency projects. The pilots offer various forms of credit enhancements to provide additional security to participating financial institutions, attract private capital to energy efficiency finance, and expand consumer access to enhanced loan terms. CAEATFA was selected as the administrator of the CHEEF pilot programs which were approved for a two-year period by the Legislature and the PUC, and have been previously subject to review in Subcommittee No. 2 of the Senate Committee on Budget and Fiscal Review. The pilots were originally to be implemented through 2016-17; however, the PUC approved a decision which clarified that the 24-month term for the pilot programs should align with the enrollment of the first loan in that particular finance pilot. This change – in combination with a longer than anticipated implementation schedule, unanticipated complexity, infrastructure development, stakeholder involvement, and staffing changes – requires extending the schedule for the pilots. Consistent with the budget request, the pilots will run through 2019-20.

Staff Comments. The CHEEF pilot programs have been previously approved by the Legislature; the additional $8.4 million in ratepayer funds would be consistent with prior actions and are required to be formally approved the PUC through its standard governance process. In addition, the upgrade to existing staffing is a reasonable step given the technical and specialized nature of the programs and issues related to personnel retention. However, the documentation relating the necessity of an additional three positions is not adequate to warrant their approval at this time. The department should provide additional data and documentation regarding this request.

Staff Recommendation. Hold open, pending presentation and review of the additional staffing request.

Vote:

0984 California Secure Choice Retirement Savings Investment Board

Issue 1: California Secure Choice Retirement Savings Program Implementation (BCP and BBL)

Governor's Proposal. The California Secure Choice Retirement Savings Investment Board requests a General Fund loan of $170 million over four years to provide resources for the board and the California Secure Choice Retire Savings Investment Program (CSCRSP), including: funding for staff; funding for external consultants; funding necessary for operating and overhead costs; and, funding necessary to execute agreements with third party administrators to provide record-keeping, investment management and other necessary services to route, receive and invest contributions from program participants. Drawdown on the loan is expected to be $15 million in 2017-18, $35 million in 2018-19, $50 million in 2019-20 and $70 million in 2020-21. Repayment would be based on participant fees as the program becomes self-sustaining. The proposal includes budget bill language (BBL) that would allow for the transfer of $15 million of the loan to the board in the budget year, with additional loan augmentations not to exceed $35 million upon approval by Department of Finance.

Background. The California Secure Choice Retirement Savings Investment Board and the CSCRSP were established pursuant to SB 1234 (de León), Chapter 734, Statutes of 2012, for the purpose of creating a statewide savings plan for private-sector workers who lack access to an employer-sponsored retirement savings plan. The legislation requires that the board conduct a market analysis, financial feasibility study and legal analysis to determine whether the necessary conditions for implementation of the program can be met. The board was required to conduct the analyses only if funds were made available through a nonprofit or private entity, or from federal funding. Adequate funding was received for these purposes. The board can implement the program only if it determines, based on the market analysis, that the program will be self-sustaining; funds are made available through a nonprofit or other private entity, federal funding, or an annual budget act appropriation, in amounts sufficient to allow the board to implement the program until the California Secure Choice Retirement Savings Trust has sufficient funds to be self-sustaining; and an authorizing statute is enacted that expresses the approval of the Legislature for the program to be fully implemented.

The board entered into an agreement with a firm for market analysis, financial feasibility study, and program design work. In addition, the board entered into an agreement with a firm for legal services. The studies were completed in spring 2016 indicating the financial feasibility and sustainability of the program. The feasibility analysis indicates that about 6.8 million workers are potentially eligible for participation in the program, and the expected level of participation of 70 percent to 90 percent of those eligible is sufficient to enable the program to achieve broad coverage and become financially sustainable. In addition, the feasibility report indicates that potential participants are accepting of a three to five percent contribution rate (based on compensation).

The board indicates that while planning for implementation is moving forward and is on schedule, the feasibility study is based on numerous assumptions. Program costs and revenue will be determined by the number of employers and employees participating in the program, contributions made by participant, and the investment return on those contributions. Given these factors, the board cannot determine, with certainty, total costs for the first years of the program. The General Fund loan will allow the board to administer the CSCRSP under conservative baseline assumptions relating to participation and contributions during the initial years. The BCP indicates that the board would seek loan funds available to it only to the extent to which it would be necessary to operate CSCRSP for the first few years of operation while minimizing the administrative fees charged to participants.

Staff Comments. As the CSCRSP begins the process of implementation, the necessity of startup funding to make this possible is apparent. The administrative structure (including third party participants), contracts with fund managers, marketing strategies and efforts, and customer service infrastructure must all be initiated as part of this process. While the program is designed and required to be self-sustaining once it is fully implemented, the startup phase of the program will not be self-sustaining, necessitating the General Fund loan. There is still some uncertainty regarding the overall administrative structure of the program and the level of participation that will ensure its sustainability, neither of which is unusual for a new program of this potential size and scope. Finally, recent developments at the federal level regarding the application of certain components of the Employee Retirement Income Security Act (ERISA) to CSCRSP add additional unknowns. Given these factors, the subcommittee may want to consider measures to facilitate legislative oversight, including: authorizing a more limited loan for the first year of phase-in, rather than the full $170 million for four years; adopting additional BBL requiring review from the Joint Legislative Budget Committee (JLBC) the before expansion of any authorized loan amount; and, mandating reporting by the board regarding the expenditure of the loaned funds. Based on discussions with the department, these changes should be workable in terms of the program implementation.

Staff Recommendation. Hold open.

Vote:

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 2, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

Consultant: Mark Ibele

OUTCOMES

ITEMS PROPOSED FOR VOTE-ONLY

ITEMS FOR DISCUSSION AND VOTE

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 9, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

ITEMS PROPOSED FOR VOTE-ONLY

ITEMS PROPOSED FOR DISCUSSION/VOTE

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

ISSUES PROPOSED FOR VOTE-ONLY

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL (ABC)

Issue 1: Fee Increase

The department submitted the attached revised fee schedule for Legislature approval which reflects adjusted fees based on increases in the Consumer Price Index (CPI). The revised schedule represents an accumulation of six years of CPI adjustments resulting in an adjustment of 11.48 percent to be effective January 1, 2018.

Background. Fees proposed for increase represent 92 percent of ABC's total annual revenue. These fees were last increased by 3.49 percent in January 2010. Statute provides ABC the authority to increase fees annually consistent with the CPI. Since this authority was provided in 2004, fees have been adjusted twice.

Issue 2: Rent Increases

Budget. ABC requests $1.084 million in the budget year, $1.141 million in 2018-19, and $1.195 million in 2019-20, from the Alcoholic Beverage Control Fund to cover the increased rent costs due to annual rent increases, renegotiating expiring leases at the current market rate, and increased space needs over the past several years.

Background. ABC has a baseline rent budget of $3,844,000. Based on existing leases and assumptions regarding market rate for leases that need to be renewed, ABC will be spending approximately $4,716,000 in 2016-17 and $4,928,000 in 2017-18. ABC has seen an increase of over 16 percent in rent costs over the past five years.

The last approved ABC Budget Change Proposal was in 2009-10, which increased ABC's facilities budget to $3.9 million. Pursuant to Control Section 3.91 (b), ABC's budget was adjusted to actual costs for fiscal years 2011 -12 and 2012-13, resulting in reductions of $130,000 and $69,000, respectively. In 2015-16, ABC's budget was adjusted to realize savings related to reduced rent in state-owned buildings, resulting in adjustments of $5,000 and $18,000 in fiscal years 2015-16 and 2016-17; respectively. As a result of these adjustments, ABC's facilities budget is $3,844,000 for 2016-17.

One lease expires during 2017-18, and six have already expired or will expire in 2016-17. Renegotiation of these leases is either complete or in the process now. Based on the costs of the existing leases and reasonable estimates of the cost of leases that need to be renewed, ABC is forecasting that facilities costs in 2017-18 will be $4.928 million, which is nine percent higher than the 2015-16 cost and $1.084 million above the current facilities budget.

Issue 3: Flexible Staffing for Licensing

Budget. The Department of Alcoholic Beverage Control requests $92,000 in the budget year and $88,000 ongoing from the Alcohol Beverage Control Fund for two part-time positions to increase the capacity and flexibility of the licensing program to meet the increasing workload associated with the licensure of businesses seeking to manufacture, distribute, and sell alcoholic beverages in the state.

Background. Applications for alcohol licenses have increased by 16 percent over the last six years. This increase in license applications, coupled with additional local requirements, have further compounded the workload related to investigating and processing license applications, lengthening the total time from application to the issuance of a license.

Currently, ABC is failing to meet its goals of processing 75 percent of original (new) permanent applications within 90 days from the date the application was received. From 2011-12 to 2015-16 the percentage of original applications processed within 90 days dropped from 56 percent to 46 percent. Further, a July 2016 survey of district offices found there were 221 applications that were not being finalized due solely to lack of resources, indicating the beginning of a backlog that is expected to grow if the current growth trend continues (see table below).

Distribution of Emerging Backlog - July 2016

Division/District Office	LRs	Pending Apps.	Pending Apps. per LR	Backlog	Backlog per LR
Northern Division					
Fresno	3	125	42	2	0.7
Oakland	6	259	43	0	0.0
Redding	2	48	24	0	0.0
Sacramento	5	222	44	2	0.4
Salinas	2	93	47	8	4.0
San Francisco	5	221	44	28	5.6
San Jose	4	148	37	4	1.0
Santa Rosa/Eureka	6	383	64	13	2.2
Stockton	3	127	42	4	1.3
Subtotal	**36**	**1626**		**61**	
Southern Division					
Bakersfield	2	90	45	0	0.0
Long Beach/Lakewood	3	148	49	27	9.0
LA Metro	6	370	62	32	5.3
Monrovia	3	207	69	12	4.0
Palm Desert	2	95	48	0	0.0
Riverside	5	193	39	6	1.2
Santa Ana	5	256	51	25	5.0
San Diego	4	246	62	14	3.5
San Luis Obispo	2	132	66	12	6.0
San Marcos	3	174	58	16	5.3
Ventura	2	75	38	6	3.0
Van Nuys	3	161	54	10	3.3
Subtotal	**40**	**2147**		**160**	
Total, ABC	**76**	**3773**		**221**	

LR – licensing representative

2120 ALCOHOL BEVERAGE CONTROL APPEALS BOARD

Issue 1: Contract Administrative Services

Budget. The Alcohol Beverage Control Appeals Board requests $106,000 from the Alcoholic Beverage Control Appeals Fund to contract with the Department of General Services for administrative services.

Background. The Alcohol Beverage Control Appeals Board is an independent entity that provides quasi-judicial administrative review of decisions, primarily those related to enforcement actions, of the Department of Alcoholic Beverage Control. All staff is independent of the department and are appointed, directed, and controlled by the board. The board issues written decisions with orders affirming, reversing, and/or remanding the department's decisions. Revenues in the fund come from fees for the filing of an appeal, established by the board.

Currently, the department provides the administrative services of human resources, accounting, and budgeting, at no cost to the board. However, this may present a conflict of interest as the department's decisions are subject to appeal and review by the board. On occasion, the fepartment has had to recuse itself from a transaction due to this conflict of interest.

The Department of General Services (DGS) provides contracted fiscal and human resource services to over 80 departments, boards, and commissions in state government. The DGS has expert staff dedicated solely to providing these services to state agencies for all types of funding (general fund, bonds, special funds etc.) and size.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 1: Board of Psychology – Staffing Transition

Budget. The Board of Psychology is requesting position authority to transition one Staff Services Manager (SSM) II position and one SSM I position from temporary to permanent status. The board proposes to redirect $230,000 in fiscal year 2017-18 and ongoing from its existing operating expenses and equipment budget to its personal services budget to fund the requested positions.

Background. The Board of Psychology is one of 40 regulatory entities which fall under the organizational structure of the Department of Consumer Affairs. The board regulates psychologists, psychological assistants, and registered psychologists.

In 2014-15, the board conducted a study to determine if it had the appropriate organizational structure. To complete the recommended changes provided by the study, the Board established an SSM II in the temporary help blanket to serve as the Assistant Executive Officer (AEO). Additionally, there was a recommendation for the Associate Governmental Program Analyst (AGPA) in the licensing unit to be upgraded to an SSM I. The board established one SSM I to oversee the licensing unit in the temporary help blanket and kept the AGPA in their current position. The board determined there was adequate workload for the AGPA and SSM I due to the continual review of applications and the need for assistance processing applicant files in a timely manner.

At the SSM II classification, the AEO works under the administrative direction of the Executive Officer (EO) who reports directly to the nine members of the Board of Psychology. The AEO oversees the daily management of the Licensing Unit, Central Services Unit, and Enforcement Unit, and works in coordination with the EO to develop and implement board policies and strategic plan goals and objectives. The AEO also provides a high level of expertise in complex legal and regulatory issues relating to the practice of psychology in California and its emerging issues.

At the SSM I classification, the licensing unit manager works under the administrative direction of the AEO. The licensing manager is a supervisory position responsible for planning, organizing, directing, and administering all activities of the board’s Licensing unit. The Licensing unit SSM I oversees the daily management of the board’s operations through the supervision of ten subordinate staff.

Issue 2: Board of Optometry – Occupational Analysis

Budget. The California State Board of Optometry requests a special fund budget augmentation of $86,000 in fiscal year 2017-18 to fund an occupational analysis and audit of the board’s optometrist licensing exam. The occupational analysis is needed to assure validity, maintain consistency, preserve security, and ensure integrity of the examination.

Background. The State Board of Optometry is charged with protecting the health and safety of California consumers through licensing, education, and regulation of the practice of optometry.

In order to obtain a license in California, all applicants must pass the California Laws and Regulations Examination (CLRE) and the National Board of Examiners in Optometry (NBEO) exam. An occupational analysis and audit should be performed every five years, but the board has not had an occupational analysis or audit of the NBEO exam performed since 2009. The optometry scope in California has expanded to include diagnosing and treating glaucoma since then. In addition, the board and optometry schools throughout the U.S. have raised concerns specific to how the NBEO is currently administering the examination. An audit of the exam will help identify any valid concerns and ensure the NBEO exam withstands any integrity challenges.

Implementation. To begin the occupational analysis process, the board would enter into an interagency contract with the Office of Professional Examination Services (OPES). OPES will begin by conducting a series of telephone interviews with licensed optometrists throughout the state, which are then evaluated by a panel of subject matter experts during a two-day workshop. OPES will conduct surveys and evaluate survey data, then convene additional workshops to determine and confirm professional practices in California. OPES will then prepare a final report which will include an updated exam plan, which is a blue print used in exam construction.

LEGISLATIVE IMPLEMENTATION

The following DCA budget requests pertain to workload associated with implementing recently passed legislation.

Issue 3: Contractors State License Board – Increase Violation Reporting (SB 465)

Budget. The Contractors State License Board (CSLB) is requesting two positions and $190,000 in fiscal year 2017-18 and $174,000 in 2018-19 and ongoing to address the increase in referral workload and implement the mandates associated with Senate Bill 465 (Hill), Chapter 372, Statutes of 2016. Additionally, CSLB is requesting an Attorney General (AG) augmentation of $320,000 in 2017-18 and ongoing to support the increase in referral cases to the AG office that are considered the most egregious contractor violations.

Background. SB 465 revised the existing reporting requirements to ensure that any citation, fine, or any other actions involving or potentially involving a serious injury or illness taken by the Division of Occupational Safety and Health (Cal/OSHA) against a contractor, along with any information regarding the contractor, is timely reported to the CSLB. It also requires contractors to report specific disciplinary information to the CSLB, and requires the CSLB to conduct a study to determine if CSLB's ability to protect the public could be improved.

Currently, the workload for cases referred to CSLB by Cal/OSHA is about 50 cases annually. With these new statutory requirements it is estimated that an additional 1,500 cases will be referred to CSLB. Around four percent of cases are referred to the AG annually. In order to fully review each referral from Cal/OSHA and provide additional investigation for the more serious violations, the CSLB is requesting an additional Enforcement Representative II position to investigate and discipline the contractors accordingly. Additionally, CSLB is also requesting an Office Technician-Typing position to receive, open, review, and assign the referrals from Cal/OSHA. In order to take disciplinary action against these violations, CSLB requests an AG augmentation of $320,000 to support the anticipated increase in referral cases to the AG office for the most flagrant contractor violations.

Issue 4: Dental Board – Reimbursement Authority for ADEX Exam (AB 2331)

Budget. The Dental Board of California is requesting expenditure and reimbursement authority to implement the mandates of Assembly Bill 2331 (Dababneh), Chapter 572, Statutes of 2016. The board would be reimbursed by the American Board of Dental Examiners Inc. (ADEX) for the costs associated with the initial exam occupational analysis, review, and validation, which would cost $112,000 in fiscal year 2017-18. This would require a one-time $112,000 increase in the board’s expenditure and reimbursement authority.

Background. Currently, the Dental Board regulates dentists, registered dental assistants, and registered dental assistants in extended functions. The board regulates approximately 101,500 licensees, of which 45,400 are dentists.

The board receives applications from candidates qualifying for licensure through the Western Regional Examining Board. AB 2331 requires the board to accept another exam; the examination developed by the ADEX, for state dental licensure once it has been determined the exam meets the California state requirements. The board would pay DCA's Office of Professional Examination Services (OPES) to perform these tasks and then be reimbursed by ADEX for the total cost. Once the examination validation studies are performed and the ADEX exam is found to be in compliance with the state's requirements, then implementation will take place.

Implementation. The Board will post a notice on its website informing licensees that as of January 1, 2017, the new regulations regarding this additional pathway to licensure will be developed. The OPES will conduct the analyses which will take approximately 12-18 months to finish. During this time, the promulgation of regulations will take place which will also take approximately 12-18 months. As a result, applications for the ADEX exam will not be processed until 2019-20.

Issue 5: Dental Board – Pediatric Anesthesia (AB 2235)

Budget. The Dental Board of California is requesting position authority for one Associate Governmental Program Analyst (AGPA) and a budget augmentation of $113,000 in fiscal year 2017-18 and $105,000 in 2018-19 and ongoing, to implement the provisions of Assembly Bill 2235 (Thurmond), Chapter 519, Statutes of 2016.

Background. This request addresses the new reporting requirements that would expand the reporting duties of general anesthesia and conscious sedation permit holders. It also allows the board to create the required form or forms for reporting, mandate those permit-holders fill out a board created form encompassing the reporting requirements of the bill, process reports received, and assess a penalty on licensees who are not in compliance with the reporting requirements. This request will also provide resources to the board to create a report on pediatric deaths related to general anesthesia in dentistry.

The requested position will be assigned to formulate spreadsheets, review and analyze reports, and make recommendations, which will be used in order to independently draft the report on pediatric deaths related to general anesthesia to be presented to the Legislature. The requested position will also draft and recommend to the board an approved form to be utilized by all dental sedation practitioners, which will need to go through the regulatory process and be incorporated in regulations. Additionally, this position will formulate a procedure in which to implement the processing of such reports and deficiencies in the report(s) as they arise and act as the program representative to address any inquiries.

Issue 6: Medical Board – Physician and Surgeon Health and Wellness Program (SB 1177)

Budget. The Medical Board of California requests $114,000 in fiscal year 2017-18 and $106,000 annually thereafter to fund one permanent Associate Governmental Program Analyst (AGPA) to implement the provisions of Senate Bill 1177 (Galgiani), Chapter 591, Statutes of 2016. The Board also requests $250,000 in 2018-19 to contract with an auditor to audit the program and ensure compliance with statute.

Background. The board is tasked with licensing physicians, surgeons, and other allied health licenses; reviewing the quality of medical practice carried out by physicians, surgeons, and other allied health licensees; enforcing the disciplinary and criminal provisions; and issuing disciplinary actions when licensees are found to be in violation of the law.

Previously under the board's Diversion Program, physicians who were found to have a substance abuse problem or mental impairment were allowed to enter the Diversion Program without any record of disciplinary action. If the physician successfully completed the Diversion Program, the public never became aware of the issue. Based upon concerns over the safety of patients, the Legislature did not approve the continuation of this Diversion Program and it became inoperative on July 1, 2008.

SB 1177 authorizes the establishment of the Physician and Surgeon Health and Wellness Program (PHWP) within the board. The PHWP will be administered by a private third-party entity and will provide early identification of, and appropriate interventions to support a licensee in rehabilitation from substance abuse to ensure that the licensee remains able to practice medicine in a manner that will not endanger the public health and safety. The requested position will set up the PHWP, assist in promulgating regulations, coordinate with the third party entity to implement the PHWP, serve as a liaison between the stakeholders, and monitor the activities of the third-party administrator on an ongoing basis.

Issue 7: Board of Pharmacy – Pharmacy Technician Occupational Analysis (SB 952)

Budget. The Board of Pharmacy is requesting a one-time budget augmentation of $154,000 in fiscal year 2017-18 to fund additional costs associated with the implementation of Senate Bill 952 (Anderson), Chapter 150, Statutes of 2016.

Background. The Board of Pharmacy protects and promotes the health and safety of Californians by pursuing the highest quality of pharmacist's care and the appropriate use of pharmaceuticals through education, communication, licensing, legislation, regulation, and enforcement.

SB 952 amends one of the pharmacy technician qualification methods from being certified by the Pharmacy Technician Certification Board to being certified by a pharmacy technician organization that offers a pharmacy technician certification program accredited by the National Commission for Certifying Agencies, and approved by the board. To comply with statute, the board needs to contract with the Office of Professional Examination Services (OPES) to conduct an occupational analysis for pharmacy technicians before it can accept new examinations.

Issue 8: Board of Pharmacy – Outsourcing Facility Audits and Automated Delivery Systems (SB 1193)

Budget. The California State Board of Pharmacy is requesting special fund expenditure authorization in the amount of $481,000 in fiscal year 2017-18 and $449,000 in 2018-19 ongoing to fund one Supervising Pharmacy Inspector, two Pharmacy Inspectors, and a half-time Office Technician to regulate the provisions set forth in Senate Bill 1193 (Hill), Chapter 484, Statutes of 2016.

Background. The November 2013 enactment of the federal Drug Quality and Security Act responded to a 2012 compounding tragedy (where a pharmacy compounded a product that was contaminated by fungal material) in a new way: this legislation created a new type of entity authorized to compound medications - the outsourcing facility. These generally large-scale production facilities are authorized to compound large quantities of medications for use by other entities, whereas a pharmacy generally compounds pursuant to a patient-specific prescription. Requirements for outsourcing facilities are more stringent than compounding requirements for sterile compounding pharmacies. SB 1193 expressly authorizes that a facility that is registered as an outsourcing facility with the Food and Drug Administration (FDA) shall be concurrently licensed with the board as an outsourcing facility.

SB 1193 also requires a pharmacy that own or provides dangerous drugs that are dispensed through an automated drug delivery system to register that system and provide the location of each device within 30 days of installation and on an annual basis. Use of these delivery devices promotes security, accuracy and accountability while providing for quality, potency and purity of the medications.

The Board is requesting one supervising pharmacy Inspector and two pharmacy inspectors. Outsourcing inspections require at least three full working days using two inspectors. The supervising pharmacy inspector manages and oversees the inspectors to provide direction, monitoring, leadership and continuous training. Supervising inspectors are responsible to review the work product of the pharmacy inspector. The board's pharmacy inspectors work in the field conducting pre-licensure, post licensure and routine inspections in addition to inspections as a result of complaints received from consumers. Outsourcing facilities must renew licenses and undergo inspection annually.

The half-time office technician position is being requested to process registrations for automated drug delivery systems. It is estimated that data entry for approximately 3,000 automated drug delivery systems will be processed.

Issue 9: Bureau of Real Estate – Broker Relationships & Removal of Posted Discipline (AB 2330 & AB 1807)

Budget. The Bureau of Real Estate (BRE) requests position authority for one Program Technician II (PT II) and budget authority of $79,000 in fiscal year 2017-18, and two Special Investigators and one full-time PT III and $412,000 in 2018-19 and ongoing to support the Enforcement, Legal and Licensing divisions. The purpose of this request is to provide the necessary staffing levels to manage the increases in workload and phone calls in BRE's Licensing and Enforcement divisions that will result from the requirements imposed by Assembly Bill 2330 (Ridley-Thomas), Chapter 614, Statutes of 2016, and Assembly Bill 1807 (Bonta), Chapter 558, Statutes of 2016.

Background on AB 2330. AB 2330 requires the Real Estate Commissioner to identify on BRE's website associate licensees, if the associate licensee is a broker, and each responsible broker with whom the associate licensee is contractually associated. It requires a real estate broker to immediately notify the Real Estate Commissioner of the employment relationship between the broker and the associate broker.

As of June 30, 2016, the BRE had 134,947 licensed real estate brokers. In implementing AB 2330, it is estimated that approximately fifty percent of all brokers work in an associate broker capacity. These estimates reflect the minimum number of potential Broker Associate Change applications the bureau anticipates receiving.

The workload associated with AB 2330 will primarily impact the BRE's Licensing Section. Beginning in January 2018, real estate brokers will be required to begin notifying the BRE of employed broker-associates. The PT II position will process these employment changes into the bureau's database, review applications, and update employment records on the on-line public license record for both the broker and broker-associate.

Background on AB 1807. AB 1807 allows a licensee of the BRE to petition the Real Estate Commissioner to remove his or her notice of disciplinary action from the bureau's website. A licensee may petition the commissioner to remove the notice of discipline, if the disciplinary action has been posted for at least ten years and the licensee provides evidence of rehabilitation indicating the information is no longer necessary to prevent a credible risk to the public. "Posted" is defined as the date the disciplinary action was taken by the BRE.

The BRE currently has 411,653 licensees. Of this number, 19,000 license records display disciplinary action for the period from 1975 through September 1, 2016. The initial workload for implementing this bill could include licensees with disciplinary action on their record from 1975 through 2006, which may be approximately 14,174 licensees.

The workload associated with the petition process is primarily going to impact the Bureau's enforcement, legal, and licensing sections. The special investigator positions in the Enforcement section will be charged with reviewing petition applications accompanied by evidence of rehabilitation, conducting background investigations, and making recommendations as to whether or not the posted discipline should still be required. Once a recommendation has been made, the Legal section will be tasked with reviewing the enforcement section's recommendation and ensuring that the evidence submitted satisfies both the intent of the statute, as well as any subsequent regulations.

Once a decision has been made, legal staff will draft an order for the commissioner's signature, whereby the commissioner will either grant the removal or the disciplinary notice or deny the petitioner's request. If the petition is denied, the petitioner has the right to request reconsideration, which would involve additional legal staff time. Under either scenario, the order will be forwarded to the licensing program, and the unit will ensure that the licensee's on-line record is updated accordingly, and references to prior disciplinary action removed, if required. Furthermore, licensing, in collaboration with the Information Technology section, will maintain a list of all licensees whose disciplinary records are altered.

Issue 10: Bureau of Security and Investigative Services – Security Guard Firearm Assessment Program (SB 1196)

Budget. The Bureau of Security and Investigative Services is requesting $172,000 in fiscal year 2017-18 and $215,000 in 2018-19 and ongoing to support the following positions to implement Senate Bill 1196 (Hill), Chapter 800, Statutes of 2016: two permanent Program Technician II positions in 2017-18, and ongoing, and one permanent Staff Services Analyst position in 2017-18 and ongoing.

Background. The bureau regulates seven professions: locksmiths, repossessors, private investigators, proprietary security services, private security services, and alarm companies. The bureau licenses, registers and certifies the businesses and their employees related to the six chapters. There are 24 different license types. In addition, the bureau approves organizations and schools who provide security guard training.

SB 1196 requires that an applicant for an initial firearms permit, who is a registered security guard, to complete an assessment to demonstrate that he or she possesses appropriate judgment, restraint and self-control to carry a firearm while performing his or her security guard duties. Additionally, the bill requires the bureau to contract with a third-party vendor to administer the assessment with the cost of the assessment to be borne by the applicant or their designee. The bill requires the bureau to consult with a California licensed psychologist or other subject matter experts to assist in the establishment of the criteria for the scope of work to secure a third party vendor, as well as assist in the review of the contract bids. The bureau is required to consider the cost to the applicant, geographic accessibility, and compliance with established standards for the assessments.

The bureau's licensing unit strives to process initial, complete (no deficiencies) individual license applications within 60 days, initial and complete (no deficiencies) company applications within 90 days, and to process renewal applications within 60 days. However, due to various reasons including longer processing times, high workload-to-staff ratios, a high-rate of deficient applications, and a growing licensing population, these processing targets are challenging to maintain. The bureau utilizes overtime and permanent-intermittent positions to help sustain reasonable processing times.

The licensing workload related to the processing activities associated with these assessments for security guard applicants will be significant and will not be able to be absorbed by the bureau with current staff resources.

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Issue 1: Environmental Programs Increase

Budget. The California Military Department (CMD) requests the establishment of one position and an increase of $144,000 in Federal Trust Fund authority within the Army Guard Headquarters, Environmental Programs Directorate.

Background. In accordance with a Master Cooperative Agreement, the California National Guard Environmental Programs Directorate provides guidance, compliance and oversight to the CMD in an effort to protect the environment. Due to the large number of California Army National Guard (CA ARNG) facilities, the complexity of the environmental programs in California and the continuously-increasing scope of environmental laws and regulations, the National Guard Bureau (NGB) determined that the Environmental Programs Directorate requires 35 positions. Currently, the Environmental Programs Directorate has 33 state authorized positions, in addition to a single federal technician.

The positions are responsible for statewide environmental compliance within the CA ARNG. This directorate manages 17 programs that generate a variety of projects that require coordination with regulatory agencies, consultation with operating directorates, fieldwork, and acquiring permits. The requested position would help the directorate keep up with increasing environmental project demands and changing environmental laws and requirements, as well as meet the NGB required 35 positions. The Environmental Directorate may be subject to fines and penalties due to non-compliance if it does not meet the NGB required 35 positions.

Issue 2: San Diego Readiness Center Renovation (Phase 2)

Budget. The department seeks $3,758,000 ($1,879,000 General Fund and $1,879,000 matching federal funds) for Phase 2 (of 3) of construction, for the continuing San Diego Readiness Center Renovation project.

Background. The San Diego Readiness Center houses the headquarters for Defense Support to Civil Authorities (DSCA) for Southern California and is, therefore, the most operationally critical armory in all of Southern California. Renovation of the San Diego Readiness Center will be completed over three phases and adds a 4,400 gross square foot addition to the existing facility. Phase 2 construction focuses on modernizing the main armory building by upgrading HVAC, electrical, and lighting; refurbishing the currently inoperable kitchen; updating plumbing and latrines; abating lead and asbestos; and installing energy efficient windows. This renovation also addresses ADA, security, and other regulatory-driven improvements.

ISSUES PROPOSED FOR DISCUSSION/VOTE

2100 DEPARTMENT OF ALCOHOLIC BEVERAGE CONTROL (ABC)

Overview. The Department of Alcoholic Beverage Control (ABC) licenses and regulates approximately 90,000 licensees engaged in the manufacture, importation, distribution, and sale of alcoholic beverages in California. As of February 1, 2017, ABC had a vacancy rate of 5.6 percent. The vacancy rate for sworn personnel was 6.4 percent and 4.9 percent for non-sworn personnel. In 2015-16 ABC issued 11,056 licenses renewed 84,490 licenses. On average, it took 136 days to process a license application. During that same time period the department completed 3,761 investigations.

Budget. The balance of the Alcoholic Beverages Control Fund, which funds 98 percent of all activity (the other two percent is reimbursements from Office of Traffic Safety grants), is projected to be approximately $25 million at the end of the current year, and $19 million at the end of 2017-18.

Issue 1: Information Security Office

Budget. ABC requests $278,000 in 2017-18 and $274,000 in 2018-19 and ongoing from the Alcoholic Beverage Control Fund for two positions to establish the Information Security Office (ISO). The establishment of the ISO will provide the appropriate staffing to develop and implement security policy and practices to safeguard the department’s information assets, maintaining confidentiality and integrity in accordance with State Administrative Manual (SAM) Section 5300.

Background. The ABC, like many of California's government departments, maintains an extensive range of confidential and sensitive data, including social security numbers and financial information.

In a report published in August of 2015, the state auditor found ABC was not fully compliant with information security and privacy requirements prescribed in SAM Section 5300. The results of the risk assessment resulted in the development of an Information Security Plan that established ABC’s first permanent ISO, developed information security policies, and achieved compliance in ABC’s security program to appropriately correct the items identified by the state auditor. The audit response team was made of temporary staff members and ABC requests resources to transition the initial efforts into a permanent office that could fully institutionalize the information security policies.

To accomplish this transition, pursuant to Control Section 31.00 (d) of the Budget Act of 2016, ABC administratively established one Data Processing Manager (DPM) III on November 1, 2016, to assume the roles and responsibilities of Information Security Officer. The creation of this position was the initial effort in the establishment of the ISO. This proposal addresses the additional resources needed to successfully implement an Information Security and Privacy Program at the ABC.

The requested positions to staff the ISO include one DPM III and one Staff Information Systems Analyst. Responsibilities of the DPM III position include directing and managing a complex security project; recommending and implementing policy; and creating processes and procedures using best practices and industry standards that protect the ABC employees, data assets, and stakeholders.

Although the ABC's initial efforts to address its information security challenges have been effective in terms of creating policy and procedure, the vast majority of the work related to achieving compliance is meeting the challenge of institutionalizing a large volume of new policy and procedure across 25 different physical locations. The ABC’s temporary staff has facilitated the creation of an Information Security and Privacy Plan and a Policy Manual, which establishes new policy and procedures that need to be integrated into the ABC's operation. Successful implementation of these policies and programs will require extensive change management, project management, and communication between the ISO and all units in the department. Given many of the policies are completely new, it is anticipated that significant training and consideration of operational complications will be required. The ISO will have the responsibility of staying up to date with new policies, practices, and threats and be responsible for evaluating the operation of the ABC's IT operation.

Issue 2: Database Administration

Budget. ABC requests $129,000 in 2017-18 and $127,000 in 2018-19 and ongoing from the Alcoholic Beverage Control Fund for one position to improve the performance of ABC's systems, most notably the Alcoholic Beverage Information System (ABIS), the department's primary business application, through appropriate database administration.

Background. In May 2010, ABC launched the ABIS. The ABIS was developed by an external vendor using the company's proprietary commercial off-the-shelf (COTS) software. However, the COTS application was heavily modified to meet ABC's requirements. The primary function of ABIS is to register, manage, and maintain licenses for ABC.

There are four application developers that support the ABIS system. There is one senior programmer analyst that acts and the lead developer and three staff programmer analysts. The primary responsibility of the development team is to maintain the ABIS system. However, there is a lack of knowledge within ABC in the area of database administration.

There are functional gaps in ABC's Application Development team, as the team lacks knowledge and experience in database administration. Only minimal database management tasks are being completed and in a reactive manner. There is no analysis being done to identify ways to improve database performance. Thus, there is limited ability for ABC IT staff to engage in these aspects of troubleshooting the ABIS system, increasing the reliance on the vendor. There is no staff person for developers to consult with regarding how to efficiently extract data from the system or build new connections to the existing data. In addition to the impact on the support of ABIS, ABC is also limited in its ability to properly develop and support new solutions that would require database administration.

ABIS is currently experiencing performance issues which have been difficult to diagnose. From 2015-16 to the present ABIS has suffered eight outages, resulting in 21.4 hours of downtime. When an outage occurs ABC contacts the contracted database administrator and there can be lag time for the contractor to respond.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Overview. The department seeks to protect Californians by establishing and enforcing licensing standards for approximately three million professionals across 250 business and professional categories. DCA oversees forty entities (26 boards, two committees, one commission, ten bureaus, and one certification program). The committees, commission, and boards are semi-autonomous bodies, whose members are appointed by the Governor and the Legislature. In general, the department's boards and bureaus provide exams and licensing, enforcement, complaint resolution, and education for consumers. License fees primarily fund DCA's operations.

Budget. The budget includes $655.4 million total funds and 3,273 positions to support the department, its programs, and its services. Specifically, the budget includes:

Code	Program	Actual 2015-16*	Estimated 2016-17*	Proposed 2017-18*
1100	California Board of Accountancy	$-	$14,099	$13,410
1105	California Architects Board	-	4,565	4,687
1110	State Athletic Commission	-	1,757	1,806
1115	Board of Behavioral Sciences	-	12,337	11,288
1120	Board of Chiropractic Examiners	-	3,994	4,126
1125	Board of Barbering and Cosmetology	-	22,106	22,022
1130	Contractors' State License Board	-	63,319	64,638
1132	CURES	-	1,612	1,612
1135	Dental Board of California	-	15,605	16,143
1140	State Dental Hygiene Committee	-	1,969	1,992
1145	State Board of Guide Dogs for the Blind	-	148	214
1150	Medical Board of California	-	62,237	60,725
1155	Acupuncture Board	-	3,714	3,261
1160	Physical Therapy Board of California	-	5,207	4,894
1165	Physician Assistant Board	-	1,653	1,693
1170	California Board of Podiatric Medicine	-	1,256	1,473
1175	Board of Psychology	-	4,815	5,019
1180	Respiratory Care Board of California	-	3,292	3,673
1185	Speech-Language Pathology and Audiology and Hearing Aid Dispensers Board	-	1,962	1,966
1190	California Board of Occupational Therapy	-	2,299	2,241
1196	State Board of Optometry	-	2,119	2,593

1200	Osteopathic Medical Board of California	-		
1205	Naturopathic Medicine Committee	-	316	399
1210	California State Board of Pharmacy	-	19,715	21,925
1215	Board for Professional Engineers and Land Surveyors and Geologists	-	11,430	11,770
1220	Board of Registered Nursing	-	42,122	40,738
1225	Court Reporters Board of California	-	1,238	1,244
1230	Structural Pest Control Board	-	5,095	5,251
1235	Veterinary Medical Board	-	4,774	4,574
1236	Veterinary Medical Board Pet Lover's License Plate Program	-	150	150
1240	Board of Vocational Nursing and Psychiatric Technicians of the State of California	-	13,373	15,688
1400	Arbitration Certification Program	1,185	1,171	1,219
1405	Bureau of Security and Investigative Services	13,708	16,633	16,019
1410	Bureau for Private Postsecondary Education	13,959	17,181	18,738
1415	Bureau of Electronic and Appliance Repair, Home Furnishings and Thermal Insulation	6,603	7,737	7,440
1420	Bureau of Automotive Repair	170,845	186,795	188,315
1425	Consumer Affairs Administration	111,638	128,441	132,984
1426	Distributed Consumer Affairs Administration	- 111,461	- 128,261	- 132,804
1430	Telephone Medical Advice Services Bureau	163	104	-
1435	Cemetery and Funeral Bureau	3,376	4,334	4,484
1440	Bureau of Real Estate Appraisers	5,303	-	-
1441	California Bureau of Real Estate Appraisers	-	5,667	5,682
1445	Bureau of Real Estate	51,238	-	-
1446	California Bureau of Real Estate	-	52,049	52,486
1450	Professional Fiduciaries Bureau	635	495	520
1455	Bureau of Medical Marijuana Regulation	3,122	14,812	26,786
Total Expenditures (All Programs)		**$270,314**	**$637,740**	**$655,408**

*Dollars in thousands

Issue 1: Medical Board – Staff Augmentation: Enforcement

Budget. The Medical Board of California requests $187,000 in fiscal year 2017-18 and $161,000 in 2018-19 and ongoing to fund two permanent positions to address increased workload in the Enforcement Program resulting from an increase of insured consumers in the state and consumer complaints received by the board.

Background. The recent implementation of the Affordable Care Act and the expansion of the Medi-Cal program have resulted in an increase of approximately four million insured consumers in the state. During this time, the board also began receiving consumer complaints online, which increased the total number of complaints received each year.

Workload Measure	Previous Year - 4	Previous Year - 3	Previous Year - 2	Previous Year - 1	Previous Year	Current Year
Number of Complaints Received	7,122	6,923	7,459	8,329	8,267	8,674

In addition to the increase of complaints received, the enforcement processing timeframes have greatly increased over the years, as shown in the table below. Since 2014-15 there has been an increase in more complex complaints, which require more time to process, and has resulted in a significant increase in overall enforcement work hours to process complaints. Initial review and analysis of more complex complaints take five hours on average, while simpler complaints can be reviewed in about two hours.

Complaint Process	Previous Year - 1	Previous Year	Current Year
Average Processing Time (Days)	67	140	152

Although the launch of the online system simplified the complaint process for some consumers, it also impacted the average processing timeframes. Online complaints often take more time to process due to the limited information that is provided by the complainant. Online complaints can be anonymous, resulting in the analyst dedicating more time to obtain needed information.

To lower the average number of days it takes to process a complaint and either close or refer it for further investigation, the board is requesting two positions in the Enforcement Program's Central Complaint Unit. The positions will reduce the overall average caseload per CCU analyst.

Issue 2: Board of Registered Nursing – Licensing Program Staff

Budget. The Board of Registered Nursing is requesting an increase in the board's limited-term expenditure authority of $1,270,000 in fiscal year 2017-18 and $1,142,000 in 2018-19 to fund 16.0 positions to address severe deficiencies within the board's Licensing Unit. Specifically, the positions:

Licensing Program:
• Four Limited-term Program Technician (PT) I
• Five Limited-term PT II
• One Limited-term Staff Services Manager (SSM) I

Licensee Services:
• Four Limited-term PT II
• One Limited-term Office Technician (OT)
• One Limited-term Supervising PT II

Background. The board is the regulatory agency for registered nurses (RNs) within California. Its primary mission is public protection and customer services for consumers, licensees and applicants. The licensing program issues new licenses to approximately 24,000 RNs, certifies 6,300 advance practice nurses and receives over 42,000 RNs and advance practice applications to review and process each year.

Processing times with the current authorized positions within the licensing program increased from 4-6 weeks to 12 - 20 weeks for applicants. The launch of the BreEZe computer system brought the ability for more robust data collection and tracking which added steps in the licensure and renewal process, thus increasing processing times.

Currently the board has one United States evaluation unit that handles both exam and endorsement initial applications and all repeat/reapply applications. This unit is currently staffed with three permanent full-time OT positions, two permanent full-time PT II positions and one permanent intermittent OT. Duties within the unit include the evaluation of the application record, transcripts, fingerprint results and any supporting documents. Staff prepares deficiency letters to applicants, and evaluators determine eligibility to exam or for licensure based on all documents received as part of the application for licensure. Additionally, if reporting an arrest, conviction or out of state discipline, additional documentation is required of the applicant and additional steps must occur. The board is requesting five PT II positions in the US evaluation unit.

The Technical Services unit is responsible for the preparation of exam, endorsement and advance practice files. Technical staff duties include entering of application data into the BreEZe system, creating temporary license transactions, scanning, filing and attaching supporting documents into application files, processing incoming mail for both US and International applicants, and copying and certifying transcripts, among other duties. The board is requesting four PT I positions and one SSM I to address the workload associated with processing delays. The Board has redirected six staff positions from other units to assist with processing backlogs, and used DCA's Organization Change Management Unit to map business processes in order to fully utilize current staff time.

These delays have also caused an increase in the number of telephone calls, complaints and e-mail correspondence received by the board. The board receives an average of 48,800 calls per month of which only 13 percent are answered; 39 percent receive a system disconnect and 48 percent abandon calls for a total of 87 percent unanswered incoming calls. The board is requesting four limited-term PT II positions and one limited-term supervising PT II to address the call center workload.

The board has grown from 98 staff positions in 2008-09 to 157.1 in 2015-16, indicating a 60 percent increase. The Human Resource (HR) Unit consists of two staff to complete all HR related duties for the Board. The board is requesting one limited-term OT in this unit.

Issue 3: Board of Registered Nursing – Military Education and Experience

Budget. The Board of Registered Nursing is requesting three Nursing Education Consultant (NEC) positions and $389,000 in fiscal year 2017-18 and $365,000 ongoing to ensure all approved nursing programs have a method(s) to evaluate military education, experience, and training that may qualify to meet nursing education requirements; and evaluate military education, experience and training at the time of application to qualify to take the National Council Licensure Exam - Registered Nurse (NCLEX-RN) and obtain licensure in California.

Background. Senate Bill 466 (Hill), Chapter 489, Statutes of 2015, requires the board to review schools' clinical instruction to determine if it adheres to the regulations for granting educational credits for military education and experience, review applications from schools to determine if they are eligible to grant credit for military experience and education, revoke nursing program's approval if they do not give credit for military education and experience, and review applications from any person who has served on active duty to determine if their military education and experience qualifies them for licensure. Each nursing school would be reviewed for compliance every four years.

The board currently has 142 approved pre-licensure programs and over 20 advanced practice programs in California. The board's NECs ensure that nursing education programs meet regulatory requirements and that the curriculum content addresses contemporary political, technical, economic, healthcare and nursing practice developments. Upon completion of a program visit and the completion of their report, a NEC will present their findings to the Education Licensing Committee and to the Board. Currently, scheduled continuing approval visits are conducted every five years with findings reviewed by the ELC and full board. A routine program review normally takes between four to six days. NECs also approve new nursing schools and programs, a process that can take up to two years.

The board currently has 10 NECs split between Northern and Southern California to complete routine school visits as well as perform other daily duties such as, provide leadership in the development of new approaches to nursing education; ensure that reports and data sources related to nursing education in California are utilized in nursing program design; monitor and evaluate the NCLEX-RN examination construction, process and test-taker outcomes; maintain licensure and certification application processes in compliance with regulation; and provide ongoing monitoring of the Continuing Education (CE) Program and verify compliance with Board requirements by licensees and providers.

The board notes that a complete program review will require a school visit and staff dedicated specifically to that purpose. This past fiscal year, the Board's 10 NECs completed 28 program visits for continued approval. Currently, there are 142 approved nursing programs that would need to be reviewed for compliance.

LAO Comment and Recommendation. The LAO finds the "…estimate of workload associated with reviewing schools pursuant to Chapter 489 appears inflated." Information provided by the Board indicates that each school review will take almost four weeks to complete, and require a site visit. There is uncertainty regarding whether review will take the stated amount of time, and if a school visit is necessary. It is anticipated that these reviews can be accomplished by reviewing school policies, instead of through school visits. LAO recommends reducing the proposal from $389,000 to $130,000 and one permanent position in 2017-18 ($122,000 ongoing).

Issue 4: Bureau for Private Postsecondary Education – Private Postsecondary Education Act (SB 1192)

Budget. The Bureau for Private Postsecondary Education requests $1,008,000 in fiscal year 2017-18 and $928,000 annually thereafter to fund ten positions to implement the provisions of Senate Bill 1192 (Hill), Chapter 593, Statutes of 2016. The bureau also requests a one-time increase of $1 million in 2017-18 to fund relocation costs and $250,000 in 2017-18 and annually thereafter for increased rent costs.

This proposal requests funding and position authority as follows:

- $180,000 in 2017-18 and $164,000 annually thereafter to fund two Staff Services Analysts (SSA) to regulate out-of-state institutions offering distance education to California students.

- $629,000 in 2017-18 and $581,000 annually thereafter to fund one Office Technician (OT), two Associate Governmental Program Analysts (AGPA), one Associate Information Systems Analyst (AISA), one Research Program Specialist (RPS) I, and one Career Executive Assignment A (CEA A) to establish and maintain the Office of Student Assistant Relief (OSAR).

- $199,000 in 2017-18 and $183,000 in 2018-19 to fund one SSA and one AGPA to receive and process claims anticipated to be submitted by Corinthian students upon the Student Assistance Relief Fund (STRF).

- $1 million one-time in 2017-18 for relocation costs and $250,000 in 2017-18 and annually thereafter for increased rent costs.

Background. SB 1192 requires the bureau to: 1) regulate out-of-state institutions offering distance education to California students, 2) create the Office of Student Assistance Relief (OSAR) for the purpose of advancing and promoting the rights of private postsecondary students, and 3) expand economic recovery from the Student Tuition Recovery Fund (STRF) to all California students of Corinthian Colleges, Inc. The additional staffing will require the bureau to relocate from its current location.

Out-of-state institutions offering distance education to California students must register with the bureau and comply with the requirements of the STRF. Based on the number of inquiries received from out-of-state institutions seeking to provide distance education to California students, the bureau estimates approximately 250 institutions will register with the bureau each year beginning in 2017-18.

The bureau typically receives complaints from students on approximately 80 percent of its current licensee population each year. Assuming the same complaint rate of 80 percent applies to out-of-state institutions, the bureau will be required to investigate approximately 200 institutions per year.

The bureau is required to establish the OSAR for the purpose of advancing and promoting the rights of students of private postsecondary educational institutions. Workload associated with OSAR will include outreach to students and prospective students; facilitating resolution of student concerns; serving as a primary point of contact to address the needs of students; coordinating services for students; and researching and examining industry, student, and other relevant demographic trends.

Basing estimates on data related to Heald and Everest Online students, the bureau anticipates receiving 720 STRF claims over a two-year period beginning in 2017-18, of which 39 percent (or 281) STRF claims will be approved.

Issue 5: State Board of Optometry – Registered Dispensing Optician Augmentation

Budget. The California State Board of Optometry is requesting to increase the Registered Dispensing Optician Program's (RDO) appropriation by $86,000 in fiscal year 2017-18 and ongoing and increase the board's reimbursement authority by $86,000 to allow the RDO program to reimburse the board for services provided in the oversight of the program. A breakdown of these costs:

- Executive Officer (15 percent time) - $12,000
- Staff Services Manager I (20 percent time) - $14,000
- Associate Governmental Program Analyst (30 percent time) - $19,000
- Staff Services Analyst (5 percent time) - $3,000
- Benefits - $26,000
- RDO portion of rent - $10,000
- Other operating expenses and equipment - $2,000

Background. The board's primary responsibility is to protect California consumers from negligent, incompetent, or fraudulent licensees and individuals in the practice of optometry.

As of January 1, 2016, the board acquired the RDO Program. The RDO Program staff consisted of one management services technician. Enforcement and clerical work (e.g., opening/distributing mail, phone calls, ordering supplies, etc.) were absorbed by the Medical Board of California (MBC) and billed to the RDO Program for services rendered. The board has a significantly smaller staff size than the MBC and was unable to absorb the work up front, consequently the board submitted a Budget Change Proposal (BCP) to reallocate funds allotted for the MBC shared services to a half-time Office Technician (OT) (for clerical work) and a 0.6 Special Investigator (for enforcement). The BCP was approved for 2016- 17.

However, the board is still providing additional services to the RDO Program. These services include oversight, preparation of regulations, review of policy related materials, addressing pending legislation, and rental costs.

The Board of Optometry's Executive Officer (EG) will spend an estimated 15 percent of her time providing oversight of the entire RDO Program. The EG will review and approve all administrative and disciplinary matters, work directly with board and committee members, and provide updates at board and committee meetings. The EG will also work with stakeholders, Office of Administrative Law and members of the Legislature and their staff on rulemaking files and needed legislation. The Board's Assistant Executive Officer (AEO) will spend 20 percent of his time providing supervisory oversight of the RDO Program staff. The AEO is responsible for training, organizing and supervising the RDO staff work, and will develop annual enforcement goals and objectives in coordination with committee/board staff. It is estimated the board's policy analyst will devote at least 30 percent of her time to amending statutes and regulations for the RDO Program. The majority of RDO Program's statutes and regulations have not been revised in almost three decades.

Issue 6: Consumer Affairs Administration – Workforce Development for Allied Health Professionals (AB 2105)

Budget. DCA requests $114,000 in fiscal year 2017-18, $106,000 in 2018-19, and FY 2019-20 to fund one Associate Governmental Program Analyst to implement the provisions of Assembly Bill 2105 (Rodriguez), Chapter 410, Statutes of 2016.

Background. AB 2105 builds on recommendations made in a December 2015 report by the California Workforce Development Board on establishing "earn and learn" opportunities within the healthcare industry. "Earn and learn" programs are those intended to offer participants a wage while completing the training and education necessary for a specific occupation. As part of the report's conclusion, a recommendation was made that a "focused and collaborative effort" be made by a variety of stakeholders to find ways to adapt the apprenticeship model for the health care industry.

AB 2105 requires DCA to create and conduct a stakeholder process to develop "earn and learn" training programs within the allied health professions. That process is required to be completed by January 1, 2020, and requires the leadership and inclusion of DCA, its relevant licensure boards, the Division of Apprenticeship Standards, representatives appointed by the Board of Governors from the California Community College system, the California Workforce Development Board, the State Department of Public Health, any other relevant, employer and worker representatives, and community-based organizations. DCA is further mandated to address specific issues as addressed by the California Workforce Development Board report of 2015, and share all identified statutory barriers in a report to the Legislature.

Relevant licensure boards to be included in the process:

Acupuncture Board
Dental Board
Dental Hygiene Committee
Medical Board
Physician Assistant Board
Board of Registered Nursing
Board of Optometry
Osteopathic Medical Board
Board of Pharmacy
Board of Podiatric Medicine
Board of Psychology
Respiratory Care Board
Board of Occupational Therapy
Board of Chiropractic Examiners
Physical Therapy Board
Speech Language Pathology and Audiology and Hearing Aid Dispensers Board
Veterinary Board

The requested position will be a focal point for stakeholders and will be responsible for the coordination and execution of the stakeholder process. This position will be responsible for conducting research into each potential barrier for licensure, handling stakeholder inquiries, public inquiries, correspondence, conducting outreach in order to appropriately staff stakeholder meetings, create informational packets and meeting materials, conduct the stakeholder meetings, provide follow up reports to participants and the Legislature, and coordinate the creation of the programs that may result from the process.

Issue 7: Consumer Affairs Administration – Organizational Change Management (SOLID)

Budget. DCA is requesting $1,327,000 in fiscal year 2017-18 and $1,207,000 in 2018-19 and ongoing to fund ten permanent positions associated with conducting periodic business process reviews of the 40 boards, bureaus, committees, programs, and commission (Boards) under the department. Funding of this proposal will come from the special funds that support these department's 40 entities. The costs are proposed to be distributed across all of these special funds in proportion to each entity's share of authorized positions.

Background. The Strategic Organization, Leadership, and Individual Development (SOLID) unit handles all training and strategic planning services for the boards, and is dedicated to the continual improvement and organizational development of the department and its Boards. Additionally, SOLID provides meeting facilitation, organizational change management (OCM) consultation services, and teambuilding workshops to assist board members and staff in dealing with unique issues facing a Board. SOLID offers its services to all Boards under the department.

SOLID offers services to the boards in two formats – helping boards transition to new information technology systems and assisting Boards in identifying performance issues and developing solutions to those issues. These reviews are a proactive approach to identify performance issues and develop solutions that prevent minor problems from growing into larger ones. The reviews are a collaborative process with the boards, instead of an audit or oversight process. SOLID has provided support to various projects and Boards within DCA including BreEZe release 2 efforts, DCA FI$Cal Project, State Board of Guide Dogs for the Blind, Board of Registered Nursing Complaint Intake and Investigations, Board of Registered Nursing Licensing, and the Professional Fiduciary Bureau.

The OCM process includes a number of steps that may be part of a scope of work for SOLID with a Board. Those steps include:

- Discovery and Analysis: SOLID educates staff on the OCM process, discusses roles and responsibilities, and creates a communications plan.

- Planning and Preparation: SOLID customizes a "toolkit" of activities and documents for the Board based on data it collects and schedules meetings with subject matter experts.

- Business Process Mapping: SOLID works collaboratively with board subject matter experts to identify current business processes ("As-is") and develops customized workflow diagrams.

- Training and Acceptance: SOLID provides training tools, job aids, reports and other documents to assist Board staff in understanding the change and how the new process works.

- Implementation and Evaluation: SOLID works with the Board staff to develop new metrics for the new process and provide support to the staff once the new process has been implemented.

There are currently three Associate Governmental Program Analysts in SOLID providing organizational change management services to the boards and the department. Recently the department redirected another two positions to SOLID.

The department plans to use the requested staff to provide these services to five to seven Boards annually, including review of department offices and divisions, with full departmental review in the next six to eight years. Additionally, the new staff in SOLID would be utilized to assist any Boards seeking to implement a new IT project or business process analysis or re-engineering.

LAO Comment and Recommendation. "While we find that the goal of improving the efficiency and effectiveness of the Board and bureau operations is worthwhile, DCA has not adequately justified that OCM (1) is needed at all Boards and bureaus, (2) has a proven track record at DCA or other state departments, or (3) will produce specific measurable outcomes." LAO recommends rejection of this proposal and suggests that DCA return with a proposal once it is able to verify the merit of these reviews.

Issue 8: Consumer Affairs Administration – BreEZe System and Credit Card Funding

Budget. DCA's Consumer and Client Services Division (CCSD), is requesting appropriation authority of $16,762,000 in fiscal year 2017-18, $19,450,000 in 2018-19 and $4,619,000 ongoing for the continued support of BreEZe Maintenance & Operations (M&O). The total costs are based on system support costs and projected workload pertaining to the BreEZe M&O activities for 2017-18 and 2018-19 and 43.0 positions to support the system.

This request also includes $3,033,000 in funding for 2017-18 and ongoing for all boards and bureaus to fund credit card processing fees on behalf of users of credit card payments through the BreEZe system.

The requested augmentation is as follows (dollars in thousands):

	BreEZe System	Credit Card Convenience Fee	Total Augmentation
2017-18	$16,762	$3,033	$19,795
2018-19	$19,450	$3,033	$22,483
Ongoing	$4,619	$3,033	$7,652

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

The BreEZe project began with approval of a Feasibility Study Report (FSR) on November 30, 2009, and subsequent Special Project Report (SPR) 1 approved on July 20, 2011. The project had been planned to be rolled out in three separate releases (Release 1, 2 & 3). The first release was launched in October 2013. SPR 2, approved on October 31, 2013, updated the project status with updated milestone dates and total project costs due to project delays encountered during the implementation and deployment of Release 1. According to a report by the State Auditor, most Release 1 Executive Officers reported that BreEZe decreased their regulatory entity's operational efficiency. In January 2015, the administration informed the Legislature of its intent to cancel the contract with Accenture after Release 2 due in large part to rising project costs. The Legislature concurred with the administration's proposed approach in March 2015, but expressed a desire for closer oversight over the project and for a plan for Release 3 boards and bureaus. In January 2016, DCA launched Release 2 and has since reported that the second release is proceeding successfully.

In 2015-16, the department was approved for limited funding for 34 new, permanent positions to complete the project and provide ongoing support for the BreEZe System. These 34 positions were supported with funding for three years. The department is requesting permanent funding for the previously authorized 34 positions, plus an additional nine permanent positions to be used for M&O support and cashiering.

BreEZe M&O involves the on-going licensing of the Versa: Regulation product suite, a commercially available integrated enforcement case management and licensing solution that can be configured for the department's needs. The department is continuing its efforts to fully transition routine system support responsibilities to the state. In the interim, Accenture Limited Liability Partnership continues to provide additional maintenance support and knowledge transfer following system implementation. In addition, the department continues to maintain and support the BreEZe System's vast technical architecture housed within the California Department of Technology's Tenant Managed Services Data Center.

This proposal also requests continued funding for credit card processing fees. BreEZe interfaces with a third-party payment processor which will provide the department with the ability to accept electronic payments, while meeting compliance with Payment Card Industry (PCI) Security Standards, via the third-party payment processor. The estimated amount needed is based on the assumption that the on-line usage will continue to grow and up to 80 percent of all (with some exclusions) revenue will be received via a credit card transaction and a two percent convenience fee will be charged by credit card companies. The revenue used to calculate the cost is from the last full year of revenue, which is 2015-16.

LAO Comment and Recommendation. The LAO recommends approving the proposal. However, since the department is adding five additional maintenance positions, it is recommended that the Legislature reduce DCA's Accenture contract by $1 million in 2018-19—the equivalent of roughly five Accenture positions. This funding level would provide DCA with an opportunity to finish the modification projects that are currently planned. If DCA determines that this Accenture contract amount is insufficient to meet its maintenance needs after 2017-18, it can return in a future year to request additional funding. At that time, the department should have additional information on its maintenance workload and plan to transition from the Accenture maintenance contract.

8940 California Military Department (CMD)

Overview. The CMD oversees and manages the California Army National Guard, the California Air National Guard, the California State Military Reserve, and the California Cadet Corps. CMD has federal, state, and community functions. Soldiers and airmen are deployed by the Department of Defense in support of military operations overseas, activated to protect lives and property after state disasters, and provide various community services.

Budget. The budget includes $164.6 million ($49.6 million General Fund, $108.6 million federal funds, $4.6 million reimbursements, and $1.8 million special funds) to support the department and its various programs. In addition to these funds, the department receives other federal funds, which are not deposited in the State Treasury, totaling $617 million for the Army – National Guard, Air – National Guard, and the Adjutant General.

Issue 1: Capital Outlay - Advanced Plans and Studies

Budget. The CMD seeks $300,000 ($150,000 General Fund and $150,000 federal matching funds) for Architect-Engineering (A-E) services to conduct design studies and programming charrettes for future capital projects. These A-E services will allow the CMD to develop conceptual designs and validated costs estimates for future capital projects.

Background. The federal Army Corps of Engineers manages some department capital outlay projects. Instead of a budget package, the Army Corps uses a design charrette. To accurately estimate project costs for future construction, the CMD must obtain A-E design services and conduct programming charrettes at least a year in advance of a BCP submission. Charrettes include meetings between the CMD and the A-E design firm leading to the development of a conceptual design and detailed cost estimate for each project. The cost of each charrette includes a three-to-five day user input session, detailed space analysis, and validation of the project's federal programming documents. The funding requested in this proposal will fund conceptual designs and detailed cost estimates for armory renovation projects that will be proposed for funding in future years.

Studies scheduled for 2017-18 include Redding, Petaluma, and Oakdale. Approval of this funding will allow CMD to have six "shovel ready" projects.

LAO Comment and Recommendation. "The Legislature has already provided funding for the advance planning documents for the next round of renovation projects - originally anticipated to be proposed for funding in 2017-18, but now expected to be proposed for funding in 2018-19." LAO recommends rejecting the proposal, as funding for planning was approved by the Legislature during last year's budget process.

Issue 2: Capital Outlay - Consolidated Headquarters Complex

Budget. The CMD requests $146,549,000 lease revenue bond funds for the design-build phase of the continuing Consolidated Headquarters Complex project in Sacramento. The complex will provide CMD with a 238,000 square foot (sf) consolidated headquarters building, a 25,000 sf armory, and a 22,600 sf storage facility. Total project costs are estimated to be $163,369,000 ($9,931,000 for acquisition, $6,889,000 for performance criteria and $146,549,000 for design-build).

Background. In 2007-08 the Legislature approved $1 million to be used for CMD to acquire a purchase option for 30 acres of land to be used as the site for the new headquarters facility. $9 million was provided to purchase the site in 2015-16, and $7 million was approved in 2016-17 to provide performance criteria for the project.

CMD staff is currently spread out between several leased buildings in the Sacramento area. These buildings do not meet the security criteria set forth by the U.S. Department of Defense. The proposed complex will consolidate personnel and provide a work environment for 850 soldiers, airmen, and state civil servants. The new facility will address the unique security requirements of CMD, such as Anti-Terrorism/Force Protection, physical security, sensitive item storage and management, essential services structural design, and both federal and state environmental and efficiency requirements.

CMD proposes to construct the complex to be zero net energy (ZNE). A building is considered to be ZNE if the total amount of energy used by the building annually is roughly equal to the amount of renewable energy created on site. The complex will achieve multiple elements mandated by Executive Order B-18-12, including: (1) Greenhouse gas emissions, (2) Zero Net Energy 2025 target footage, (3) grid based energy reduction, (4) on site generation, (5) commissioning, (6) LEED certification, (7) demand response participation, and (8) electric vehicle connectivity.

LAO Comment and Recommendation. The LAO exhibits concerns with the rising cost estimate for the project. In 2016-17 the total cost of the project was estimated at $114 million but that cost has now risen to $163.4 million, mostly due to constructing the building to be ZNE. There is also concern as to whether constructing the building to be ZNE is cost-effective for the state.

8955 California Department of Veterans Affairs (CalVet)

Overview. The California Department of Veterans Affairs (CalVet) serves nearly two million California veterans and their families, helping present claims for entitled state and federal benefits or direct low-cost loans to acquire farms and homes; and providing the veterans, who are aged or have disabilities, with residential and medical care in a home-like environment at the Veterans Homes.

The department facilities include eight veterans homes on 776 acres of land and 2.4 million gross square feet of building space; three state cemeteries (Igo, Seaside in Monterey County, and in Yountville) with 24,000 gravesites on 91 acres; and two office buildings.

Budget. The budget provides $447.6 million ($377.6 million General Fund, $2.6 million federal funds, and $67.3 million special funds) to support the department and its programs.

Issue 1: Reduce Funding for Veterans Services Division Support

Budget. The budget requests a reduction of $1.701 million General Fund ongoing for the California Department of Veterans Affairs, Veteran Services Division. The reduction reverses the 2016-17 Spring Finance Letter that funded 16 existing, but unfunded, positions and reclassified four positions that assist in processing claims for federal veteran benefits and increase oversight of county veterans service officers. The funding supports positions in the district offices in Los Angeles, Oakland, and San Diego.

Background. The Veterans Services Division (VSD) within CalVet is tasked with connecting California veterans and their families with earned benefits and services. To perform this mission, the VSD provides advocacy, education, and service assistance to veterans as they attempt to access their state and federal benefits.

The CalVet manages three District Offices throughout the state, which are co-located within the United States Department of Veterans Affairs (USDVA) Regional Offices in Los Angeles, Oakland, and San Diego. The District offices assist veterans with claims. When a veteran or family member chooses to provide the CalVet with power of attorney (POA) over a claim, one of the three CalVet District Offices will represent the veteran or family member in the submission and appellate process for a USDVA benefit claim. The CalVet maintains POA for about 40 percent of USDVA claims in California, which amounted to approximately 59,000 claims in fiscal year 2014-15 filed by County Veteran Service Offices (CVSO) and the CalVet. The CalVet's role as the POA representative for the veteran claimants is to ensure the veterans and their families receive competent claims representation. In addition to these basic functions, the CalVet District Office staff provides a wide variety of support to California's veterans, their families, CVSOs, USDVA, and veteran service organizations.

The Budget Act of 2013 included a $3.0 million General Fund allocation and 36 limited-term positions for three years to the CalVet to initiate the Joint Claims Initiative. The Joint Claims Initiative is a partnership between the USDVA and the CalVet, which formed a 12-person "Strike Team" in each of the three district offices, designed to reduce the backlog of pending initial entitlement claims. Strike teams have helped reduce the first initial entitlement claims backlog at USDVA from about 70,000 to 7,000. The Budget Act of 2015 made permanent the 36 limited-term positions. Funding for these positions was on a limited basis, thus continued funding for 16 of the 36 positions, as well as funding to reclassify four existing positions, was requested in a Spring Finance Letter and approved last year.

Please see table below for the average number of days to completion (as of March 4, 2017) for California veterans waiting for compensation claims, according to USDVA data:

Region	Average days to completion
Oakland	126.2
Los Angeles	131.1
San Diego	120.4

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 9, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

OUTCOMES

ITEMS PROPOSED FOR VOTE-ONLY

ITEMS PROPOSED FOR DISCUSSION/VOTE

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 23, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART A

Consultant: Mark Ibele

ITEMS PROPOSED FOR VOTE-ONLY

ITEMS FOR DISCUSSION AND VOTE

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

ISSUES PROPOSED FOR VOTE ONLY

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 1: Sustainable Freight Project Manager (BCP)

Governor's Proposal. The Governor's Office of Business and Economic Development (GO-Biz) is requesting funding for an exempt position and ongoing budget authority of $227,000 (special funds), to allow GO-Biz to meet the requirements regarding the sustainable freight action plan. The position will allow GO-Biz to develop the project schedule, including a scope of work, projected costs and ongoing work elements. The position will also be responsible for establishing and staffing a steering group of experts to evaluate and pursue potential strategies.

Background. California's transportation system is a significant source of greenhouse gas and pollutant emissions. In July 2015, the Governor signed an executive order mandating that GO-Biz (along with other agencies) develop the sustainable freight action plan (SFAP) by July 2016. The plan is to establish targets for freight efficiency, transition to zero-emissions technologies, and increase economic competitiveness of the system. GO-Biz is responsible for coordinating and staffing the work with agencies, departments, private freight industry partners, local economic development agencies, the workforce development agency, and the general public in creating targets and developing measurement metrics.

Staff Comment. Staff has no concern with the proposal.

Staff Recommendation. Approve as budgeted.

Vote:

0840 STATE CONTROLLER'S OFFICE

Issue 1: Information Security Workload (BCP)

Governor's Proposal. The State Controller's Office (SCO) requests $966,000 ($549,000 General Fund) in 2017-18 and $928,000 ($529,000 General Fund) in 2018-19 to support eight positions, and $258,000 ($148,000 General Fund) in 2019-20 and ongoing, to support two permanent positions for strengthening the SCO's security measures. The proposed resources would be deployed to validate SCO compliance with state security standards and verify the proper functioning of security precautions. The initial two years of the proposal would include costs associated with temporary help for security activities. The two permanent positions would consist of an information asset security analyst and an information asset custodian. There would also be six temporary positions acting as program area information asset liaisons, one each for SCO's six divisions.

Background. The state and the SCO have adopted the National Institute of Standards and Technology (NIST) guidelines as minimum information security control requirements. The SCO owns and maintains numerous systems with confidential or sensitive data that serve statewide functions. Upon additional review of the NIST standards and in compliance with these standards, the SCO indicates it found two areas – risk assessment and continuous monitoring – that required additional resources. Risk assessment will entail accounting for threats, vulnerabilities and organizational impacts to business operations. Continuous monitoring includes ongoing assessment of information technology infrastructure and evaluating information system security effectiveness. The workload tasks include establishing and maintaining inventories of all information assets, completing annual risk assessments, implementing a continuous monitoring program, and conducting trend analyses on security threats.

Staff Comment. Staff has no concerns with the proposal. The investment in additional security is relatively minor commitment for the continued protection of SCO data bases and systems.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 2: State Government Reporting (BCP)

Governor's Proposal. The budget includes a request from the SCO for resources and positions related to continuing workload for the Budgetary Legal Basis Annual Report (BLBAR) and the Comprehensive Annual Financial Report (CAFR), and to address the new and ongoing workload related to continuing implementation of accounting and reporting standards set by the Governmental Accounting Standards Board (GASB). The request is for eight permanent accounting positions and $1.1 million ($617,000 General Fund).

Background. The activities engaged in by the existing accounting administrators and accounting analysts are crucial for the accurate maintenance of the state's financial transaction records and the representation of these in a standardized acceptable format. In addition, the workload will consist of implementing additional reporting requirements of 11 newly implemented GASB rules, largely related to pensions and pension plans. The responsibilities associated with the BLBAR and the CAFR are currently being addressed using personal service savings, used to hire five permanent staff within the temporary help blanket and to pay for two retired annuitants. As a consequence of this staffing issue, the number of authorized positions for this area is 28.6 and the actual number of filled positions is 34.6. SCO indicates that it is unable to fund such activities on a continuing basis from salary savings and thus seeks resources to provide for the existing seven staff, plus one additional position to address the added GASB workload.

Staff Comment. Staff has no concern with the proposal.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 3: Proposition 47 Agency and Grant Audits (BCP)

Governor's Proposal. The budget includes a request from the SCO for three permanent positions and $389,000 in 2017-18, and $383,000 in 2018-19 and ongoing, from the Safe Neighborhoods and Schools Fund (SNSF). The resources will be used for audits regarding grant awards made by the California Department of Education, California Victims Compensation Board, and the Board of State and Community Corrections, pursuant to the passage of Proposition 47 in 2014.

Background. Proposition 47, passed by the voters in November 2014, reduced penalties for certain offenders convicted for non-serious and nonviolent property and drug crimes. Estimated savings from the measure are $39.4 million in 2016-17 and $62.6 million in 2017-18 and annually, thereafter. Resources equivalent to the savings are to be transferred to the SNSF to be used in support of truancy reduction and drop-out prevention programs, increase victim services grants, and support substance abuse programs and mental health treatment services. The measure requires the SCO to perform an audit of the SNSF every two years, beginning in 2018, to ensure the funds are disbursed and expended solely according to program requirements. The SCO estimates that approximately 125 grants will be ready for audit once the resources are received. Activities of the effort will include auditing of state agencies grant programs, developing a risk assessment for future grantees, and actual audits of grantees.

Staff Comment. Staff has no concerns with the proposal.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 4: Electronic Claims Processing (BCP)

Governor's Proposal. The budget proposes $343,000 (reimbursements) in 2017-18, and $337,000 (reimbursements) in 2018-19 and ongoing, for three permanent positions to address increased workload associated with processing electronic claims, implementing new electronic claims, conducting system conversions, and performing post-payment surveys in conjunction with electronic claims processing. The additional positions will audit electronic claims prior to payment and guard against errors and fraud.

Background. Electronic data processing (EDP) audits fulfills the mandate given to the SCO to determine the legality, propriety and accuracy of claims against the state. EDP audit activities include readiness testing of the system, control evaluations, prepayment audits, post-payment field surveys, and annual tests. Through 2010-11, the department had 17 positions devoted to EDP audits, which was increased in the 2011-12 budget to 21 positions on a two-year, limited-term basis. The department now has 17 positions, with an additional three positions loaned to the audit activity from other divisions. The workload, as documented by the department, has continued to increase. Audited electronic claims have increased from 35.1 million in 2011-12 to

41.7 million in 2016-17 (18.6 percent), and processed electronic claims schedules have increased from 11,303 to 16,160 (42.9 percent) during the same period.

Staff Comment. The department has adequately demonstrated the need for additional resources for the identified activities in its workload data, and has documented the backfilling for additional activities through the use of loaned personnel.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 5: Local Government Oversight Initiative (BCP)

Governor's Proposal. The budget calls for $1.1 million ($108,000 General Fund) for the SCO to provide permanent funding for nine positions (eight continuing and one new) to allow for continued oversight of local government entities. The activities involve the enforcement of the financial transactions reporting requirements of local governments, analyzing and monitoring the financial data for potentially distressed entities, and conducting audits of local government entities. The resources for the existing efforts are largely paid (90 percent) by reimbursements from local governments themselves.

Background. In 2012-13, the SCO was provided limited-term funding for performing local government oversight, with an implementation date of January 2012. These resources were temporarily redirected to significant workloads associated with the dissolution of redevelopment agencies, and as a consequence implementation of local government oversight was delayed to 2013-14. In 2014-15, the budget included three-year, limited-term funding for nine positions with an implementation date of July 2014, in order to provide increased oversight of local governments. The resources received were used to 1) increase compliance with annual financial transaction report requirements by all local government agencies (non-filers) through increased outreach and data collection by the SCO; and 2) develop a method to identify factors that could be used to support a decision to conduct investigations and to conduct such investigations.

Staff Comment. The SCO makes a reasonable case for the continuation of the existing positions, given that statutory requirements do not appear to be sufficient to guarantee local government compliance and guard against waste, fraud, and abusive practices. Numerous findings related to recent SCO audits of the cities of Bell, Montebello, Hercules, Stockton, Cudahy, Atwater, West Covina, the Association of Bay Area Governments, and the review of the County of Modoc demonstrate there have been significant failures in local government financial management and controls. These failures can result in financial mismanagement of state and federal funds, jeopardize bond credit ratings or negatively affect the security of outstanding debt obligations, and result in pressure for state financial assistance.

Staff Recommendation. Approve as budgeted.

Vote.

1701 DEPARTMENT OF BUSINESS OVERSIGHT

Issue 1: Program Consolidation

Governor's Proposal. The budget calls for consolidation of several programs within the Department of Business Oversight (DBO). The proposal would combine the supervision of California Business and Industrial Development Corporations (BIDCO), Industrial Banks, and Savings and Loan programs, and put them all under the licensing and supervision of Banks and Trust Companies program. No additional funding is requested.

Background. The mission of the DBO is to regulate state-licensed financial institutions, products and professionals in order to provide accessibility to a fair and secure financial services marketplace. The department enforces the state's financial services laws and provides resources to Californians to make informed financial decisions. DBO's examinations focus on reviewing capital, assets, management, earnings, liquidity, market sensitivity and operations of licensees in each area. The examinations also include a review of the licensee's compliance with state and federal laws and regulations. Examinations are the essential foundation of the Banking Program's oversight and supervision of licensees, and are intended to promote safe and sound licensees. Although there are four programs regulating financial entities, all examinations, licensing, and regulatory oversight are performed by the Banking Program examiners, under the direction of the Deputy Commissioner of Banking.

Staff Comment. The Banking Program has over one hundred positions that perform work for the Banking, BIDCO, Industrial Banks, and Savings and Loan programs. All examinations, monitoring, enforcement and licensing is performed by Banking Program staff; no staff are solely designated to the BIDCO, Industrial Banks, and Savings and Loan programs. This request is to consolidate the budgetary display of the BIDCO, Industrial Banks, and Savings and Loan programs under the Banking Program. Approval of this request will not change DBO's responsibilities, programs, reporting requirements, budgeted appropriation amounts or fund source, but will ensure the department has the flexibility in expenditure authority to continue support of each program. Specifically, this change will ensure that the department's budget display supports its responsibility to expend staff resources to interchangeably administer and manage the four programs' licensing, examination and regulatory oversight functions. Consolidating the BIDCO, Savings and Loans, Industrial Bank programs under the Banking Program will enable it to more effectively and efficiently administer these programs it already manages.

Staff Recommendation. Approve as budgeted.

Vote:

ISSUES FOR DISCUSSION AND VOTE

0840 STATE CONTROLLER'S OFFICE

Presenter: Betty Yee, California State Controller

Department Overview. The State Controller's Office (SCO) is principally responsible for transparency and accountability of the state's financial resources and ensures the appropriate disbursement and tracking of taxpayer dollars. The controller serves on various boards, commissions, and committees with duties that include administrative oversight of public pension funds, protection of state lands and coastlines, and modernization and financing of state infrastructure. The SCO offers fiscal guidance to local governments and has independent auditing authority over government agencies that spend state funds. The controller's primary objectives are to: account for and control disbursement of all state funds; issue warrants in payment of the state's bills; determine legality and accuracy of financial claims against the state; audit state and local government programs; safeguard various assets until claimed by the rightful owners in accordance with the Unclaimed Property Law; inform the public of the state's financial condition and financial transactions of city, county, and other local governments; administer the Uniform State Payroll System; and, audit and process all personnel and payroll transactions for state civil service, state exempt employees, state university employees, and college system employees.

Budget Overview. The department receives about 30 percent of its annual budget from reimbursements, 29 percent from the General Fund, 19 percent from the Unclaimed Property Fund, about 15 percent from the Central Service Cost Recovery Fund, and the remainder from various special funds. The funding structure is based on the SCO's statewide responsibilities that cut across all funds and programs.

State Controller's Office
Program Expenditure
(dollars in thousands)

Program	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Accounting and Reporting	$42,037	$42,824	$46,155
Audits	45,961	50,659	50,885
Personnel and Payroll	50,290	42,343	45,121
Unclaimed Property	40,073	35,594	36,784
Disbursements	23,573	25,710	25,904
Net Administration	-41	279	279
Total Expenditures	**$201,893**	**$197,409**	**$205,128**

State Controller's Office
Position Authority
(actual positions)

Program	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Accounting and Reporting	276.5	253.7	258.5
Audits	300.5	297.3	299.3
Personnel and Payroll	202.3	205.0	205.0
Unclaimed Property	245.6	255.4	256.0
Disbursements	82.6	95.8	95.8
Administration	281.4	276.8	277.3
Total Positions	**1,388.9**	**1,384.0**	**1,391.9**

Issue 1: Implementation of Financial Information System for California – Oversight

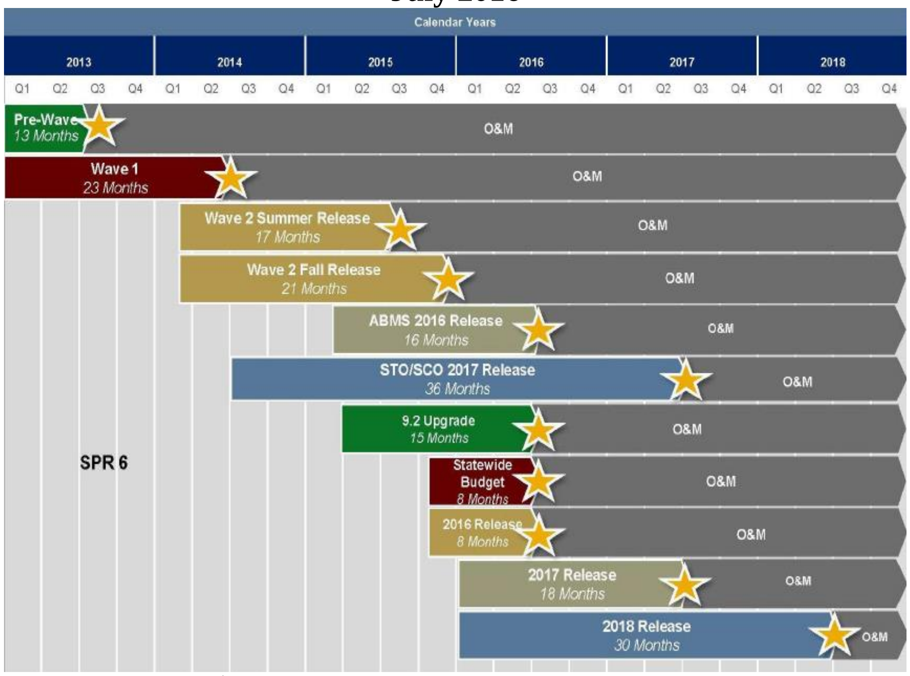
Budget Issue. In February, the Senate Committee on Budget and Fiscal Review held a hearing regarding the implementation of the Financial Information System for California (FI$Cal). At this hearing, issues were raised regarding departmental implementation of the FI$Cal program and its functionalities, as well as the SCO's role in this process.

FI$Cal Background. FI$Cal is one of the most important information technology (IT) projects for the state, and is being undertaken to integrate and re-engineer the statewide business processes related to budgeting, accounting, procurement and cash management. The goal of the project is to provide a unified and consistent financial system the will be used by virtually all state entities. Last year, the Legislature approved a permanent administrative structure for FI$Cal, establishing it as a stand-alone department.

FI$Cal is an ambitious and complex project, and in reflection of this, the project 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 6, approved last year. Under the previous SPR 5, a series of waves were scheduled to roll in, with each wave consisting of additional departments and system functionality. The Legislative Analyst's Office (LAO) notes that there were some 'early successes' in this process, but later some difficulties and delays occurred. Overall, the LAO notes that project changes to date have led to schedule extensions and cost increases, but have also led to modifications that have mitigated project risk and made project objectives potentially more attainable.

Under the changes in SPR 6, the project transitioned from implementing 'waves' to more independent 'releases', allowing departments that are not prepared to implement on the scheduled date to come on line at a later time. The amended approach established new programs to assist departments in transitioning to the project, revised the implementation schedule for remaining releases, and allowed more time for knowledge transfer to the state. These changes resulted in increased costs for the project and a two-year delay in the overall timeline for the project. The two-year time extension pushed out project completion from July 2017 to July 2019. The costs also expanded significantly to $910 million, representing an increase of $237 million from those in SPR 5, dated January 2014. The currently timeline is shown in the department's graphic below.

FI$Cal
Project Schedule
July 2016



Source: Department of FI$Cal

State Auditor's and LAO Concerns. The State Auditor's most recent letter report of January 2017, indicates that the project continues to experience some delays, despite the two year time extension provided in SPR 6. For example, according to Department of Technology, which is the providing independent project oversight (IPO), a key component of the project – testing of the activity based management system (ABMS) – was taking 10 weeks longer than planned as of October 2016. In addition, the IPO indicated that implementation of functionality for both the SCO and the State Treasurer's Office were delayed, along with a five week delay in the release for other departments.

While the delays represent a continuing concern, it is unclear whether these are the responsibility of FI$Cal or the participating departments, or both. We should note that many of the delays are apparently due to failures on the part of departments to adequately staff the conversion to the new system. Specifically, the most recent letter report from the auditor identifies as a significant driver of the most recent SPR, the unanticipated need to provide continuing support from FI$Cal to departments in year-end reconciliation and budget close-out. More recently, in some cases, it appears that delays or time extensions have been necessitated by departments unwilling or unable to make a decision on how to proceed at a certain decision point. The auditor's letter notes that if delays continue and compound, the project may need to extend the schedule again, which could increase the costs by an additional $100 million. Alternatively, not extending the schedule could jeopardize the functionality and quality of the final product. The auditor 'remains concerned' regarding the number and size of the departments that have yet to implement FI$Cal, as well as the compressed time frame proposed for implementation. Given the challenges that were presented with smaller, fewer and less complex departments, the auditor notes potential issues with the project's ability to implement the next releases (scheduled for July 2017 and July 2018), which consist of major state departments.

Last year in conjunction with FI$Cal budget proposals, the LAO weighed in on the overall status of the project. At that time, it expressed the view that the Governor's budget proposal to implement the changes proposed in SPR 6 was a reasonable plan to implement the remaining functions and departments in FI$Cal, and recommended approval of this component of the Governor's budget proposal. However, LAO also noted that the FI$Cal Project involves the development of an extremely ambitious and complex IT system and significant work remains before the system is fully implemented. Given the scope of the remaining work and signals from oversight entities that some project activities continue to track behind schedule, LAO thinks a future SPR is likely that would further extend the project schedule and increase costs.

Staff Comment. Of particular concern to the subcommittee is the status regarding SCO's role in the FI$Cal project and the ability of departments to provide data and information to the SCO in order to meet the current timelines. SCO indicates that it has reservations regarding the timeline, but is continuing to work towards the implementation based on the current schedule. However, as an example of the difficulties encountered, it notes that only 14 of the 58 FI$Cal agencies have closed their books and reconciled through January 2017. In addition, only three of the 52 FI$Cal state agencies filed their year-end reports by the established deadlines.

Concern regarding the FI$Cal timetable, and particularly the integration of various departments, has been raised by both the LAO and the BSA. The project took the cautious approach last year and extended the timeframe for the project and requested additional resources. Staff's view is that this cautious approach continues to be the appropriate one, rather than adhere to a faster implementation schedule if such a schedule is unrealistic and unrealizable. The SCO should update the subcommittee regarding the status of its internal efforts to implement different components of FI$Cal and comment on the status and ability of other departments to complete their own FI$Cal-related reporting components in a timely fashion.

Staff Recommendation: Information and oversight item.

Issue 2: FI$Cal Implementation of Control Functions (BCP)

Governor's Proposal. The budget includes a request from the SCO for $1.5 million (General Fund) and 13 positions to transition the state's Accounting Book of Record (ABR) from the SCO legacy system to the Financial Information System for California (FI$Cal) system and provide support to the FI$Cal departments.

Background. The activities associated with establishing and maintaining the ABR are of significant importance to the state and deeply integrated with departments. The conversion to FI$Cal from the legacy system will allow the SCO and departments to operate on the same basis

– modified accrual basis of accounting – as opposed to the different systems used at the current time. As part of this process, the SCO will have access to encumbrances and accrual and other non-cash 'obligations.' The process will facilitate and streamline the documentation necessary for the production of the Budgetary Legal Basis Annual Report (BLBAR) and the Comprehensive Annual Financial Report (CAFR).

The responsibilities associated with this component of the FI$Cal project are essential elements of implementing and maintaining financial management and control functions in the new system. The functions associated with this effort include mapping business processes to FI$Cal, training staff in FI$Cal processes, cash management, journal transaction posting, budget and appropriation control, bond management recording, loan recording, statewide financial reporting for annual BLBAR and CAFR reports, and producing the monthly statement of receipts and disbursements.

Staff Comment. Staff has no significant concerns with the proposal; however, the overall timeline associated with the SCO implementation of FI$Cal remains a concern. If the project timeline is extended, approval of the positions could well be premature. The department should comment in relation to the overall status of FI$Cal implementation.

Staff Recommendation. Hold open.

Vote:

Issue 3: Vendor Management Workload (BCP)

Governor's Proposal. The budget includes an SCO request for $1.2 million ($674,000 General Fund) in 2017-18, $1.1 million ($655, 000 General Fund) in 2018-19, and $488,000 ($278,000 General Fund) in 2019-20 and ongoing. The resources will support 12 positions, seven limited term for the initial two years, and five permanent. The resources and positions will be used to implement the Vendor Management File (VMF), a component of FI$Cal.

Background. Prior to FI$Cal, state agencies, boards, commissions and other state entities independently maintained their own vendor files. The implementation of the VMF began in July 2014, with the first FI$Cal 'wave' (now termed release). Releases will continue through 2018, based on the current schedule. The VMF is an important part of FI$Cal, and used by departments for procurement of state assets and resources, by the SCO for mandated reporting contractor payments, as well as for a variety of other activities. While the SCO has managed the VMF using existing resources of five positions, it expects the future workload to exceed existing capabilities, especially as additional waves of departments come on line. Total departments will expand from the current 63 to 151. In terms of expected workload, this is expected to grow over the next couple of years due to development, implementation and maintenance of new functionality for vendors and departments. In terms of VMF requests, these are expected to total 23,043 in 2016-17, 26,131 in 2017-18, and 31,044 in 2018-19, before dropping to a stable 14,600 in 2019-20 and beyond. The limited-term funding will be sufficient to provide resources during the initial phase, with five positions for ongoing workload.

Staff Comment: Staff has no significant concerns with the proposal; however, the timeline associated with the SCO implementation of FI$Cal remains a concern. If the project timeline is extended, approval of the positions could well be premature. In addition, even if the current timeline remains unaltered, there is uncertainty regarding the future workload, and it would seem prudent to approve 12 positions on a temporary basis, and then revisit once the permanent workload becomes clearer. The necessary positions could be converted to permanent as a future budget change. The department should comment in relation to the overall status of FI$Cal implementation.

Staff Recommendation. Hold open.

Vote:

Issue 4: California State Payroll System (BCP)

Governor's Proposal. The Governor's proposal regarding this item includes a SCO budget request of $3 million in one-year, limited-term funding ($1.7 million General Fund) to support 11 positions in 2017-18 to perform business process analysis for human resources management and payroll processing practices, document solution requirements, and continue work on the alternatives analysis. The request includes $1.8 million for consulting services related to establishing a new payroll system for the state, the California State Payroll System (CSPS). The position authority includes two positions for the Division of Accounting and Reporting, eight positions for Personnel Payroll Service Division, and two positions for the Information System Division.

Background. The failure of the 21st Century Project has been amply documented. The most recent developments include the settlement of the lawsuit with the vendor (SAP) in June 2016, and the subsequent payment by the vendor to the state of $59 million. The department submitted a Post-Implementation Evaluation Report (PIER) to the Department of Technology (CDT) in November 2016, which compared the project objectives to actual outcomes, documented the failures and success experienced on the project, and described the corrective actions the SCO will take to improve the chances of future success. The submission of the PIER represents the official end of the 21st Century Project.

The SCO received funding of $2.4 million in 2016-17 and $2.8 million in 2017-18 to support eight positions to complete the project assessments, convey the results of the project management assessment in a post implementation evaluation report, perform business process re-engineering of human resource management and payroll processing practices to refine the scope of the future payroll project and complete CDT project approval. The Legislature also adopted Supplemental Reporting Language (SRL) directing the department to provide detail on future assessment activities; the department has complied with this requirement in the context of the current budget request.

The additional resources requested in this proposal will augment the existing positions and continue the extensive effort of examining these business practices and working with SCO divisions, Department of Human Resources (CalHR), FI$Cal, Department of Finance, and departmental human resources offices to determine where the state can conform to industry standards for payroll processing. The current project team is just completed close-out activities, and is refocusing its efforts on working with internal groups to identify potential areas of policy change to reflect best practices for initial business process re-engineering opportunities. This will assist in refining the scope of the future CSPS project. The SCO anticipates the that it will complete the new information technology approval process – known as the Project Approval Lifecycle (PAL) – in December of 2019, and anticipates initiating project work in 2020-21.

Legislative Analyst's Office Comment. The Legislative Analyst's Office (LAO) notes that it has no concerns with the Governor's budget proposal, but indicates that the project will ultimately be expensive and carry a great deal of risk and many challenges. Given this, it points out that the project alternatives (noted in the LAO report and the SRL submitted by the department) should be given careful consideration. It also recommends that since the completion of the PAL process does not exactly coincide with the budget timelines, the department report to the Legislature on its preferred project solution (PAL Stage 2) pursuant to the PAL process, before any additional funding is approved. According to the current schedule, this should occur in August 2018, when the project moves from PAL Stage 2 to PAL Stage 3.

Staff Comment. Staff has no concerns with the funding of the beginning phases of the renewed attempt to design a statewide payroll system. The renewed approach is being undertaken pursuit to the state's revised IT procurement and implementation process. The PAL process focuses on a more rigorous approach to planning in order to minimize risk and cost exposure. Given the complexity of the payroll system effort, the approach embodied in PAL is appropriate, although it likely extends the timeframe for implementation and may require more upfront budget resources. The PAL process will be examined more fully at a later hearing in connection with the Department of Technology.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 5: California Automated Travel Expense Reimbursement System (BCP)

Governor's Proposal: The budget includes an SCO request for $1.3 million ($642,000 General Fund) and $642,000 ($390,000 General Fund) in 2018-19 and 2019-20 The resources will provide support for three positions for fiscal year 2017-18 to continue the required analysis and documentation for replacing the California Automated Travel Expense Reimbursement System (CalATERS) vendor and reimbursement system, maintain the current system without disruption to service through 2019-20, and obtain final approval for the replacement program. Expenses not associated with personnel are for external consulting and professional services.

Background. The SCO's personnel and payroll services division is responsible for the operation and maintenance of the CalATERS, which allows state employees to electronically submit claims, and for those claims to follow an automated review, approval, and payment process. The

SCO has been utilizing CalATERS, which was designed by International Business Machines (IBM), for claims processing since 2000. Currently, there are 98 agencies, with 107,488 individual customers, that utilize the CalATERS platform. In May 2014, IBM notified the SCO that it will discontinue support for the CalATERS platform, effective March 31, 2016, which coincides with the completion of the current contract. IBM informed SCO that they could provide the state with continued support, but at an additional cost. The state has contracted with IBM for these services through 2020, when the new system is expected to be completed. The new system qualifies as an IT project, requiring the SCO to proceed according to the PAL process. Stage 1-Business Analysis, has been completed. Stage 2-Alternative Analysis, is in progress. State 3-Solution Development, is expected to be completed in early 2017, followed by Stage 4-Project Readiness and Approval.

Staff Comment. Given the limited alternatives that are currently available it would be appropriate to approve the requested resources in order for the SCO to a replacement system. Stage 2 of the PAL was expected to be completed in February of 2017, but has been slightly delayed according to the SCO, and should commence in the next month. SCO should describe the next steps, and what the implications are should it begin to run behind in the scheduling. The SCO should describe its contingency plans for the project.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 6: Unclaimed Property Securities Accounting (BCP)

Governor's Proposal. The SCO requests $2.9 million (Unclaimed Property Fund) in 2017-18, and ongoing, and 23.1 permanent (continuing) positions to manage and maintain the security portfolio, pay security claims, and sell securities within the allotted timeframe. The resources will be used for managing the stock and mutual fund corporate action workload; ensure compliance with the UPL by selling securities in a timely fashion; reconcile and post dividends, interest, proceeds and any other income; process security claims in a timely manner to reduce litigation; manage and maintain the securities portfolio; and, reconcile the portfolio and integrate internal controls. Most of the positions (15) will be assigned to securities issue analysis, reconciliation, and research and property recordation. The remaining positions are for accounting and support activities.

Background. The California UPL was enacted to assure that property is returned to its rightful owners or their heirs. This law gives the state an opportunity to return the property and provides California citizens with a single source, the SCO, to check for unclaimed property that may be reported by holders from around the nation. By law, holders of unclaimed property (such as banks) must report and remit unclaimed property to the SCO after a specified period of time.

Under the program, holders are required to proceed through a series of steps before remitting property to the SCO. A holder notice report submitted by the holder is used by the SCO to send out pre-escheat notices to rightful owners or their heirs, advising owners to contact holders directly to retrieve the reported property, giving the owners the opportunity to reestablish contact with the holders, or have their property sent directly to them. After filing a holder notice report, holders are required to provide the SCO with a holder remit report containing the information on any remaining properties that were not reclaimed by the rightful owners or their heirs. At the time the holder remit report is filed, holders are required to remit the property to the SCO.

The current proposal converts the temporary positions continued in the 2014-15 budget into permanent ones, with a focus on working down the existing backlog of property, addressing current workload, and providing managerial oversight. The division also received an augmentation in 2016-17 for the purposes of streamlining procedures, increasing outreach and detecting and preventing fraud.

Legislative Analyst's Office Comment. The LAO notes that without a change in the program, additional workload will continue and require additional funds. LAO indicates that the workload of managing securities prior to sale is substantial, and notes that the process could be accelerated (reducing the workload) if state law were changed to allow property to be sold and converted to cash more quickly. Currently, the SCO must wait at least 18 months after receiving the report from the holder before converting any property into cash.

Staff Comment. The continued commitment of resources makes sense given the continued level of activity associated with unclaimed property. The vacancy rate of 23 percent is somewhat high, and could be reduced by converting the limited-term positions (where most of the vacancies are) to permanent. However, the division has expanded rapidly over the last few years, from 15.1 authorized positions in 2011-12 to 35.5 positions in 2015-16 (mostly limited-term). This has resulted in security sales proceeds increasing from $64.6 million to $85.9 million, but other portfolio measures have expanded significantly as well, indicating an increasing workload. Given these factors, the division should be prepared to discuss the overall plan for its activities and what the overall level of staffing should be to address a steady workload growth. Staff views the 18 month waiting period before selling securities is a reasonable policy, given the gravity of the escheat process. Nevertheless, LAO comments regarding increasing workload are well-founded and the department should explore other means of achieving efficiencies.

Staff Recommendation: Hold open.

Vote:

State Building Project

Issue 1: State Office Infrastructure Plan (TBL)

Governor's Proposal. The budget includes a proposal to eliminate the $300 million deposit to the State Building Infrastructure Fund (SPIF) that was planned for 2017-18, through trailer bill language. The funding was to be used to partially fund new state buildings, consisting of the O Street Building, Resources Building and Capitol Annex. As a result of the reduction and other factors, the Administration has also notified the Joint Legislative Budget Committee (JLBC) regarding the building projects, which could have an impact on the financing plans.

Background. The 2016-17 budget established the SPIF and provided $1.3 billion from the General Fund to the SPIF over two years. The $1.3 billion is intended to provide pay-as-you-go funding to replace three state buildings the Food and Agriculture Annex (O Street Building), Natural Resources Building, and State Capitol Annex. The fund is continuously appropriated for the renovation and construction of state buildings. The statutory language governing the fund allows the Administration to establish and move forward with projects funded by the SPIF without having to receive legislative approval through the traditional state budget process, as is typically required for capital outlay projects. Instead, the language requires the Administration to provide certain notifications and quarterly reports to the Legislature related to SPIF-funded projects. Since the passage of the 2016-17 budget, the Administration has been moving forward with the O Street Building and the new Natural Resources Building, including providing a notification of its intent to spend a total of $14.9 million from the fund on the development of the cost, scope, and delivery method for these buildings in a notice to the JLBC in February 2017.

Legislative Analyst's Office Comment. The Legislative Analyst's Office (LAO) notes that it is highly unlikely that the $1 billion provided in 2016-17 will be sufficient to fund all three projects that were initially proposed. While the Administration has yet to officially establish the cost of the three initial projects, its preliminary estimates place their cost at about $1.4 billion ($225 million for the O Street Building, $600 million for the new Resources Building, and $580 million for the State Capitol Annex). The Administration has not yet indicated how it plans to fully fund these projects, but should have additional information this month. LAO has expressed concern regarding the square footage costs of the buildings, especially compared to other comparable structures In addition, LAO has raised questions about the zero net energy component of the project, with respect to both the additional cost and its cost-effectiveness.

LAO indicates that the Administration has significant discretion to determine how to allocate funds among projects; it could choose to proceed with a less ambitious version of its original plan in order to stay within the remaining $1 billion in the SPIF. In this case, the Administration would likely not need to return to the Legislature for additional approvals. Instead, it would report to the Legislature about these changes through the JLBC (for the O Street Building and Resources Building) and Joint Committee on Rules (for the Capitol Annex). Alternatively, the Administration could return to the Legislature to seek additional funding to complete all three initial projects as originally envisioned. At this point, the Administration's plan for proceeding is unclear.

Staff Comment. The Administration state project plans continue to be somewhat in flux. In particular, a major issue is the Administration's priorities in the using the existing funds in the SPIF, or alternative means of financing should these resources prove insufficient. Given that planning is moving forward for the O Street and Natural resources buildings, the question arises where each of the buildings stand in the list of priorities. Given the uncertainty that remains regarding project plans, no action should be taken on the Administration's proposal at this time. DOF and the Department of General Services (DGS) should report at the hearing regarding its plans for proceeding.

Staff Recommendation. Hold open.

Vote:

1701 DEPARTMENT OF BUSINESS OVERSIGHT

Department Overview. The Department of Business Oversight (DBO) is housed under the Business, Consumer Services and Housing Agency, and is responsible for overseeing financial service providers, prompting appropriate business practices, enhancing consumer awareness, and protecting consumers by preventing marketplace risks, fraud and abuse. The DBO supervises the operations of state-licensed financial institutions, including banks, credit unions and money transmitters. Additionally, the DBO licenses and regulates a variety of financial service providers, including securities brokers and dealers, investment advisers, payday lenders and other consumer finance lenders.

Budget Overview. The department receives all of its resources through special funds. Revenue to the special funds is generated by fees imposed on the regulated entities. The most significant of these funds are the State Corporation Fund (56 percent of total) and the Financial Institutions Fund (32 percent of total). The department received a significant increase in resources and staffing last year, distributed across several programs. Program expenditures and position history are displayed in the tables below.

Department of Business Oversight
Program Expenditure
(dollars in thousands)

Program	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Investment Program	$24,572	$26,933	$28,623
Lender-Fiduciary Program	21,429	22,757	22,685
Bank and Trust Supervision and Licensing	23,161	23,909	25,973
Money Transmission	3,577	4,010	4,012
Business and Industrial Development Supervision	26	31	0
Savings and Loan	0	80	0
Industrial Banks	661	689	0
Local Agency Security Administration	404	516	517
Credit Unions	8,287	10,096	10,097
Net Administration	0	0	0
Total Expenditures	**$82,117**	**$89,021**	**$91,907**

Department of Business Oversight
Position Authority
(actual positions)

Program	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Investment Program	130.1	134.6	173.0
Lender-Fiduciary Program	113.3	115.2	138.5
Bank and Trust Supervision and Licensing	131.6	134.9	170.4
Money Transmission	26.6	28.0	32.1
Business and Industrial Development Supervision	0	0	0
Savings and Loan	0	0	0
Industrial Banks	0	7.4	0
Local Agency Security Administration	1.1	1.3	1.8
Credit Unions	50.3	59.5	69.7
Net Administration	90.3	90.6	0
Total Positions	**543.3**	**571.5**	**585.5**

Issue 1: Broker-Dealer and Investment Advisor Program Examinations (BCP)

Governor's Proposal. The Governor proposes $1.7 million (special funds) and 11 permanent positions in 2017-18 and $3 million and 20 permanent positions in 2018-19 and ongoing, to enable the department's broker-dealer and investment advisor activities to expand the examination cycle administered by the DBO. The resources will allow the department to extend its current examinations to greater number of licensed entities and enforce regulatory requirements. The positions requested upon full implementation in 2018-19 are for 15 corporation examiners, three associate governmental program analysts and two administrative staff.

Background. The Broker-Dealer and Investment Adviser (BDIA) program's primary functions are to license and regulate broker-dealers, broker-dealer agents, investment advisers, and investment adviser representatives, pursuant to the Corporate Securities Law of 1968. Regulatory oversight is designed to ensure the investors are protected from unethical and fraudulent activities and California's financial market is secure, fair, and transparent. Regulatory oversight is achieved by performing detailed licensing reviews and regulatory examinations of the licensee population.

In enacting SB 538 (Hill), Chapter 335, Statutes of 2013, the Legislature found that the department lacked adequate resources for a comprehensive regulatory program. The program had a 28-year examination cycle for a routine regulatory examination, compared to four-year cycle is used in approximately 60 percent of all states and by the Financial Industry Regulatory Authority (FINRA). SB 538 authorized new fees to be raised with the intention that the department use the revenue to perform regular, periodic examinations of broker-dealer agency and investment adviser representatives at least once every four years.

In response to the global financial crisis, as well as numerous events involving financial fraud and moral turpitude, Congress passed, and the President signed, the 2010 Financial Regulatory Reform Act, commonly referred to as "Dodd-Frank," which was designed promote financial stability in the United States by improving accountability and transparency in the financial system, protect taxpayers by ending bailouts, and protect consumers from improper financial service practices. Prior to the passage of Dodd-Frank, the department was responsible for regulatory oversight of investment advisory firms with less than $25 million in assets under management. The passage of Dodd-Frank expanded the department's responsibility to include regulatory oversight over investment advisory firms with assets under management up to $100 million. While Dodd-Frank only requires regulatory oversight of investment adviser firms, the department's licensees include investment adviser representatives, broker-dealer firms, and their broker-dealer agents, all of which are subject to regulatory examinations.

In response to the new requirements of Dodd-Frank and SB 538, the department has received regular increases in resources over recent years. The increases have not been sufficient to reduce the examination cycle to four years, but rather, in order to gradually work towards that goal. In the short-term, it is not feasible for the department to absorb and manage (and fiscally support) the necessary personnel to reach the four cycle, but it is likely that future budget requests will continue at a modest and manageable rate of about 16 percent per year. The positions requested will support increased examinations, increase protection to investors, and discourage illegal and fraudulent activity. Additional activities to ensure adequate regulation will occur through both routine (based on a regular examination cycle) and non-routine (based on referrals or investor complaints) examinations and necessary enforcement activities.

Staff Comment. The department will need the resources requested in this proposal, as well as resources in the future, in order to significantly work toward the goal of a four year examination cycle. The increment increase approach to staffing for these activities seems prudent at this time. The department estimates that eventually it will require approximately 300 examiners to reach the cycle goal; with the approval of this proposal it would reach 62. The additional required resources in the future would depend on changes in examinations standards, reporting technologies and any achievable efficiencies. The department dramatically increased its examinations between 2014-15 and 2015-16, from 72 to 269; however, it still is examining only about one percent of licensees. The subcommittee may be concerned about the implementation over the long term of the preferred four-year examination cycle, and whether more efficient examination procedures can be instituted.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 2: Student Loan Servicing Act (BCP)

Governor's Proposal. The DBO requests $1.2 million (special funds) and three permanent positions in 2017-18, and $819,000 (special funds) and five permanent positions in 2018-19 and ongoing to develop and start-up the Student Loan Servicing Office required by Assembly Bill AB 2251, This request will be funded by the Financial Institutions Fund, and beginning 2018-19, costs will be funded by fees and assessments on licensees. The positions include in 2017-18 one attorney, one financial institutions manager and one senior programmer analysts. Two senior financial institutions examiners would be added in 2018-19.

Background. AB 2251 (Stone), Chapter 824, Statutes of 2016 added the "Student Loan Servicing Act," to the California Financial Code, which requires the department to create a new Student Loan Servicing Office to license and regulate student loan servicers and to enforce any violation of the Student Loan Servicing Act. The department is also required to examine the affairs of each licensee at least once every 36 months for compliance with the Student Loan Servicing Act, and if deemed necessary, conduct such examinations frequently.

Under the legislation, the new Student Loan Servicing Office (SLSO) will become operative on July 1, 2018, but actions may be taken on and after January 1, 2017, to prepare for the July 1, 2018 operative date. The measure is intended to provide state standards to ensure consistent, fair, quality student loan servicing, and expands the duties and authority to include licensure, regulation, supervision and enforcement of student loan servicers. AB 2251 authorizes SLSO to enforce the law through administrative orders, suspension or revocation of licenses and civil money penalties, and requires servicers to adhere to specified borrower protections when servicing student loans.

The bill prohibits a person from acting as a student loan servicer without a license, unless exempt student loan servicers are commonly different than the original lender or loan holder. Lenders contract with servicing companies to manage student loans. Servicers manage borrowers' accounts, process monthly payments, and communicate directly with borrowers. Borrowers must contact student loan servicers to enroll in alternative repayment plans, obtain deferments or forbearances, or process loan forgiveness benefits for which the borrower has qualified. A borrower typically has no control over which company services his or her loan. Servicers must comply with applicable consumer financial laws and US Department of Education contractual requirements.

Staff Comment. Despite the volume of student loan debt and servicing, there are no consistent, market-wide federal standards for student loan servicing. AB 2251 requires the department to license and regulate student loan servicers and to enforce any violation of the Student Loan Servicing Act. The department is also required to examine the affairs of each licensee at least once every 36 months for compliance with the Student Loan Servicing Act. If and when SLSO deems necessary and appropriate, examinations may occur more frequently.

Although some of the activities identified in the BCP are similar to existing activities of the department, there are also some new activities that fall outside the parameters of the department's existing workload. Given the start-up nature of the SLSO and the new activities, staff is favorably disposed to a slow and steady ramp-up of activities. To a certain extent, this has been proposed with the three positions increasing to five after one year. However, staff recommends somewhat more time and deliberation be afforded and recommends that the expansion in year two be resubmitted next year and evaluated at that time.

Staff Recommendation. Approve funding and permanent positions requested for 2017-18. Do not approve proposal for additional positions in 2018-19.

Vote:

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Department Overview. The Governor's Office of Business and Economic Development (GO-Biz) provides a single point of contact for economic development, business assistance and job creation efforts. GO-Biz works with companies and organizations across the nation to market the benefits of doing business in California, recruit new businesses, retain businesses, and support private sector job growth. GO-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, economic growth, export promotion, permit assistance, innovation and entrepreneurship. GO-Biz consists of the following programs:

- **GO-Biz** serves as the Governor's lead entity for economic strategy and the marketing of California on issues relating to business development, private sector investment, and economic growth, and export promotion. This program makes recommendations to the Governor and the Legislature regarding policies, programs, and actions for statewide economic goals.

- **California Business Investment Services** serves employers, corporate executives, business owners, and site location consultants which are considering California for business investment and expansion. This program works with local, state, and federal partners in an effort to attract, retain, and expand businesses. The Innovation Hub (iHub) initiative is an effort to improve the state's national and global competitiveness by stimulating partnerships, economic development, and job creation around specific research clusters.

- **Office of the Small Business Advocate (OSBA)** serves as the principal advocate in the state on behalf of small businesses, including regarding legislation and administrative regulations that affect small business. The OSBA is responsible for disseminating information about programs and services provided by the state that benefit small businesses, and how small businesses can participate in these programs and services. The OSBA responds to issues from small businesses concerning the actions of state agencies, state laws and regulations adversely affecting those businesses. The OSBA maintains and distributes an annual list of persons serving as small business ombudsmen throughout state government.

- **California Film Commission (CFC)** provides significant financial assistance through its publically-funded tax credit program. The purpose of the CFC is to retain and increase motion picture production in the state. The CFC supports productions by issuing film permits for all state properties, administering the film and TV tax credit program, maintaining a location library, and offering production assistance on a wide variety of issues. CFC also works with cities and counties with the goal of creating 'film friendly" policies that are consistent state wide.

- **California Tourism Market Act** provides for the marketing of California through an assessment of businesses that benefit from travel and tourism. The objective of the Tourism Assessment Program is to identify potentially assessable businesses, assist companies with determining the appropriate amount of their self-assessment, and collect the fee.

- **California Infrastructure and Economic Development Bank (IBank)** was created to finance public infrastructure and private development that promotes economic growth. IBank has a broad authority to issue tax-exempt and taxable revenue bonds, provide financing to public agencies, provide credit enhancements, acquire or lease facilities, and leverage state and federal funds. IBank's current programs include the infrastructure state revolving fund, 501(c)(3) tax-exempt and taxable revenue bond program, industrial development revenue bond program, exempt facility revenue bond program, governmental bond program and the Clean Energy Finance Center (CEFC) and the Statewide Energy Efficiency Program under the CEFC.

- **Small Business Loan Guarantee Program (SBLGP)** promotes local economic development by providing guarantees for loans issued to small businesses from financial institutions, typically banks, which otherwise would not approve such term loans or lines of credit. The loan guarantee serves as a credit enhancement and an incentive for financial institutions to make loans to small businesses that otherwise would not be eligible for such financing.

- **California Welcome Centers** are visitor information centers that are accessible to and recognizable by tourists, and are designed to encourage tourism in California and provide benefits to the state economy. The objective of the California Welcome Center Program is to determine the locality of underserved travelers, designate a welcome center, and establish operating standards across the network.

Budget Overview. The department has expanded modestly over the recent past, due both to program expansions (such as the California Competes program discussed below) and through the inclusion of other existing program (such as the IBank). The department’s budgets (and positions) for the prior, current and budget years are shown in the tables below.

Governor’s Office of Business and Economic Development
Program Expenditures
(dollars in thousands)

Program	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Go-Biz	$4,626	$4,991	$6,478
California Business Investment Services	1,831	1,852	1,752
Office of the Small Business Advocate	2,480	1,792	292
Infrastructure, Finance and Economic Development	17,013	18,234	18,017
Total Expenditures	**$25,950**	**$26,869**	**$26,539**

Governor's Office of Business and Economic Development
Position Authority
(actual positions)

Program	Actual 2015-16	Estimated 2016-17	Proposed 2017-18
Go-Biz	25.7	22.0	33.6
California Business Investment Services	11.7	9.0	9.0
Office of the Small Business Advocate	2.8	6.0	6.0
Infrastructure, Finance and Economic Development	42.9	45.4	45.4
Total Positions	**83.1**	**82.4**	**94.0**

Issue 1: California Competes Tax Credit Program – Oversight

Presenters: **Governor's Office of Business and Economic Development**
Legislative Analyst's Office

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

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

The implementation of the program is defined based on the application process, evaluation process, negotiation process and committee process, as described below:

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

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

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

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

Staff Comment. While programs similar to the CCTC are used in other states with varying degrees of success, this approach to business development and assistance is not one that California has used in the past. Given this new approach to awarding tax credits, it is important that the Legislature be vigilant in its oversight of the program, to ensure that it is implemented in as effective a manner possible. The committee may wish to have the GO-Biz provide an update on the development and implementation of the program.

One of the underlying problems associated with traditional open-ended tax incentives is that the majority of the tax benefit goes to businesses that would have engaged in the desired behavior irrespective of the incentive program. Put another way, only businesses operating 'on the margin' would engage in the desired behavior ***because*** of the incentive. The result is a significant loss in revenue with little or no associated impact on economic activity. The GO-Biz CCTC program attempts to eliminate or minimize this loss by targeting its incentives at companies on the margin; its ability to do this, however, is open to question (as it would be for any outside entity attempting to measure internal business investment decisions).

As staff indicated last year, one way to measure success in this regard would be to examine companies that met the cost-benefit threshold (initial evaluation phase) and were among the finalists in selected criteria (second evaluation phase), but for one reason or another, were not

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

selected as credit recipient. Unfortunately, there are sizeable information and data gaps that would have to be overcome in order to use this method. Other alternative approaches to measuring effectiveness – including econometric studies – could be used, as well. The Legislative Analyst's Office offer comments regarding the effectiveness of this type of program.

While a rigorous examination of the effectiveness of the program has not been conducted, GO-Biz has compiled a comprehensive panel of descriptive statistics on the 574 awards it has granted, including data regarding: business size, business activity type, and location of awardees. Go-Biz should present this data to the subcommittee. The committee may want to consider the following issues with respect to CCTC, and pose relevant questions to GO-Biz and LAO:

- The need for additional legislative oversight of the CCTC activities with respect to the location of activities and the types of industries approved for support, through a regular institutionalized process.

- The degree to which GO-Biz has been able to channel investment into economically-challenged areas of the state and into activities that provide opportunities to regional residents.

- The extent to which Go-Biz is capable of assessing whether jobs and investment would either not be retained or not created absent the existence of the credit, or whether an independent study should be required.

- The benefits of a comprehensive analysis – by LAO or other independent entity – of the effectiveness of the program to assess what the state has realized in exchange for its investments, prior to any extension of the program.

Staff Recommendation. Information and oversight item.

Issue 2: California Competes Tax Credit Program Staffing (BCP)

Presenters: **Governor's Office of Business and Economic Development**
Legislative Analyst's Office

Governor's Proposal. The CCTC unit of GO-Biz is seeking $1.2 million (General Fund) annually for three years for permanent funding for 10 positions to administer the program. The positions are in the final year of their three-year temporary funding. The staff resources are used for evaluating the applications for tax credits, negotiating an agreement with the business, structuring a written agreement between GO-Biz and the taxpayer, monitoring the achievement of milestones embodied in the agreement, as well as other activities designed to ensure the adherence to the program's goals.

Background. Tax credits awarded by the CCTC are available through 2017-18. CCTC indicates that the program may be extended, although that remains unknown at this point. In addition, monitoring the credit recipients will continue beyond the 2017-18 fiscal year. In this regard, GO-

Biz the credits span a five year term and credit milestones are to be maintained for three years after the end of a contract.

Staff Comment. Given the uncertain nature of the continued staffing requirements beyond 2017-18, staff does not recommend permanent funding at this time; however, the activities required by the program do call for continued temporary funding for the budget year. A continued program might warrant permanent funding of all positions; if the program is terminated, fewer resources would be required. In next year's budget, GO-Biz will have additional information regarding its resource needs, whether the program is continued or not.

Staff Recommendation. Approve one-time funding for existing unfunded positions for 2017-18.

Vote:

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 23, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART A

Consultant: Mark Ibele

OUTCOMES

ITEMS PROPOSED FOR VOTE-ONLY

ITEMS FOR DISCUSSION AND VOTE

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 23, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PART B

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION/VOTE

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

ISSUES PROPOSED FOR VOTE-ONLY

0690 OFFICE OF EMERGENCY SERVICES

Issue 1: Hazardous Materials Training Support

Budget. The California Governor's Office of Emergency Services (Cal OES) requests two positions for support of the Hazardous Materials Training Program at the California Specialized Training Institute (CSTI). Existing federal Hazardous Materials Emergency Preparedness (HMEP) grant funds will fund the positions.

Background. The US Department of Transportation's Pipeline and Hazardous Materials Safety Administration makes funding available to states, territories, and federally-recognized tribal governments through the HMEP Grant Program. The purpose of this program is to increase state, territorial, tribal, and local effectiveness in safely and efficiently handling hazardous materials incidents, enhance implementation of the Emergency Planning and Community Right-to-Know Act of 1986, and encourage a comprehensive approach to emergency training and planning by incorporating the unique challenges of responses to transportation situations. This grant program funds the California Hazardous Substances Incident Response Training and Education Program, which provides training and certifies hazardous materials first responder safety training, including basic, journey level, and advanced public safety training to organizations and agencies statewide.

Currently, Cal OES utilizes one temporary help maintenance mechanic full-time that provides mission critical support for courses five days in length with a high degree of hands-on training. The maintenance mechanic keeps all equipment, props and materials used during the courses in proper working order, including set-up each day. At the end of each course, all equipment must be cleaned, packed, and made ready for transportation to the next course location by the mechanic. All of these tasks require specific technical knowledge.

Since the courses are held throughout the state in addition to the CSTI campus in San Luis Obispo, the positions will work both in San Luis Obispo and at the other training sites. Cal OES is requesting two maintenance mechanic positions to work when two classes are held simultaneously at remote or separate locations.

Issue 2: Capital Outlay – Relocation of Red Mountain Communications Site

Budget. OES requests a re-appropriation of funds for the working drawings phase ($1,261,000 General Fund) of the Relocation of Red Mountain Communications Site project. OES also requests that $1,856,000 (General Fund) be shifted from the construction phase of the project to the working drawings phase, to allow for the purchase, configuration, and installation of long-lead tower equipment to ensure that the relocated communications towers are operational before the existing site is demolished. Total project costs are estimated to be $19,999,000 ($2,683,000 for preliminary plans; $3,117,000 for working drawings; and $14,199,000 for construction).

Background. The Red Mountain communications site hosts five communications vaults and towers needed to support critical radio communications for 12 government public safety agencies and private industry serving the western side of Del Norte and Humboldt counties. The State of California owns one vault and two towers at this location which serves as the primary public safety communication hub. The Red Mountain communications facilities provide public safety communication services supporting a population of approximately 250,000 people in Del Norte and Humboldt counties and provide vital communication links to state, federal, and local law enforcement, transportation, and resource agencies.

In the 1990s, the United States Forest Service and the California Department of Forestry and Fire Protection entered into a lease agreement with a termination, vacate, and clear date of December 31, 2022. Due to delays in awarding the architectural and engineering contract and in pursuing long-term leases for the sites, which resulted in delays in the other elements of the preliminary plans phase, the preliminary plans phase will not be completed until August 2017. This proposal also includes a shift of $1.8 million agency retained costs from the construction phase to the working drawing phase.

The Public Safety Communications Office of OES has identified three alternative sites at Alder Camp, Rodgers Peak, and Rattlesnake Mountain. This project will also construct a road to the Rattlesnake Mountain site and road improvements to the Rodgers Peak site.

Issue 3: Capital Outlay – Public Safety Communications Network Operations Center

Budget. OES requests $5,571,000 (General Fund) for the construction phase of the continuing Public Safety Communications Network Operations Center project. Total project costs are estimated to be $6,272,000 ($609,000 for preliminary plans, $92,000 for working drawings, and $5,571,000 for construction).

Background. The California Public Safety Microwave Network (CAPSNET) is a critical public safety communications network on which the state’s emergency responders depend. OES oversees the operation of CAPSNET through the Network Operations Center (NOC), located in the Water Resources building in Sacramento.

Currently, the NOC is the state's single point for OES staff to monitor the network, troubleshoot outages, and perform system repairs for the entire system. If the NOC were to become damaged or destroyed the network would be severely impacted, potentially debilitating the state's public safety radio communications. In addition, the Water Resources building that currently houses the NOC is scheduled for renovation and potential relocation to a new property site in 2021 and the site will no longer be available for use at that time. After 2021 OES will need to relocate the NOC to another site.

This project will design and construct a new NOC at the OES headquarters complex in Rancho Cordova, but will not result in the construction of a new building. The project includes design and construction of a new microwave path and a 120-foot communications tower next to the headquarters complex, as well as testing and installing microwave circuit monitoring devices at various locations in the Sacramento Area.

Issue 4: Domestic Violence Victims Fund

Budget. OES requests $250,000 (California Domestic Violence Victims Fund) ongoing local assistance authority, pursuant to Assembly Bill 1399 (Baker), Chapter 289, Statutes of 2016.

Background. The OES' Victim Services Division provides federal and state financial assistance to victim service agencies in California through competitive and non-competitive processes. These programs provide a wide range of support services for victims and their families including, but not limited to, direct services, advocacy, training, and technical assistance. AB 1399 authorizes taxpayers to designate on their tax returns that a specified amount in excess of their tax liability be transferred to the California Domestic Violence Victims Fund. All moneys contributed to the fund pursuant to these provisions, upon appropriation by the Legislature, will be allocated to OES for the distribution of funds to domestic violence programs in California. These programs must be in active status, as reflected on Secretary of State's website, exempt from federal income taxation as an organization described in Section 501(c)(3) of the Internal Revenue Code, and active grant recipients under the Comprehensive Statewide Domestic Violence Program within OES as described in Section 13823.15 of the Penal Code.

0845 CALIFORNIA DEPARTMENT OF INSURANCE (CDI)

Issue 1: CDI Menu Modernization Project (CMMP) – Year 4

Budget. The department is requesting a one-time increase of $2,061,000 (Insurance Fund) expenditure authority to support four positions and two temporary help position authority in Fiscal Year (FY) 2017-18 to complete year 4 implementation of a five-year project to replace/upgrade its legacy GDI Menu and Integrated Database (IDB). Specifically, the request includes $1,178,000 for external contracts for software, project management, training, travel, and project oversight and $883,000 to support positions.

Background. The CDI Menu Project is a gateway or portal (user interface) that was developed in 1992 using an Oracle Forms and Reports platform. The core of the CDI Menu is the IDB database, the backend database which includes the majority of the CDI Menu's rules and database triggers. Built over 20 years ago, the technology supporting the current IDB is outdated and the vendor will no longer provide support for this technology after June 2017. The CDI Menu provides access to over 90 different functions, reports, studies, and views. For example, Accounting - Financials which allows department staff to create customer invoice batches to "feed" the Oracle Financials system from various functions of the department such as Financial Analysis Division (FAD) Reviews, Certificate of Authority Billings, Late Filing Fees, and others. The system's aging technology has created several functionality issues and challenges,

In FY 2013-14, the California Department of Technology (CDT) approved the cDI's CMMP Feasibility Study Report (FSR) (0845-042) to replace its legacy CDI Menu and IDB database. As part of the FY 2014-15 budget process, the Legislature approved a Spring Finance Letter (SFL) to fund Year 1 of the CMMP. In addition, the Legislature has approved Budget Change Proposals (BCP) for Year 2 and Year 3 in each subsequent FY.

To date, the CMMP has received total resources of $6,855,000. The department is requesting year four resources of $2,061,000 to continue the project, which will include the completion of remaining CMMP systems.

Staff Comment. The CMMP is a five-year project and this proposal requests funding for year four only. CDI's estimated future resource requirements will be addressed during the annual budget process as seen in the chart below.

Resources	FY 2018-19
Positions	0
Funding	$278,000

Issue 2: Sacramento Headquarters Expansion

Budget. The department requests an increase in expenditure authority (Insurance Fund) of $321,000 in FY 2017-18 and $487,000 in FY 2018-19, and ongoing, to lease additional space at 300 Capitol Mall to implement a public counter, provide sufficient hearing, meeting and training space as well as accommodate additional staff.

Background. The department currently leases 93,600 square feet at 300 and 320 Capitol Mall in Sacramento, which serves as its Sacramento Headquarters with work space for approximately 400 employees. This building is privately-owned and open to the public and does not have the level of security available in most state and federal government buildings today. For example, visitors do not sign-in or validate their identity or reason for visit. In May 2016 the California Highway Patrol conducted a security assessment of this building and department occupied space and identified multiple security enhancement opportunities.

The department and the State Controller's Office (SCO) currently lease their primary Sacramento office space at 300 Capitol Mall. To ensure the efficient use of resources, CDI is partnering with the SCO related to some of these critical business needs. CDI and SCO will execute an interagency agreement to share the public counter and SCO will reimburse CDI for its share of costs, which are anticipated to be approximately $32,000 for about 700 square feet. The SCO is not requesting additional funding for its share of costs.

The additional space on the first floor would provide an area for CDI and SCO to set up a secure public counter where visitors and deliveries could be better handled and directed (i.e., single access point for visitors), thus enhancing the security of their workforces.

CDI holds over 50 public hearings and meetings on an annual basis and does not have adequate space in its current Sacramento Headquarters to host most of these events. Currently, CDI's largest meeting room only has the capacity to accommodate 40 participants. The space needed for public meetings exceeds this capacity. The additional space will provide an area for public hearings and meeting that will accommodate approximately 108 seats for public hearings and an additional 72 seats for stakeholder meetings; while providing conference rooms for meeting. Additionally, having the ability to live-stream would allow the public and insurers more opportunity to be aware of and participate in all meetings.

Issue 3: Spanish License Examinations (AB 1899)

Budget. The department is requesting an increase in expenditure authority (Insurance Fund) of $49,000 for Fiscal Year (FY) 2017-18, $13,000 for FY 2018-19, and $16,000 in FY 2019-20, through FY 2023-24, to support resources to address the increased workload to comply with the enactment of Assembly Bill 1899 (Calderon), Chapter 560, Statutes of 2016. Specifically,

- $14,000 in FY 2017-18, and $2,000 ongoing until FY 2023-24, for consulting and professional services.

- $5,000 for FY 2017-18, $11,000 for FY 2018-19 and $14,000 ongoing until FY 2023-24, for increased consulting and professional services for credit card convenience fees.

- $30,000 in FY 2017-18, to enhance the current licensing systems that will allow CDI to monitor applicants taking the examinations in Spanish and gather the necessary data in preparation for the report in FY 2023-24.

Background. California residents applying for an insurance producer license issued by the department must pass a qualifying license examination. CDI contracts with a national examination vendor to schedule and proctor most examinations. There are currently 14 types of examinations. Once candidates successfully pass the license examination they are then eligible to file an application for the applicable license. AB 1899 requires, beginning January 1, 2018 and ending January 1, 2024, that the following four license examinations be provided in Spanish in addition to the current English versions:

- Life - limited to the payment of funeral and burial expenses
- Life only
- Accident and Health
- Life, Accident and Health

In addition, AB 1899 also requires the Insurance Commissioner to evaluate the qualifying examinations taken in Spanish and submit a report to the Legislature by March 1, 2023.

Issue 4: Information Technology Infrastructure

Budget. CDI is requesting an increase in expenditure authority (Insurance Fund) of $1,300,000 in FY 2017-18, and $140,000 in FY 2018-19, and ongoing, for hardware, software and maintenance to upgrade the CDI's statewide Voice over Internet Protocol (VoIP) system, including its call center functions.

Background. In 2006, CDI migrated from a traditional private branch exchange (PBX) system to VoIP due to the rich features this application offers, such as unified communications, messaging, and customizable call center applications. The entire VoIP system reached end-of-life and support in October 2016. Some of the critical applications within VoIP such as call managers reached end-of-life and support in October 2014, and the operating system (Microsoft Windows 2003 Server) for the call center servers reached end-of-support in July 2015.

CDI has two call centers which rely on the VoIP call center system for everyday business – the consumer hotline and the licensing hotline. Between the two call centers, CDI has averaged more than 322,000 calls per year over the past five years. If the VoIP system is not upgraded, the risk of failure will increase. Failure in this system would shut down CDI call centers interrupting mission critical services to consumers and insurers.

Staff Comment. This project does not require California Department of Technology (CDT) project approval. Installations of VoIP phone systems that are standalone and do not interface with other systems on the network are exempt from CDT oversight under State Administrative Manual section 4819.32 Exclusions #4.

0890 SECRETARY OF STATE

Issue 1: Help America Vote Act (HAVA) Spending Plan

Budget. The Secretary of State (SOS) requests $4,065,000 (Federal Trust Fund) in expenditure authority for FY 2017-18, to continue implementation of the statewide mandates of the Help America Vote Act of 2002 (HAVA). The request amends a spending plan, which was created to distribute federal grant funds to implement HAVA.

Background. On October 29, 2002, President Bush signed the Help America Vote Act (HAVA), which provides federal funding to states to implement mandated elections changes. The requirements of HAVA include statewide modernization or replacement of voting equipment, education and training programs for election officials and poll workers, and a statewide voter registration database (VoteCal will be discussed in the next item).

To date, the state has received $392.4 million in federal funds to implement these mandates; including interest earned, total funds equal $436.5 million. There are three sources of funding provided by HAVA for use to improve the administration of federal elections and to meet HAVA requirements. Those sources are Section 101, Section 102, and Section 251 funds. Sections 261 and 271 provide additional funding specific to meeting the requirements of those sections.

The HAVA Spending Plan for 2017-18, includes the following activities:

HAVA Spending Plan for FY 2017-18

Activity	Amount	HAVA Citation
HAVA Activities		
Voting System Testing & Approval – Support	$ 380,000	HAVA Required – Section 301
Voter Education – Support	$ 500,000	HAVA Required – Section 302
Administration – Support	$ 1,421,000	HAVA Allowable – Sections 101, 251 & 261
Performance Measures – Support	$ 200,000	HAVA Allowable – Section 254
Local Assistance – Support	$ 1,564,000	HAVA Allowable – Section 251
HAVA Activities Total [1]	**$ 4,065,000**	

[1] Funds for the VoteCal program will be secured through a separate BCP

Staff Comment. It is estimated that the unexpended balance after implementation of VoteCal in FY 2017-18 will be $31,075,254. This estimate assumes that there will not be unexpected VoteCal changes or costs. The unexpended balance may be used to support future fiscal years' on-going costs of complying with the continuing federal mandates including maintenance and operation of the VoteCal system and voter registration list maintenance. It cannot be expended without budgetary authorization, and can be used solely for HAVA-related needs.

Issue 2: HAVA VoteCal

Budget. The SOS requests $7,102,000 (Federal Trust Fund) in spending authority for the budget year to cover the second year of maintenance and operations (M&O) costs of VoteCal, California's statewide voter registration database. The requested $7.102 million in spending authority includes $1.564 million of local assistance support.

Background. Section 303 of the Help America Vote Act (HAVA) of 2002 (Public Law 107-22, 107th Congress) mandates that each state implement a uniform, centralized, interactive, computerized voter registration database that is defined, maintained, and administered at the state level. The SOS is responsible for overseeing the administration of California elections and administers the VoteCal system, in conjunction with county elections officials. The VoteCal system serves as the single system for storing and managing the official list of registered voters in the state.

The SOS is requesting unexpended authority from FY 2015-16 be shifted forward to FY 2017-18 for continued local assistance to support unexpected county VoteCal challenges.

Staff Comment. The VoteCal Project was successfully deployed in August 2016 and declared the system of record for the state on September 26, 2016.

Issue 3: Information Technology and Management Services Staffing

Budget. The SOS requests three positions and an augmentation of $943,000 in FY 2017-18 ($778,000 Business Fees Fund and $165,000 General Fund), of which $928,000 is ongoing ($763,000 Business Fees Fund and $165,000 General Fund). This expenditure authority is requested for three accounting analysts and for software licensing costs associated with the Microsoft Enterprise Agreement.

Background. The Microsoft Enterprise Licensing Agreement is a state-supported procurement methodology for obtaining necessary licensing for Microsoft products. Previous Microsoft licensing was obtained via multiple Select Agreements. This was trouble prone and caused delays in obtaining proper legal licensing for new initiatives and maintaining currency with industry standards. Managing and procuring via the Select program was not as efficient as the Enterprise Agreement method. Also, many products are only available via the Enterprise-level agreement. The California Department of Technology recognizes the cost benefits that this licensing avenue provides over retail and Select-level agreements and is encouraging all state agencies and departments to join their licensing program model using Enterprise Agreement.

The Management Services division (MSD) is responsible for providing the agency's administrative support in the areas of accounting, budget, human resources, fiscal analysis, contracts and procurement, facility management, and emergency management. One of the biggest challenges facing the MSD is that, over the years, general staffing levels have not kept pace with the growing demands for support in the areas of accounting. Hiring freezes and budget cuts meant only mission-critical functions were staffed, often using retired annuitants (RAs) and/or students, resulting in a dependence on these workers to meet current workload levels. In recent years, the California Department of Human Resources (CalHR) has issued directives curtailing the use of RAs and students. Funding is requested to replace RAs and students with permanent positions. Approximately one third of staff is comprised of temporary help performing mandatory, critical work. Current monthly averages are $5 million-$7 million in deposits, 100,000 checks processed, and 5,500 entries into the accounting system.

Moreover, a recent conversion (within the last two years) to Remote Site Deposit, which was requested by the Centralized State Treasury System banks and enforced by the State Treasurer's Office, has created new workload. Work which was previously done by the bank (such as correction due to differing numeric/written amounts, MICR line issues, etc.) is now being done in-house prior to submission to the bank. When this work was pushed to state departments, no authorized positions were requested.

8620 FAIR POLITICAL PRACTICES COMMISSION

Overview The Fair Political Practices Commission (FPPC) is an independent non-partisan agency who regulates and enforces actions performed by governmental officials and agencies and requires extensive disclosure reports to provide the public with access to government processes. The FPPC provides education about the Political Reform Act of 1974 and according to the agency, "provides for public officials' disclosure of assets and income to avoid conflicts of interest."

Public officials whose decisions could affect their economic interests are required by law to file economic interest disclosure statements, titled "Statement of Economic Interests" (SEI) also known as "Form 700". These statements become public records after they are filed. The SEI reporting process provides transparency and ensures accountability in two ways: 1) it provides necessary information to the public about a public official's personal financial interests to ensure that officials are making decisions that do not enhance their personal finances, and 2) it serves as a reminder to the public official of potential conflicts of interests so the official can abstain from making or participating in governmental decisions that are deemed conflicts of interest.

Budget. The budget includes $11.78 million ($11.04 million General Fund and $741,000 reimbursements) and 66.3 positions to support the commission.

Issue 1: Cal-ACCESS Replacement Project (SB 1349)

Budget. The Fair Political Practices Commission is requesting increased General Fund expenditure authority of $145,000 in 2017-18 ($139,000 in 2018-19 and ongoing) to assist the Secretary of State to implement the provisions of Senate Bill 1349 (Hertzberg), Chapter 845, Statutes of 2016.

Background. The FPPC regulates and enforces actions performed by governmental officials and agencies and requires extensive disclosure reports to provide the public with access to government processes. Historically, this important disclosure has been done with a system administered by the SOS, the California Automated Lobbying and Campaign Contribution and Expenditure Search System (Cal-ACCESS). SB 1349 mandates that SOS, in consultation with the FPPC, develop and certify for public use an online filing and disclosure system for campaign statements and reports that provides public disclosure of campaign finance and lobbying information in a user-friendly, easily understandable format.

The FPPC is requesting funding to establish an authorized position for a data processing manager II to consult, collaborate, attend and facilitate meetings with the SOS and stakeholders. This position will work with FPPC program staff to train staff on the new system and develop efficient business practices because of the new system's increased functionality. In addition, the FPPC will have an increased workload due to changes in the technology, changes to reporting forms, and enacting or amending regulations to be in line with those technological changes.

ISSUES PROPOSED FOR DISCUSSION/VOTE

0690 OFFICE OF EMERGENCY SERVICES

Overview. The principal objective of the Office of Emergency Services (OES) is to protect lives and property, build capabilities, and support our communities for a resilient California. The OES director serves as both the Governor's Homeland Security Advisor and Emergency Management Director, with responsibility to implement and facilitate the state's homeland security and counter-terrorism strategy. The OES serves the public through effective collaboration in preparing for, protecting against, responding to, recovering from, and mitigating the impacts of all hazards and threats.

Budget. The budget includes $1.4 billion ($173.4 million General Fund, $998.7 million Federal Trust Fund, $232 million special funds and $4.5 million reimbursements) and 905.4 positions to support the office and its programs.

Issue 1: Public Assistance (BCP) - California Disaster Assistance Act Program

Budget. OES requests $3.5 million ongoing (General Fund) state operations and reduction of $3.5 million federal trust fund authority to realign the funding with workload in the Public Assistance Program which provides assistance during disaster recovery.

In addition, the Governor's budget includes adjustments totaling $56.7 million from the General Fund in 2017-18, for drought and other disaster purposes as follows:

- Drought-related California Disaster Assistance Act (CDAA) claims ($52.2 million). This would continue current-year funding levels related to emergency drinking water ($22.2 million) and tree mortality ($30 million).

- Non-drought-related CDAA adjustment ($1 million). The budget reflects a $1 million augmentation to fund disaster assistance through CDAA that is not linked to the drought.

- State operations related to drought ($3.5 million). The budget provides $3.5 million in 2017-18 for OES staff working on response, recovery, mitigation, and public awareness activities related to drought. This reflects a decrease in funding of $1 million from the current-year level of funding.

Public assistance and CDAA. OES acts as the conduit for state and federal assistance through disaster assistance grants and federal agency support. The Public Assistance Program is responsible for administering the CDAA program, providing financial assistance to eligible local and non-profit entities to recover from state-only disasters and those recovery activities not eligible for federal reimbursement. In managing the recovery efforts OES' Public Assistance program staff work one-on-one with all affected jurisdictions impacted, by implementing and administering the state CDAA and federal disaster programs. These programs provide services and financial assistance to help eligible entities recover after a disaster event. When California has met the threshold for a Presidential disaster declaration, the Public Assistance program staff work one-on-one with the impacted communities to ensure California maximizes the recovery of costs from the Federal Emergency Management Agency (FEMA).

Since 2007, 89 percent of the disasters in California were state-only events. Current baseline authority for the Public Assistance Program is 50 percent General Fund and 50 percent federal reimbursement authority; however, this does not sustain the program's state-only workload. The General Fund exclusively funds administration in support of state-only disaster events, activities which are not eligible for federal reimbursement, and shares costs for federal events. For all state-only disaster events, the state is responsible for all costs associated with disaster recovery. If a federal declaration occurs, the state is responsible for cost share, all pre-declaration recovery activities, and non-reimbursable costs such as time spent at the Joint Field Office, applicants' briefings, general travel, and per diem.

OES maintains a core cadre of recovery specialists to manage open disasters, maintain comprehensive knowledge on the state and federal public assistance programs, and retain expertise to meet future disasters' critical recovery needs. There are currently 575 CDAA-funded projects underway with a remaining open value of $74.8 million.

Drought response. In response to an extended drought in California that began in 2011, the Governor proclaimed a State of Emergency in January 2014. Since the drought has not been declared an emergency by the federal government, the state cannot use federal funds to support drought-related activities. Accordingly, drought-related local assistance must be funded exclusively by CDAA (rather than mostly by the federal government), and OES staff must be supported by state funds when engaging in drought-related activities.

Legislative Analyst's Office. The LAO recommends modifying the public assistance proposal to provide a smaller increase - $2 million – from the General Fund, which is consistent with historical expenditure levels.

The LAO has also raised concerns related to the OES' baseline budget adjustment ($56.7 million General Fund) which is slated to be used for CDAA claims and state operations related to drought. There is concern with the inclusion of this funding in a miscellaneous baseline adjustment, as it fails to provide the Legislature with the workload and cost information necessary to assess the proposal. The LAO recommends (1) delaying decisions on funding amounts until May when drought conditions are more certain, (2) segregating funding for drought purposes to ensure that it achieves its intended outcomes, and (3) directing OES to make any future request for funding through budget proposals—rather than as adjustments to the department's base funding amount—to ensure that the Legislature has the information it needs to make its budgetary decisions.

Staff Comment. For the past three fiscal years between 66-70 percent of public assistance expenditures have come from the General Fund, with the remainder coming from federal funding. Approval of this proposal would split funding authority with approximately 83 percent coming from the General Fund and the remaining 17 percent from federal funds.

Public Assistance Expenditures					
FY 2013-14		FY 2014-15		FY 2015-16	
General Fund	Federal Funds	General Fund	Federal Funds	General Fund	Federal Funds
$6.4 million (69.5%)	$2.8 million (30.5%)	$6.5 million (66.6%)	$3.3 million (33.4%)	$6.9 million (65.9%)	$3.6 million (34.1%)

Issue 2: Victims of Crime Act

Budget. OES requests 23 permanent positions related to the increase in the Victims of Crime Act (VOCA) federal award. Funding for these positions will come from federal funds.

Background. In 2014, President Obama increased the 2015 Crime Victims Fund appropriation level from $745 million to just over $2.3 billion, quadrupling funding for VOCA grant programs administered through the Office of Victims of Crime. For California, the VOCA award increased from the 2014 amount of $52 million to $232 million in 2015. It was unknown if Congress would sustain this level of funding for future years, therefore, temporary positions were hired in the spring of 2016, to manage the increased workload. Temporary positions cannot be extended beyond a second year; therefore, the temporary positions will terminate in the spring of 2018. The 2016 VOCA award is increasing further to $268 million. The 2016 VOCA funds expire September 30, 2019, which, without approval of this proposal, leave approximately 18 months without these staff to manage the increased workload.

Staff Comment. As noted in the background, the award increase is not permanent and may not continue beyond 2019. The subcommittee may wish to inquire about plans for these positions if this award increase is not permanent.

0845 CALIFORNIA DEPARTMENT OF INSURANCE (CDI)

Overview. The California Department of Insurance (CDI) was created in 1868 as part of a national system of state-based insurance regulation. The state's publicly-elected Insurance Commissioner regulates the sixth largest insurance economy in the world, collecting more than $259 billion in premium annually. CDE licenses approximately 1,300 insurance companies and more than 400,000 insurance agents, brokers, adjusters, and bail agents.

Annually, the department receives and investigates around 200,000 complaints, performs examinations to ensure the financial solvency of companies, and receives approximately 30,000 suspected fraudulent claim referrals annually.

Budget. The budget includes $269.7 million ($263 million Insurance Fund, $6.4 million General Fund, $18,000 Federal Trust Fund, and $250,000 in reimbursements) and 1,256.8 positions to support the department and its programs.

Issue 1: Enhanced Auto Consumer Services

Budget. CDI requests an increase in special fund (Insurance Fund) expenditure authority of $2,112,000 over a four-year period beginning in Fiscal Year (FY) 2017-18 and extending through FY 2020-21 (FY 2017-18: $749,000; FY 2018-19: $519,000; FY 2019-20 and FY 2020-21: $422,000). These funds will support consumer services workload related to auto insurance and Assembly Bill 60 (Alejo), Chapter 524, Statutes of 2013. Specifically the request includes:

- $186,000 in FY 2017-18, and $179,000 for FY 2018-19 through FY 2020-21 to support one Attorney III position to address workload in the Legal Branch.

- $363,000 In FY 2017-18, $340,000 in FY 2018-19, and $243,000 for FY 2019-20 - FY 2020-21 to support one research analyst I position, one research analyst II position, and one research program specialist I position to address workload in the Statistical Analysis Division (SAD).

- $200,000 in FY 2017-18, to conduct a qualitative study about AB 60 licensees.

Background. California Insurance Code (CIC) Section 1872.81 authorizes the CDI to assess insurers doing business in California, an annual amount not to exceed $0.26 for each vehicle insured under an insurance policy it issues in California. The funds are to be used as follows:

- Two-thirds of the assessment shall be used for the purpose of funding the department's consumer service functions related to regulating automobile insurers.

- One-third of the assessment shall be used for the purpose of improving consumer functions that are related to regulating automobile insurers.

- Up to five cents ($0.05) of the assessment may be used to notify insurers and other members of the public about the existence of any low-cost auto insurance programs.

CDI has an excess cash balance in the $0.26 Auto Consumer Services line item within the Insurance Fund and is proposing to partially spend these funds. These funds will be used to address workload issues in the Legal Branch and SAD within CDI, as well as a research study related to AB 60.

Over the last few years, CDI has seen a significant and steady increase in the number of vehicle service contract filings and licensee disciplinary cases. CDI is responsible for licensing vehicle service contract providers and any contract forms must be filed with the department before being sold to California consumers. The Legal Branch is responsible for the receipt and review of the forms. The department has seen an approximate 60 percent increase in the number of fillings submitted since 2012. From 2012, to late 2015, the department had one staff reviewing forms full-time, and another assisting part-time. In 2016, the department spread reviews among nine staff attorneys in the Auto Enforcement Bureau, which reduced the time dedicated to work on enforcement cases. Vehicle Service Contract review work takes approximately two to four hours per file. In addition, there is approximately one and a half hours of administrative time required for each filing. As of February 23, 2017, review had not commenced on 197 filings. Forms are reviewed on a first in/first out basis, and currently forms filed in early October 2016, are being reviewed.

Vehicle Service Contract Review Filings

FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17 (projected)
240	269	327	371	380

AB 60 enables California residents to apply for a driver's license, regardless of immigration status; as long as they meet California's other licensing standards, including the requirement of showing proof of insurance coverage. In 2015, the DMV issued 605,000 drivers' licenses under AB 60, and it is assumed that many of these consumers are purchasing auto insurance for the very first time.

SAD is responsible for responding to all data collections and reporting requirements set forth in the California Insurance Code and the California Code of Regulations. SAD currently has several mandated projects that are backlogged. The majority of this backlog is on the Rosenthal Auto Insurance Nondiscrimination law which requires all private passenger auto insurance writers to provide to the department loss experience data by ZIP code annually. Additionally, SAD is also currently working on two new projects 1) annually calculating the number of uninsured motorists affecting California insured drivers and 2) determining the effects of AB 60 as it relates to auto insurance.

Currently, CDI does not have access to data necessary to effectively pursue its goals of consumer protection in the AB 60 insurance marketplace. The requested funding will be used to conduct a qualitative study about how AB 60 licensees accessed insurance coverage, market practices in AB 60 communities, and whether AB 60 resulted in more insurance coverage available for all Californians involved in auto collisions. Knowing whether AB 60 led to increased insurance purchases would help the department determine policy options for AB 60 drivers, effective allocation of resources, and decision-making for departmental programs. Additionally, stakeholder groups would benefit from data about how AB 60 drivers purchase their insurance and how long the policies are maintained.

Issue 2: Out-of-Network Coverage (AB 72)

Budget. CDI requests an increase in special fund (Insurance Fund) expenditure authority of $751,000 in Fiscal Year (FY) 2017-18; $730,000 in FY 2018-19; and $550,000 ongoing to support two and a half positions and an external contract to comply with the mandates of Assembly Bill 72 (Bonta), Chapter 492, Statutes of 2016. Specifically the request includes:

- One attorney III position and $186,000 in FY 2017-18 and $179,000 in FY 2018-19

- One and a half associate insurance compliance officers and $189,000 in FY 2017-18, and $175,000 in FY 2018-19, and ongoing

- $375,000 in expenditure authority for external contracting services

Background. Out-of-network providers often bill more than insurers pay, which results in the insured receiving a bill for the unpaid balance, also called a "balance bill." AB 72 prohibits out-of-network healthcare providers from balance billing for care provided at in-network health facilities, with the exception of emergency care. The law requires CDI to establish an independent dispute resolution process (IDRP) to resolve claims payment disputes between insurers and out-of-network health care providers. The department must also specify a standardized methodology to determine average contracted rates for purposes of claims payment. Finally, the department must collect information concerning the proportion of out-of-network providers practicing at network facilities in order to monitor the effect of AB 72 on health insurer contracting and network adequacy, as well as provide a report on AB 72 to the Governor and Legislature.

The proposal requests one attorney III position for two years to address workload associated with initial implementation of AB 72. The requested position will prepare the guidance for the IDRP and subsequently to conduct a formal rulemaking to adopt procedural requirements, conflict-of-interest standards, and user fees into regulation. The position will also be responsible for reviewing the average contracted rate information that insurers must submit to CDI, and assist in developing standardized methodology for determining the average contracted rate for services rendered subject to AB 72.

The Consumer Services Division will be responsible for administering the IDRP. Based on previous claims received, CDI estimates an annual receipt of 618 complaints that would potentially qualify for the IDRP. As a result, the department is requesting one and a half associate insurance compliance officer positions to comply with the mandates in AB 72. AB 72 authorizes the department to contract with one or more independent dispute resolution organizations to conduct the IDRP.

Issue 3: Rate Regulation Restructure and Rate Review – Predictive Model Analysis

Budget. CDI is requesting a special fund (Insurance Fund) expenditure authority increase of $586,000 in Fiscal Year (FY) 2017-18, and $570,000 in FY 2018-19, and ongoing to support two positions to address an inadequate management structure and engage outside actuarial consultants to assist in the technical analysis and additional workload associated with the review of complex predictive models. Specifically the request includes:

- $386,000 in FY 2017-18, and $370,000 in FY 2018-19, and ongoing, to support two permanent positions that will address increased workload.

- $200,000 for FY 2017-18, and ongoing, in order to engage outside actuarial consultants to assist in the review of predictive models as well as the continued training of staff in that review process.

Background. The Rate Regulation Branch (RRB) has the task of reviewing and approving all property and casualty insurance rate filings that are submitted for prior approval before those rates can be charged by insurers. The purpose of the review and analysis process is to ensure that rates charged to consumers in California are fair, meaning they are not excessive, inadequate, unfairly discriminatory, or otherwise in violation of the Insurance Code. Insurers are making increasingly greater use of predictive modeling in the development of their rating plans for homeowners, residential property, and commercial insurance coverages. Since they are used as part of the rating plan, it is RRB's responsibility to review those models.

The review of models itself is a complex process. The actuary must validate the steps taken by the developer to ensure that the data used was credible, that anomalies in the data were addressed, that none of the factors utilized are proxies for illegal considerations, that all determinations are documented and supported, and that the resulting model is sound. In order to keep up with the increasing use of predictive modeling in the insurance industry, CDI has had to engage with outside consultants. In FY 2013-14, the Governor and the Legislature augmented CDI's budget by $700,000 in order to hire external consultants to assist the department with reviews of predictive models. These contract funds will be fully utilized by the end of FY 2016-17.

CDI is requesting expenditure authority in order to execute a contract that would allow the department to continue to engage outside actuarial consultants to assist in the technical analysis and additional workload involved in the review of predictive models as well as the continued training of department staff in that review process. The allocation is likely to result in external analysis for four to eight filings annually. . With the continued augmentation, the department will be able to identify illegal or anti-consumer instances of price optimization, disparate impact, and unfair discrimination that are discretely veiled within modeled rating factors, and estimate the potential overall or individual rate impact of such reviews on an annual basis.

Over the last several years RRB has had a backlog of rate filings. RRB has taken many steps to make the processing of rate filings more efficient in an attempt to reduce its filing backlog: moving to an electronic-only filing system; prioritizing the workload to work the most critical files; providing additional training to staff; and updating its rate filing application. One such step involved adding positions to RRB, which included the addition of casualty actuaries. However, as positions were being added, no management positions were added to effectively supervise the workload and redistribute work as necessary among the six bureaus. Currently, the RRB Deputy commissioner oversees 13 direct reports of which six are bureau chiefs and seven are casualty actuaries. The total of 13 direct reports is significantly higher than the recommended number of four to five direct reports, as suggested by the California Department of Human Resources allocation guidelines. Restructuring the RRB and adding a management level between the bureau chiefs and actuaries and the deputy commissioner of RRB, will provide the appropriate level of leadership which in turn will create efficiencies in the branch that will have a positive impact on workload.

Issue 4: Workers' Compensation Fraud Program

Budget. CDI is requesting a special fund (Insurance Fund) expenditure authority increase of $3,424,000 (State Operations $1,677,000 and Local Assistance (LA) $1,747,000) in Fiscal Year (FY) 2017- 18 and ongoing, to fund workers' compensation fraud investigation and prosecution workload increases. Additionally, CDI is requesting ten permanent positions for this workload – eight in 2017-18 and another two in 2018-19. Specifically:

- $1,177,000 to support up to 10 permanent positions in FY 2017-18, and ongoing.
  - Four investigators in FY 2017-18 and ongoing.
  - Two staff services manager I (SSM I) (one in FY 2017-18, and two in FY 2018-19, and ongoing).
  - Two associate governmental program analyst (AGPA) (one in FY 2017-18, and two in FY 2018-19, and ongoing)
  - One staff services analyst (SSA) in FY 2017-18, and ongoing.
  - One office technician (OT) in FY 2017-18, and ongoing.

- $500,000 for incidental expenses

- $1,747,000 available for distribution to the local district attorneys

Background. Senate Bill 1218 (Presley), Chapter 116, Statutes of 1991, established the Fraud Assessment Commission (FAC). The FAC meets annually to determine the level of funding necessary to support CDI operations and district attorneys (DA) investigations, and is made up of seven members appointed by the Governor. In 2016, the FAC unanimously voted to approve a five percent increase in the Workers' Compensation Assessment for FY 2017-18. Historically, the DAs have received approximately 60 percent of the funding and CDI received 40 percent.

The enforcement branch of CDI is seeing a pattern where a large percentage of medical fraud is connected with workers' compensation claims and the providers operating within the workers' compensation system. Many of the large and complex cases in medical provider fraud lead to joint investigations with other law enforcement agencies. These investigations are labor and time intensive. They can take between one and three years to complete and generally require specialized expertise in investigations and prosecutions. It can then take an additional six months to several years of court and investigative time to navigate the case through the court process, tying up investigators and prosecutors in court for however long that process takes.

Recent criminal investigations and prosecutions have highlighted the need to redirect and add resources and expertise to address fraudulent provider organizations that entice genuinely injured workers to their practice for medical care and services. These investigations continue to highlight the need to protect the truly injured workers who seek medical care and services, and as these investigations demonstrate, find themselves in a process of invoice driven care or resources.

The requested funding would be used to investigate the cost drivers in the workers' compensation system, including medical provider fraud, using a regionalized task force model. The regional task force would include support from allied state and federal law enforcement agencies, along with county and federal prosecutors. This approach will allow the investigators and prosecutorial team to operate across multiple jurisdictions as determined by the fraud scheme.

There are currently 40 cases of medical provider fraud pending prosecution, with chargeable fraud in these cases exceeding $744 million dollars. The five percent increase approved by the FAC will result in additional funds available for distribution to the local DAs. DAs review completed investigations, provide investigators for joint investigations, provide legal advice regarding case strategies, review search warrants for legal sufficiency, and handle all aspects of criminal prosecution of workers' compensation fraud. Prosecutorial resources are needed to respond to motions filed and other defense attorney tactics to delay or dismiss the case. Motions by the defense attorneys and the discovery process also impact when a case is adjudicated, sometimes years after the initial case is filed. Cases filed in prior years can take up valuable investigator and prosecutorial time in the current fiscal year. Additionally, there is a four-year statute of limitations for prosecution that begins when the alleged offense is discovered or when it should have been discovered. Consequently, timely prosecutor resources are critical in addressing medical provider fraud.

0890 SECRETARY OF STATE

Overview. The Secretary of State (SOS) is the chief elections officer and administers and enforces election laws. The SOS also administers and enforces laws related to corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations, and bonds and perfecting security agreements. The Secretary is the filing officer for lobbying and campaign documents under the Political Reform Act, and operates the Safe At Home program.

Budget. The budget includes $101.2 million ($11.4 million Federal Trust Fund, $49.3 million Secretary of State Business Fees Fund, $36.5 million General Fund, and $4 million other special funds) and 571.3 positions.

Issue 1: Cal-ACCESS Replacement Project

Budget. The SOS requests a one-time augmentation of $5.519 million (General Fund) and two information technology staff positons for fiscal year 2017-18, to meet the mandates of Senate Bill 1349 (Hertzberg), Chapter 846, Statutes of 2016. This request funds procurement of contracted services to design and develop campaign finance and lobbying activity electronic reporting and internet disclosure system to replace the current California Automated Lobbying and Campaign Contributions and Expenditure Search System (CAL-ACCESS) system as mandated by SB 1349.

The following chart provides a break out of the costs for this proposal:

Personal Services					
Total Salaries & Wages	2.0 F.T.E			$	170,000
Benefits				$	92,000
subtotal				$	262,000
Operating Expenses and Equipment					
Office Expense	(Note 1)			$	34,000
Training				$	137,000
Consulting & Professional Services - Interdepartmental					
Project Oversight				$	362,000
Consulting & Professional Services - External					
Software Customization		$	3,000,000		
Project Management		$	375,000		
Feasibility Study		$	168,000		
Alternatives Analysis		$	168,000		
IV&V Services		$	365,000		
Specialty Consulting		$	648,000	$	4,724,000
				$	5,519,000

Note 1 - Includes printing, communications, postage and IT costs.

Background. Cal-ACCESS is a public website/database that serves as the public's window into California's campaign disclosure and financial lobbying activity. SB 1349 establishes new functional requirements for CAL-ACCESS that the current system cannot meet, including the ability to accept local filings from city and county campaign committees and lobbying entities, and to assign unique identifiers to contributors who make aggregate contributions of $10,000 or more in a calendar year.

The current CAL-ACCESS system is a conglomeration of component applications that were developed at different times using now-obsolete coding languages, platforms, and technologies. The system cannot generally be modified to respond to changes in legal requirements and/or concomitant filing processes, particularly when those changes trigger modifications to the forms used by filers and viewed by the public. The SOS supports development of a new, automated campaign and lobbying reporting and disclosure system. In furtherance of that goal, the SOS pursued project approval through the Project Approval Lifecycle (PAL) process overseen by the Department of Technology in accordance with Statewide Information Management Manual (SIMM).

In May of 2016, a spring finance letter was approved in the amount of approximately $1.8 million for this project from the Political Disclosure, Accountability, Transparency, and Access (PDATA) fund. That onetime augmentation permitted the SOS to procure contracted services to support Project Approval Lifecycle Stage 2 and Stage 3 deliverables. This request is for a one-time augmentation to procure contracted services to continue consulting contracts for the project.

Additionally, SOS requests two positions: one senior programmer analyst and one systems software specialist III. The senior programmer analyst will assist in developing program specifications and then test, and document application code to meet program specifications, as well as participating in the review and test of code created by contract staff for quality assurance, and to ensure knowledge transfer. The system software specialist III will develop architecture, program, and interface specifications for hardware and software, as well as be responsible for documentation and deployment of network infrastructure, and operating systems necessary to support the new application. This individual will also oversee the design and deployment of network and database security, and facilitate development of database and program interface specifications.

Implementation. The project schedule calls for release of a solicitation to all interested vendors in July of 2017, and anticipates selecting a prime contractor by January of 2018. Vendor proposals will specifically identify the necessary hardware requirements as a part of the proposed solution. The following schedule represents the major milestones for implementing the proposed solution:

Project Stages	Milestone	Dates
Alternatives Analysis	Complete Alternatives Analysis	11/2016
Solution Development	Refine Business Requirements and initiate project management and procurement plans (data governance; communications; issue/risk management; project; and contract management)	12/2016 –07/2017
	Release Request for Solicitation	07/2017
Project Readiness and Approval	Confidential bidder discussions	07/2017 – 10/2017
	Evaluate final Vendor responses	10/2017-12/2017
	Issue Intent to Award	01/2018
	Award Contract	02/2018
Design Development & Implementation	Requirements Validation	02/2018 – 06/2018
	Design and Development	04/2018 – 12/2018
	Testing	10/2018 – 02/2019
Maintenance and Operations	Implementation	02/2019
	First Year Operation and Closeout	02/2020

Staff Comment. SB 1349 exempts this project from the Department of Technology (DOT) oversight process; however the SOS is working with the department on this project. SOS invited the DOT to participate on the executive steering committee and will provide the department with regular status reports on the project. The stage 2 preliminary assessment has been completed and submitted to the DOT, and SOS continues to utilize the DOT-recommended best practices, templates, methodologies, and processes. In addition, there will be independent verification and validation and an independent project oversight consultant on the project.

Issue 2: California Business Connect Project

Budget. The SOS requests $2.4 million in spending authority for FY 2017-18 from the Business Programs and Modernization Fund (BPMF), to continue implementation of the California Business Connect project. The total FY 2017-18 cost of the project is $4.11 million; of which $2.04 million will be funded through the use of existing resources, resulting in project funding need of $2.07 million. An additional $320,000 for temporary help (and corresponding DGS service fees) is also needed to backfill staff positions redirected to the project.

Background. The SOS has the responsibility for processing and filing important commerce and trade documents including business formations, changes, and terminations. Most business entity documents and information requests are submitted to the SOS via mail or in-person in Sacramento and Los Angeles. The office currently relies on several antiquated electronic and paper database (including 3" x 5" index cards) systems in order to process more than two million business filings and requests for information submitted on an annual basis.

The California Business Connect project is envisioned to automate paper-based processes, allowing businesses to file and request copies of records online and to process fee payments within one business day. The SOS received its feasibility study report (FSR) approval for the project on April 1, 2011; and a contract was awarded on January 10, 2014. On April 10, 2015, the SOS and its system integrator, Bodhtree Solutions Inc., mutually terminated the contract for $8.9 million. On December 28, 2015, the SOS submitted a Special Project Report (SPR) #2 to the California Technology Department (CalTech) to proceed with a business-based procurement and implementation for the project which was approved on April 1, 2016.

Implementation. Pursuant to the approved SPR#2, SOS proposes implementing a reduced project scope to focus on the largest annual volume of paper flings with a phased implementation approach, while also replacing outdated legacy systems. A phased implementation will enable the deployment of functionality based on business value. Limited liability companies and limited partnerships will be the first phase, corporations will be the second phase, Uniform Commercial Code will be the third phase, and trademarks will be the fourth phase, followed by one year Maintenance and Operation (M&O). With each of the first three phases, an existing legacy system will be replaced. The major milestones as reflected in the SPR #2 are presented below.

Major Milestones	Estimated Completion Date
Release of Request For Proposal	8/01/2017
Contract Award	09/01/2018
Vendor Onboard	11/1/2018
Phase 1: LLC & LP Deployment	8/30/2019
Phase 2: Corporations Deployment	2/28/2020
Phase 3: Uniform Commercial Code Deployment	8/31/2020
Phase 4: Trademarks Deployment	1/29/2021
First Year Contract Maintenance and Operations	1/31/2022
Post Implementation Evaluation Report	1/31/2022

Issue 3: TBL – Safe at Home Program Address Confidentiality

Budget. The budget provides trailer bill language that proposes that the SOS be required to provide notices regarding address confidentiality to victims of domestic violence, sexual assault, or stalking, and reproductive health care providers and their affiliates upon appropriation by the Legislature.

Proposed trailer bill language is below.

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

SECTION 1. Section 6209.5 of the Government Code is amended to read:

6209.5. The Secretary of State ~~shall~~ shall, upon appropriation, provide each program participant a notice in clear and conspicuous font that contains all of the following information:

(a) The program participant is authorized by law to request to use his or her address designated by the Secretary of State on real property deeds, change of ownership forms, and deeds of trust when purchasing or selling a home.

(b) The program participant may create a revocable living trust and place his or her real property into the trust to protect his or her residential street address from disclosure in real property transactions.

(c) The program participant may obtain a change of his or her legal name to protect his or her anonymity.

(d) A list of contact information for entities that the program participant may contact to receive information on, or receive legal services for, the creation of a trust to hold real property or obtaining a name change, including county bar associations, legal aid societies, domestic violence prevention organizations, state and local agencies, or other nonprofit organizations that may be able to assist program participants.

SEC. 2. Section 6215.12 of the Government Code is amended to read:

6215.12. The Secretary of State ~~shall~~ shall, upon appropriation, provide each program participant a notice in clear and conspicuous font that contains all of the following information:

(a) The program participant is authorized by law to request to use his or her address designated by the Secretary of State on real property deeds, change of ownership forms, and deeds of trust when purchasing or selling a home.

(b) The program participant may create a revocable living trust and place his or her real property into the trust to protect his or her residential street address from disclosure in real property transactions.

(c) The program participant may obtain a change of his or her legal name to protect his or her anonymity.

(d) A list of contact information for entities that the program participant may contact to receive information on, or receive legal services for, the creation of a trust to hold real property or obtaining a name change, including county bar associations, legal aid societies, state and local agencies, or other nonprofit organizations that may be able to assist program participants.

Background. Existing law authorizes victims of domestic violence, sexual assault, or stalking, and reproductive health care services providers, employees, volunteers, and patients, to submit an application to the SOS for the purposes of enabling state and local agencies to respond to requests for public records without disclosing a program participant's address contained in any public record and otherwise provides for confidentiality of identity for that person, subject to specified conditions. Existing law also requires the SOS to provide each program participant a notice in clear and conspicuous font that contains specified information, including that the program participant is authorized by law to request to use his or her address designated by the SOS on real property deeds, change of ownership forms, and deeds of trust when purchasing or selling a home.

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 23, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

OUTCOMES

PART B

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION/VOTE

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 30, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PART A

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION AND VOTE

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

ITEMS PROPOSED FOR VOTE-ONLY

0511 GOVERNMENT OPERATIONS AGENCY

Overview. The Government Operations Agency (GovOps) is responsible for coordinating state operations, including procurement, information technology, and human resources. The mission of GovOps is to improve management and accountability of government programs, increase efficiency, and promote better and more coordinated operations decisions. GovOps oversees the Department of General Services, Department of Human Resources, Department of Technology, Office of Administrative Law, Franchise Tax Board, State Personnel Board, Victim Compensation Board, California Public Employees' Retirement System, and California State Teachers' Retirement System.

Budget. The budget includes $3.5 million ($1.3 million General Fund and $2.2 million in reimbursements) and 12.6 positions to support the agency.

Issue 1: Data Driven Management Initiative

Budget. The Government Operations Agency (GovOps) requests $160,000 (reimbursements) in 2017-18 and 2018-19, and one position to develop and implement a data-driven management initiative (DDMI).

Background. The mission of GovOps is to improve management and accountability of government programs, increase efficiency, and promote better and more coordinated operation decisions. Traditionally, departments have focused on processes and practices that emphasize compliance, rather than those that emphasized desired outcomes. This leads to inefficiency, less than optimal results, and higher than necessary operating costs. GovOps has implemented several different programs to address this inefficiency. GovOps has developed an open data pilot portal that is increasing department-level awareness about program-level data, making it easier to share and analyze data. A pilot supervisor training program was also started to make it easier for departments to recruit, hire, train, and develop qualified people. In 2014, a “Lean” training program to identify process improvements that would streamline operations was begun. To date, 18 different departments and agencies have participated in almost 60 Lean projects. Highlights of these programs include:

- The Department of Food and Agriculture reduced the time required to perform a job analysis prior to offering an examination to 24 days from an average of 90 days.

- The Department of Toxic Substances Control was able to reduce the number of steps to process a permit application to seven from 33, as well as reducing the average time to process applications.

- The Department of Transportation reduced the time required to investigate and resolve workplace violence allegations from an average of 150 days to where 60 percent of cases are resolved in five days.

This proposal requests one position to create a DDMI that will integrate and enhance the efforts mentioned above into a coordinated framework that departments can use to improve management and produce better results. The requested position will be used to develop a strategy for implementing a data-driven performance management framework that integrates various tools including strategic, workforce, and budget planning; risk management; data management and analysis; Lean process re-engineering; and leadership development.

Implementation. The goals of the DDMI will be pursued in three phases. Phase one will concentrate on implementation through training, change management, and improving results through the Lean models. In addition, GovOps will develop a strategy and introduce methods for organizing and standardizing operational data for analysis. Phase two will concentrate on implementation of the strategy and continue to provide guidance to agency staff on improving results measurement and achievement with the alignment of strategic plans at the organizational level. Phase three will assess results of the DDMI approach, continue the work of the first two phases, and begin to publish results to create transparency.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 1: Capital Outlay - Fortuna Residential Center

Budget. DGS requests the authority to exercise the lease-purchase option to acquire the facility located at 1546 Alamar Way in Humboldt County, which is currently occupied by the California Conservation Corps (CCC) Fortuna Residential Center, for $1 (General Fund).

Background. DGS on behalf of CCC, entered into a 25-year lease-purchase with the City of Fortuna in October 1991, with payments starting in July 1992. The center is roughly 40,000 square feet situated on about six acres, and consists of an administration building, dormitories, recreation and educational facilities, and a warehouse. The facility has been the CCC's home base in the Pacific Northwest for the last 25 years, and the facility location continues to meet the programmatic needs of the CCC.

This request will allow DGS to acquire the facility pursuant to the terms of the existing property lease, which is set to expire on June 30, 2018. It is anticipated that various site and structure evaluations and real estate due diligence activities will also be completed with existing funds.

Issue 2: Office of Legal Services Workload

Budget. DGS requests a permanent budget augmentation of $451,000 (Special Funds) and two permanent, full-time attorney III positions in fiscal year 2017-18.

Background. The Office of Legal Services (OLS) within DGS provides contract review services and provides legal advice to the Governor's Office, DGS programs, and other state agencies. OLS also hears and decides bid protests involving challenges to state procurements. This workload continually expands and the legal issues are becoming more complex, necessitating additional attorney time.

OLS currently has fourteen line attorneys, two assistant chief counsels, and a chief counsel. Current staffing levels are not sufficient to meet current needs and do not allow for expedient, proactive, in depth legal review and strategic advice, thereby reducing the state's opportunities for obtaining significant fiscal benefits and implementing the Administration's policies. The state's contracting rules and processes are complex and external clients have raised concerns about not having legal advice until after problems occur, which is more costly and inefficient than receiving proactive advice. Bid protest decisions are, by regulation, required to be issued within 30 days from when the protest hearing is completed. The established timeframe for completing contract review is 10 business days (five business days for public works contracts). For fiscal year 2015-16 there were backlogs of 41 percent and 25 percent in bid protest decisions and contract review services, respectively. A decision or review is considered backlogged when it is not completed within the above established timeframes.

The number of contracts reviewed by OLS has consistently remained at approximately 6,000 per year, however, the increasingly more sensitive and complex areas of legal advice have placed additional workload demands on OLS. This puts OLS in the position of struggling to maintain current workload but also results in the inability to provide proactive advice, training for staff, and mentoring for newer attorneys. Therefore, two new experienced attorney III positions will be required to handle sensitive and significant matters with little oversight.

Staff Comment. OLS is also experiencing significant delays in their ability to provide advice to internal and external clients (e.g., advice regarding efficient contracting mechanisms for the services being sought, input into draft solicitations/contracts), as well as delays in providing custom-tailored training for departments based on the particular areas in which the department has experienced contracting difficulties. The requested positions will be assigned to either assist in program areas experiencing significant backlogs or provide services in program areas handled by current attorneys to allow the other current attorneys to concentrate on the backlog. DGS also notes that this backlog is composed of billable work. Reducing this backlog will help to reduce administration costs for DGS.

PROPOSED FOR VOTE/DISCUSSION

0855 CALIFORNIA GAMBLING CONTROL COMMISSION

Overview. The mission of the California Gambling Control Commission is to ensure integrity in California's gaming environment. The commission has jurisdiction over gambling establishments (cardrooms), third-party providers of proposition player services, and certain aspects of Tribal casinos. The commission also has jurisdiction over gaming policies, regulations, criteria, and standards. There are 89 licensed cardrooms in California over which the commission has broad regulatory and adjudicatory authority. This authority extends to the operation, concentration, and supervision of the cardrooms and all persons and things related to each licensed establishment.

Budget. The budget includes $103.3 million ($96.5 million Indian Gaming Revenue Sharing Trust Fund, $4.1 million Gambling Control Fund, and $2.7 million Indian Gaming Special Distribution Fund) and 35.7 positions to support the commission.

Issue 1: Workload Increase

Budget. The California Gambling Control Commission requests three positions and $300,000 (Gambling Control Fund) per year, for three years, to support an increase in workload associated with reviewing cardroom applications received from the Bureau of Gambling Control (bureau).

Background. The commission has jurisdiction over operation, concentration, and supervision of gambling enterprises and over all persons or things (i.e. card tables, gaming equipment) related to the operations of gambling establishments. As it relates to the cardroom industry, the commission is the regulatory body over gambling establishments and third party providers of proposition player services - businesses that provide services in, and to, a gambling establishment under an agreement for services that is approved by the bureau.

The bureau is the state law enforcement authority with special jurisdiction over gambling activities within California, and is the entity that conducts background investigations for the commission on gambling license and work permit applications. Once the bureau completes its background investigation into the qualification of the applicants who apply for consideration of a state gambling license or suitability, the bureau compiles their findings into a bureau report submitted to the commission for consideration by the commissioners. As of July 2016, the bureau had a backlog of approximately 3,100 applications for background investigations associated with gambling enterprises and third-party providers. Applications and reports that are not sent to the commission within 180 days are considered as part of the backlog.

The bureau received 12 limited-term positions in 2015-16 and another 20 limited-term positions in 2016-17 to address this backlog. As the backlog is reduced, there will be an increase in the applications and background investigations that are completed and sent to the commission for review and consideration by the commissioners. The commission has already seen an increase in the number of applications received. For example, the commission received 512 total third party applications in fiscal year 2015-16, and since December 2016, has already received 489 applications for fiscal year 2016-17.

Relevant Workload History

Workload Measure	FY 2011-12	FY 2012-13	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17*
Cardroom applications received	794	834	818	627	803	361
Third party applications received	409	429	478	269	512	489

*As of December 2016

Staff Comment. The commission is requesting three additional positions to deal with a backlog from the bureau – which has received an additional 32 positions to address this backlog. The subcommittee may wish to ask if three positions will be enough to adequately process these additional applications.

7502 CALIFORNIA DEPARTMENT OF TECHNOLOGY (CDT)

Overview. The Department of Technology is the central information technology (IT) organization for the State of California. The department is responsible for the approval and oversight of statewide IT projects, statewide IT professional development, and provides centralized IT services to state and local governments as well as non-governmental entities. The department promulgates statewide IT security policies and procedures, and has responsibility over telecommunication and IT procurements.

Budget. The budget includes $327 million ($319 million Technology Services Revolving Fund, $4.5 million General Fund, $3.5 million Central Service Cost Recovery Fund, and $10,000 reimbursements) and 914 positions to support the department.

Issue 1: CDT's Oversight Role and New Project Approval and Funding Process

The following issue is an informational item to provide the subcommittee with more detailed information about CDT's new project approval process and the department's oversight role. The state has had significant IT project failures in the past which has led to increased legislative attention to IT projects in state government. The Legislature has looked to CDT to ensure that these projects are successfully completed.

Role of CDT. As mentioned above, CDT is the state's central IT organization and has broad authority over all aspects of technology in California government. Currently, there are around 30 IT projects in various stages of development that are under the oversight of CDT. CDT's specific responsibilities include:

- Approval and oversight of IT projects. CDT evaluates department proposals to ensure that proposed projects: (1) are based on well-defined programmatic needs, (2) consider feasible alternatives to address the identified needs, (3) identify a sound technical solution, (4) implement project management best practices, and (5) comply with state policies and procedures, among other CDT considerations. CDT routinely reports to sponsoring departments on issues of concern that it has identified, shares lessons learned from other projects, and recommends risk mitigation and issue resolution strategies.

- Review of revised project plans as necessary. Any significant changes to a project plan are documented and justified in Special Project Reports (SPRs). This process resets the scope, schedule, and cost from which the project's progress and performance are assessed. Once CDT approves the SPR and the Legislature approves the associated funding, the department can move forward with the project based on the revised plan.

- Suspend, terminate, and reinstate IT projects. CDT has the authority to suspend, terminate, or reinstate an IT project based on its performance. CDT also has the authority to hold departments accountable for poor performance, including by restricting future project approvals pending demonstration of successful correction of the identified performance failure.

Not all projects are under the oversight authority of CDT. Only projects that exceed estimated projects costs (a range from $200,000 to $2 million) set by CDT, are not absorbable by the sponsoring department and require appropriation by the Legislature, or are specifically mandated by the Legislature are subject to CDT oversight.

Previous project approval process. With the previous process departments prepared and submitted feasibility study reports (FSRs) when proposing IT projects. The FSR identified the problem, evaluated alternatives, and identified a technical solution. Once a department completed an FSR, it would submit it to CDT for approval. Once CDT approved the project, the FSR and budget-related requests would be submitted to the Legislature for approval and funding. There were several challenges that arose out of this process:

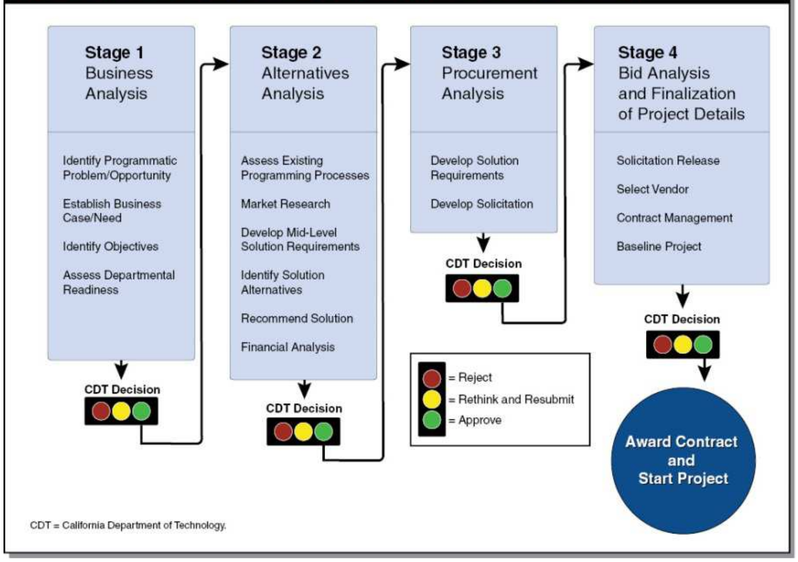
- Unmet needs of system users. Analysis of the programmatic needs of the department was done rather superficially during this process. As a result, some of the system user's needs were unmet by the implemented system.

- Poor planning. CDT was not involved in the departmental planning process or development of the FSR. Because departments largely planned projects without guidance from CDT, it was possible for a department to make an early erroneous assumption that jeopardized the quality of the entire planning effort.

- Unanticipated cost increases and schedule extension. Under this former project approval process, planning with potential project vendors occurred after CDT approved a department's FSR and the Legislature approved initial project funding. This interaction with potential vendors would allow departments to learn more about the actual cost of achieving their objectives, resulting in the submission of a revised project plan soon after a vendor was selected.

Project Approval Lifecycle. In response to the issues with the FSR approval process CDT implement a new IT project approval process – the Project Approval Lifecycle (PAL). The process consists of four stages that each provide a decision point where CDT can approve or reject projects, or require departments to rethink and resubmit their proposals. Stage one (business analysis) requires departments to describe the issue to be solved. All departments are required to submit stage one planning documents whether the project will be subject to CDT oversight or not. Projects not subject to CDT with an approved stage one document are not required to submit to subsequent PAL stages. Stage two (alternatives analysis) requires departments to evaluate various alternatives for accomplishing the project objectives, develop a procurement strategy, and submit a financial analysis. Stage three (procurement analysis) requires departments to identify the detailed requirements for the project and develop a request for information from vendors. Stage four (bid analysis and finalization of project details) requires departments to release the solicitation developed in the previous stage and outline the final project details, including the project scope, schedule, cost, and resource needs.

Figure 1
New Project Approval Process: Project Approval Lifecycle (PAL)



The PAL process attempts to address the challenges created with the previous approval process by requiring collaboration between CDT and departments during planning, emphasizing business analysis, and incorporating vendor knowledge. All of these changes increase the likelihood that the final project will align with the original objectives and will save time and money. However, there are some tradeoffs associated with this new approval process. The PAL process will likely take longer upfront as the planning stages are more detailed and departments may leverage the expertise of contractors for specific planning-related activities. This may also lead to an increase in departments seeking budget augmentation for planning efforts.

PAL process and the budget cycle. It is uncertain how long it will take departments to move through the entire PAL process. It is possible that the stages of the PAL process will not align with the state's traditional budget process. For example, a department may receive approval from CDT for Stage 4 midway through a state fiscal year. The sponsoring department may not want to delay the project start for several months until a budget request could be secured for the following fiscal year. If a department anticipates that development activities could occur in the same fiscal year that Stage 4 is anticipated to be complete, the department could request funding to support development activities before the Stage 4 analysis is approved by CDT. In this scenario, however, the Legislature could be asked to approve funding for project design, development, and implementation without the benefit of a complete project plan. This could compromise the Legislature's effective budgetary oversight of the project.

Staff Recommendation. This item is informational and no action is required at this time.

Issue 2: Microsoft Office 365 Enterprise Agreement

Budget. The California Department of Technology (CDT) is requesting $10,500,000 (Technology Services Revolving Fund) in fiscal year 2017-18; $17,625,000 in 2018-19; and $28,500,000 in 2019-20 to continue implementing a Microsoft Office 365 Enterprise Agreement (O365) by onboarding additional state entities. Additionally, the department is requesting to redirect four positions from within the Office of Technology Services to address current and future workload.

Background. Currently, there are two email services used by the state. CA Mail, which is provided by the CDT, and California Email Services (CES), which is a vendor managed and hosted email service. The contract for CES expires in 2017 and all CES mailboxes must be migrated to a new email platform by October 2017. O365 was selected as the replacement for CA Mail and CES through a competitive bidding process, and provides many commonly used Microsoft products in addition to email.

This request will help to consolidate current efforts to procure emails and Microsoft Office products as opposed to new expenditures. The four requested positions will be redirected from CDT's CES operation. The following table displays the amount of funding needed to subscribe 50 departments to O365 annually through 2019-20. The budget authority currently reserved for CES will be shifted to support O365 as CES is phased out.

Fiscal Year	Office 365 Request	Less the CES Authority	Total Funding Requested by Fiscal Year
FY 2017-18	$21,750,000	$11,250,000*	$10,500,000
FY 2018-19	$32,625,000	$15,000,000	$17,625,000
FY 2019-20	$43,500,000	$15,000,000	$28,500,000
FY 2020-21	$43,500,000	$15,000,000	$28,500,000
FY 2021-22	$43,500,000	$15,000,000	$28,500,000
Total	**$184,875,000**		**$113,625,000**

*Represents nine months of budget authority due to CES' contract expiration date of October, 2017.

8790 CALIFORNIA COMMISSION ON DISABILITY ACCESS
7760 DEPARTMENT OF GENERAL SERVICES

California Commission on Disability Access. The Commission on Disability Access (CCDA) was established to study existing disability access requirements and compliance, and to promote better compliance with existing laws and regulations, such as the Americans with Disabilities Act and the California Unruh Civil Rights Act. The commission also acts as an information center on disability access compliance statutes and regulations, coordinates with state agencies and local building departments, and prevents or minimizes compliance problems by California businesses. Lastly, the commission develops recommendations that enable persons with disabilities to exercise their right to full and equal access to public facilities, and facilitate business compliance with laws and regulations to avoid unnecessary litigation.

Department of General Services. The Department of General Services (DGS) 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 building; printing services; procurement of commodities, services, and equipment for state agencies; and management of the state's vehicle fleet. Furthermore, the Department of General Services employs practices that support initiatives to reduce energy consumption and help preserve California resources.

DGS Budget. The budget includes $1 billion and 3,585.6 positions to support the department.

Issue 1: Transfer of the California Commission on Disability Access to the Department of General Services and Trailer Bill

Budget. The administration proposes for the CCDA to consolidate into the DGS effective July 1, 2017. General Fund expenditure authority in the CCDA budget will be transferred to the DGS in the amount $650,000 and five program positions.

The budget also provides trailer bill language to implement the provision of transitioning CCDA to DGS.

Background. The CCDA is a 17-member independent commission consisting of 11 public members and six ex-officio nonvoting members. The Legislature created the CCDA with a vision of developing recommendations that will enable persons with disabilities to exercise their right to full and equal access to public facilities, and that will facilitate business compliance with the applicable laws, building standards and regulations to avoid unnecessary litigation.

DGS requests to establish the CCDA within the Statewide Support Services Administration.

Staff Comment. This proposal will transfer all statutory code sections and program activities of CCDA to DGS. Disability Rights California has expressed concern about CCDA retaining its autonomy and independence once the transfer to DGS is complete.

7760 DEPARTMENT OF GENERAL SERVICES

Issue 1: Capital Outlay – State Printing Plant Demolition

Budget. DGS requests $909,000 (General Fund) to fund the preliminary plans phase of the state printing plant demolition project. The project will begin the process to demolish and clear the 17-acre property of any hazardous materials to prepare it for new office space development in a future year.

Background. The existing printing plant facility has significant structural deficiencies, in addition to health and safety concerns related to the deteriorating facility, including asbestos-containing insulation, paint, caulking, and tile. Heavy metal contaminants exist in many areas of the plant, most likely originating from pigments present in inks used in the past. Lead from smelting operations to support linotype operations from the building's inception has further contaminated not just the composing area but has migrated to other areas of the plant, and potentially the surrounding land. The Office of State Publishing (OSP) is in the process of programming replacement space with the intention of using leased facilities for the new printing plant.

The proposed project will demolish 479,737 GSF of existing State Printing Plant buildings, several greenhouse buildings, and other miscellaneous structures and related foundations; remove asphalt paving and trees, exterior lighting poles and utility lines within property boundaries; install chain link fence around perimeter of site; and remove contaminated soil and replace with imported fill, and level site. Site clean-up will be consistent with accepted professional practices for hazardous materials removal, and design guidelines and outline specifications established during the design development for the project. A Phase I and II environmental site assessment will occur in 2016-17 with separate funding, and the results will provide a better understanding of the level of hazards existing on-site.

Staff Comment. In addition to the known and significant deficiencies with the existing printing plant, and the need to eliminate the various risks through demolition and hazardous materials mitigation, the current configuration of structures underutilizes the site's development potential. At the same time, recent projections reveal that the state is facing a shortfall of suitable office space in Sacramento within the five-year timeframe. This proposal will create a future opportunity to move departments out of leased space.

Issue 2: Fairview Developmental Center Consultant Services

Budget. DGS is requesting a one-time Property Acquisition Law (PAL) Money Account expenditure authority augmentation and commensurate General Fund loan of $2,168,000 to contract for the services of external consultants to identify alternative reuses for the Fairview Development Center (FDC) campus. A breakdown of the budget for this project is below:

Project Management		$160,000
Civil Engineering and Site Related		$210,000
Environmental Assessments		$740,000
Market and Economic Analyses		$210,000
Traffic Analysis		$75,000
Structural Engineering		$30,000
Architectural & Planning Services		$485,000
Cost Estimating		$60,000
Disposition Costs		$130,000
Distributed Admin		$68,000
	Total Estimated Costs	$2,168,000

Background. On April 1, 2016, the Department of Developmental Services (DDS) submitted a closure plan for the Fairview Developmental Center (FDC) that was approved by the Legislature. The Asset Management Branch (AMB) within DGS is responsible for identifying alternative reuses for the approximately 110-acre FDC campus. AMB's Asset Enhancement & Surplus Sales Unit identifies and implements value enhancement solutions for unused or underutilized state-owned properties. The Asset Enhancement Unit utilizes specialized and experienced consultants to provide independent and cost effective due diligence that reduces risks to buyers purchasing surplus property and as a result allows the state to realize higher sales proceeds from urban and infill development sites than if properties were sold "as-is".

For a project of this size and complexity, AMB needs to contract for external consultants with expertise in stakeholder outreach, biological and cultural resource assessment, property condition and infrastructure capacity assessments, traffic studies, phase I and II (if required) environmental site assessments, hydrology and water resource studies, master planning studies and collaboration, alternatives analysis and adaptive repurposing studies, market studies, economic modeling, cost estimating and financial analysis, appraisal, and contract negotiations that are not available within existing staff.

Typically the Department of General Services' costs for AMB's efforts are appropriated through the PAL with the support of a General Fund loan. The General Fund loan is reimbursed from the proceeds of a sale or lease of state surplus property.

Issue 3: Mercury Cleaners Site Monitoring

Budget. DGS requests one-time authority of $580,000 (General Fund) in fiscal year 2017-18 to continue the monitoring/remediation efforts of the former Mercury Cleaners site, a state-owned property located at 1419 16th Street, Sacramento. Below are projected cost estimates for monitoring and testing activities for fiscal year 2017-18.

Fiscal Year 2017-18

Groundwater Monitoring and Reporting	$500,000
Supplemental Air Quality Studies	$60,000
Distributed Admin	$20,000
TOTAL	**$580,000**

Background. The State of California owns the real property site known as Mercury Cleaners at 1419 16th Street, Sacramento. DGS acts as the state's real estate manager for the site. The site has been owned by the state since 1967, and has been used by commercial dry cleaning businesses from 1947-2015. High concentrations of hazardous materials exist on the site due to the former dry cleaning operations, primarily high concentrations of dry cleaning solvents in the soil and groundwater. The Central Valley Regional Water Quality Control Board (RWQCB) is the lead agency for the investigation, remediation, and ongoing monitoring of this site. Under direction of RWQCB, remediation is underway for cleanup of the hazardous materials.

DGS is undertaking the cleanup in a "voluntary" compliance mode, which includes implementation of a proactive remediation project plan. Regardless of the availability of funds, if the state does not meet the expectations of the RWQCB as it relates to abatement of the condition of the site, the state could be found in violation of the Porter-Cologne Water Quality Control Act and multiple Water Code provisions resulting in citations and fines.

In January and February 2014, DGS' initial site investigation work for the Mercury Cleaners building site was completed and a Data Gap Completion Report was submitted in May 2014, which included findings, conclusions, and recommendations for interior mitigation measures, interim remediation, and various additional site investigation and studies. The results of the report indicated a significant level of contamination in the Mercury Cleaners building site. DGS submitted a Remedial Investigation Work Plan (RIWP) for the Mercury Cleaners site to the RWQCB on December 12, 2014, outlining further proposed investigation and testing regarding the extent of soil and groundwater pollution and to collect data to evaluate remedial options for the site source area pollution. DGS has been proactively involved with RWQCB to conduct extensive tests and planning and began remediation in fiscal year 2015-16. Remediation efforts will continue through fiscal year 2016-17. Funding will be required for 2017-18 and future years for continued testing and monitoring activities as directed by the RWQCB.

DGS received $3.7 million one-time General Fund authority in 2014-15, $9.3 million one-time General Fund authority in 2015-16 and $2.14 million one-time General Fund authority in 2016-17 for remediation of the Mercury Cleaners building site, including site investigation and assessment work. The department receives no revenue from the operation of the site, and has no other revenue source outside of its rate structure to fund the remediation.

Staff Comment. DGS has consulted with the RWQCB regarding availability of funds, and they have no funding sources available. The Department of Toxic Substances Control has no fund sources available either. Grants were previously available but they typically go to small entities and small parties who do not have any funding sources.

The major cleanup of the soil and groundwater on the site should be completed in fiscal year 2017-18 using previously allocated funds. Ongoing activities beyond that include monitoring the effectiveness of groundwater treatment and reporting results to the RWRCB for the next 10-20 years. The department indicated that they would like to include monitoring into their base budget after remediation is complete.

Issue 4: Building Standards Commission Workload Increases

Budget. The Department of General Services, California Building Standards Commission (CBSC) requests an augmentation of $154,000 (Building Standards Administration Special Revolving Fund), and one permanent position in fiscal year 2017-18, with an additional $145,000 and one permanent position beginning in fiscal year 2018-19, to continue meeting various legislative mandates associated with green building standards.

Background. All building standards adopted or proposed by state agencies are required to be reviewed and approved by the CBSC before having any force or effect. All building standards are placed into a single title therein known as Title 24 or the California Building Standards Code—comprised of 13 parts. California Building Standards Law requires the CBSC to publish editions of the California Building Standards Code in its entirety once every three years (following the publication of national model codes, upon which California's codes are based), and supplements in the intervening period. In addition to administering the triennial and intervening code adoption cycles, the CBSC develops, proposes, and adopts state amendments to the national model codes for inclusion in the California Building Standards Code.

In the years following the creation of the California Green Building Standards Code (CALGreen), and in the midst of a current drought state of emergency, the CBSC has seen a consistent increase in technical and administrative staff workload resulting from the implementation of legislative mandates, executive orders, and the required coordination amongst multiple state agencies involved in the code adoption process of green building standards. Respectively, CBSC staff has experienced an increase in technical calls and inquiries from stakeholders, local enforcement agencies, and the regulated community. Legislative mandates and executive directives associated with these standards include:

- AB 32 (Núñez), Chapter 488, Statutes of 2006
- AB 341 (Dickinson), Chapter 585, Statutes of 2013
- AB 1092 (Levine), Chapter 410, Statutes of 2013
- SB 401 (Hueso), Chapter 212, Statutes of 2013
- AB 2282 (Gatto), Chapter 606, Statutes of 2014
- Executive order B-16-12
- Executive order B-29-15

The requirements of AB 341, AB 2282 and Executive order B-29-15 have necessitated ongoing attention and resources much greater than initially anticipated which have left an unfunded burden on existing CBSC technical staff. Until now, the CBSC has absorbed the initial workload and fiscal impacts of SB 401 and AB 1092. However, the incremental increase in ongoing workload to the CBSC caused by these and the other requirements described are no longer absorbable.

Due to the distinct nature of rulemaking for the California Building Standards Code, the success of the CBSC is heavily weighted on retaining veteran staff with their indispensable knowledge of the CBSC's program and policies, the code adoption cycles, related proposing and adopting state agencies, associated provisions in statute and regulation, building standards rulemaking, the building industry, local enforcement agencies, and the regulated community. Securing permanent positions is absolutely critical due to the specialized technical knowledge required for the development, maintenance, and publication of the California Building Standards Code.

Staff Comment. In previous years the commission received one limited-term position to address this workload. There is also a retired annuitant who is performing this work. The limited-term position will expire on June 30, 2018, and the retired annuitant will be leaving the position at the end of the fiscal year. The permanent positions requested serve to backfill those positions.

Issue 5: Building Standards Commission – Model Water-Efficient Landscaping Ordinance (AB 2515)

Budget. The Department of General Services, California Building Standards Commission (CBSC), requests an augmentation in expenditure authority of $208,000 (Building Standards Administration Special Revolving Fund) and one permanent position to meet the ongoing workload associated with Assembly Bill 2515 (Weber), Chapter 576, Statutes of 2016.

Background. AB 1420 (Laird), Chapter 628, Statutes of 2007, directed the Department of Water Resources (DWR) to form an independent technical panel (ITP) for providing information and recommendations to the DWR and the Legislature on new demand management measures, technologies, and approaches to water use efficiency. The DWR has solicited comments from CBSC and other appropriate state agencies with subject matter expertise on the Model Water-Efficient Landscaping Ordinance (MWELO) portion of the draft report to assist in its review and determination prior to submitting a finalized report to the Legislature. AB 2515 requires DWR on or before January 1, 2020, and every three years thereafter, to either update the MWELO or make a finding that an update is not useful or necessary. The bill also requires DWR to submit updates, if any, to the CBSC during the Title 24 triennial update process.

The requested permanent position will be used to meet the new requirements enacted by AB 2515 as well as the foreseeable ongoing workload. According to DGS, AB 2515 requires the CBSC to do the following:

• Study and become well-versed in existing MWELO regulations and the regular rulemaking processes for adopting such regulations into Title 23 of the California Code or Regulations.

• Continuously monitor current MWELO regulations and associated rulemakings.

• Provide ongoing coordination and assistance to DWR in synchronizing a standardized MWELO revision process with the triennial code adoption cycle.

• When MWELO updates are submitted by DWR, CBSC shall carry out the required administrative duties associated with publicly vetting and further developing and proposing for adoption MWELO updates into the California Building Standards Code, subject to the triennial code adoption cycle schedule.

• Routinely review and maintain any MWELO updates adopted into the California Green Building Standards Code Indirectly obliges CBSC's regular participation in providing technical comments concerning MWELO to DWR on all future ITP reports.

Legislative Analyst's Office. The LAO points out that the bill language does not require CBSC to conduct any specific monitoring activities. It is uncertain whether DWR will update the MWELO. If DWR does update then there may be additional workload for CBSC. However, it is premature to provide staff when it is not clear whether DWR will even propose an update to MWELO. The LAO recommends rejecting the proposal.

Staff Comment. The proposed workload is not consistent with the language in statute. The language does not require specific duties be performed by the commission, but requires DWR to submit updates to CBSC for consideration during its triennial revision process. Staff also notes that DWR has not submitted a proposal requesting additional resources to meet the requirements of AB 2515. Currently, it is unknown whether DWR will submit a MWELO update, thus it is uncertain whether CBSC will require the requested position.

Issue 6: Building Standards Commission - Exterior Elevated Elements (SB 465)

Budget. The Department of General Services, California Building Standards Commission (CBSC) requests an augmentation of $208,000 (Service Revolving Fund) and one permanent position to meet the legislative mandates enacted by Senate Bill 465 (Hill), Chapter 372, Statutes of 2016.

Background. SB 465 requires a working group formed by the CBSC to study recent exterior elevated element failures in the state, solicit technical expertise as appropriate, develop and submit a report to the Legislature containing any findings and possible recommendations by January 1, 2018, and submit any recommended changes to the California Building Standards Code. In April 2016, CBSC convened the required working group. In December 2016, the working group provided CBSC with an update of its work and in January 2017, CBSC voted to approve emergency regulations for exterior elevated elements.

Once adopted, building standard regulations demand ongoing review, analysis, and maintenance to account for the continuous advancements in building construction technology as well as changes in the needs and priorities of the state. The adoption of new building standards often necessitates the development of additional training, educational materials and subsequent amendments. Additional workload for the requested position after submission of the required report includes:

- Certification of compliance for exterior elevated element emergency building standards.
- Technical support to local enforcement agencies and the regulated community.

- Develop and issue Title 24 errata to address editorial and publication errors.

- Increased local building standard ordinance filing and review associated with the publication of additional or amended building standards.

- Increased education and outreach efforts necessitated by new changes to building standard adopted into the California Building Standards Code.

- Legislative bill tracking, analyses, and potential legislative proposals.

This current year request will include $150,000 to contract with a forensic engineering firm to investigate exterior elevated element related building materials, systems and components that fail or do not function as intended.

Legislative Analyst's Office. The LAO deems the workload associated with developing new standards under the emergency regulations as largely temporary and to most likely be completed within a couple of years. The LAO acknowledges that there may be future workload associated with Title 24 updates, but the level of that workload is uncertain and not likely to be sufficient to justify a permanent position. It is recommended that the Legislature modify the proposal to approve one position and $208,000 on a two-year limited-term rather than an ongoing basis.

Staff Comment. While there is certainly evidence that the workload for the requested position may be ongoing, there is no certainty. The subcommittee may wish to inquire about the workload associated with updating Title 24.

Issue 7: Electric Vehicle Charging Infrastructure and Budget Bill Language

Budget. The Office of Sustainability, within DGS, requests an ongoing augmentation of $6.7 million ($3.4 million from the Service Revolving Fund and $3.3 million General Fund) and three permanent positions to begin the installation of Electric Vehicle Service Equipment (EVSE) in state facilities. Funding will be used to assess, design, and install electric vehicle charging infrastructure to address the Governor's Executive Order B-16-12, Executive Order B-18-12, and the California Global Warming Solutions Act of 2006.

Electric Vehicle Service Equipment - Breakdown of Costs

	Unit cost	Contractor Costs	DGS Staff Costs	Contract Fee	Design/Soft Costs	Totals
Facility Assessments*						
Level 1 (2,448)	$ 550	$ 1,346,400	$ 147,966	$ 13,462	$ -	**$ 1,507,828**
Level 2 (1,493)	$ 650	$ 970,450	$ 106,672	$ 9,705	$ -	**$ 1,086,827**
Total Facility Assessments		**$ 2,316,850**	**$ 254,638**	**$ 23,167**	**$ -**	**$ 2,594,655**
*Total Contractor Assessment Costs Include the Following: Developing regional approach, conducting site visits, completing assessments and reviewing with client agencies, developing schedules and cost budgets.						
Fleet Infrastructure*						
Level 1 (57)	$ 5,250	$ 299,250	$ 44,011	$ 3,411	$ 101,745	**$ 448,417**
Level 2 (170)	$ 14,700	$ 2,499,000	$ 354,784	$ 27,329	$ 733,706	**$ 3,614,819**
Total Fleet Infrastructure	**$ 19,950**	**$ 2,798,250**	**$ 398,795**	**$ 30,740**	**$ 835,451**	**$ 4,063,236**
** Total Contractor Infrastructure Hard Costs Include the Following: Evaluate site conditions and constructability of plans and specs, submittals and RFIs, construction (including utility service infrastructure, hardware, and equipment costs) and system testing and activation.						
		Contractor Cost	**DGS Staff Costs**	**Contract Fee**	**Design/Soft Costs**	**Totals**
Grand Total		**$5,115,100**	**$ 653,433**	**$ 53,907**	**$ 835,451**	**$6,657,891**

The budget also proposes budget bill language (BBL) that requires DGS to certify that it has maximized non-state sources of funding prior to expending state funds.

Background. The Zero Emission Vehicle (ZEV) Action Plan, released by the Governor's Office in 2016, commits the state fleet to increase the percentage of zero emission vehicles purchased by state agencies by five percent each year, starting with 15 percent in 2017-18, and ending at 50 percent by 2024-25. DGS provides a variety of green and sustainable services to state agencies and serves as the "business manager" for the departments and entities under the executive Branch. As such, several statewide energy efficiency and greenhouse gas (GHG) reduction programs have been developed to facilitate emission goals for state facilities. Through existing programs, DGS has developed significant expertise in EVSE installation work.

The objective of this proposal is to provide funding for EVSE assessment, design, installation, and program oversight to support ZEV purchases in the state fleet, with a secondary goal of installing EVSE at workplace parking spaces in cases where it is especially cost effective to do so. When state agencies need to add or replace vehicles within its fleet, each agency is required to submit a fleet acquisition plan to DGS' Office of Fleet and Asset Management. State agencies must be able to demonstrate sufficient ZEV infrastructure to support an agency's existing and projected ZEV purchases in order to receive acquisition approval. Beginning in FY 2017-18, state agencies will be subject to a "ZEV/hybrid first" policy requiring state agencies to procure battery electric, hydrogen fuel cell, plug-in hybrid, and/or hybrid vehicles, in lieu of fossil fuel consuming, internal combustion vehicles and other specified vehicles when available in a comparable vehicle class on state contract.

This plan addresses the projected EVSE need in future years and has two phases. Phase one requires state agencies to conduct a five-year ZEV infrastructure readiness survey that evaluates and identifies current state fleet, parking facilities, and charging stations. Concurrently, DGS will assist departments in determining total need for EV infrastructure and in prioritizing sites needing assessment. Surveys were due to be submitted to DGS by February 15, 2017. As of March 17, 2017, DGS has received more than 50 percent of expected responses, and was in the process of contacting departments to gather the outstanding data. Additionally, agencies with 25 or more facilities were given the option to submit their survey results in two parts if they need additional time. Agencies choosing this option would still be required to submit all fleet data by February 15th, but would have until June 1, 2017, to submit non-fleet data. Once surveys are completed, DGS reviews them for completeness and advises agencies as they prepare their full five-year ZEV infrastructure readiness plans. The readiness surveys will form the foundation for each agency's phase two ZEV infrastructure plan.

In phase two of the five-year ZEV infrastructure plan, DGS will evaluate each agency's survey to ensure that both fleet and ZEV infrastructure planning is adequately addressed and prioritized. DGS will also work with agencies to identify multi-departmental and regional opportunities that make use of economies of scale for related ZEV infrastructure contracts and grants. At the conclusion of DGS' review, each agency shall begin conducting phase two site assessments; these assessments are detailed analyses of a facility's ability to support EVSE units and identify limitations. Prioritization should be given to state-owned facilities identified as being in need of EVSE improvements in order to support the agency's ZEV fleet procurements through FY 2020-21.

Implementation. The following table outlines the timeline for implementation.

Estimated timeline for work plan:	
Hire Staff	07/01/2017 – 10/31/2017
Survey Data Analysis and Funding	07/01/2017 – 08/31/2017
Assessments	11/01/2017 – 02/28/2018
Design and Engineering	03/01/2018 – 05/31/2018
Bid, Construction, and Activation	06/01/2018 – 12/15/2018
Program Oversight and Support	07/01/2017 – 04/01/2021

Legislative Analyst's Office. The LAO has several concerns with this proposal:

- The proposal provides only partial funding toward implementing the ZEV action plan. The current plan identifies a total cost of $110 million over the next five years through 2021-22, and would install roughly 6,100 electric charging stations. However, this proposal would fund only about one-third of those estimated costs—$34 million—over this same five-year period.

- It is unclear how requested funds will be spent in future years. The department has not specified how much of the funding in future years will go towards assessments, workplace charging stations for employees, and fleet charging stations.

- Other funding sources may be available. The Governor's proposal would provide $6.7 million annually towards ZEVs, with about half coming from the General Fund and half coming from various special funds. However, there are other funding sources that potentially could fund this program. Given other demands on the General Fund, it is worth fully exploring the feasibility of these and other funding sources before committing General Fund. The department indicates that it has been exploring the use of other funding sources, and its proposed budget bill language is intended to ensure that non-state funding sources have been maximized prior to expending state funds. However, some alternative state funding sources might only be available if the Legislature makes the necessary appropriation in the budget.

The LAO recommends limiting any funding provided to 2017-18 given uncertainties about the future plan for state government ZEVs. The LAO also recommends directing the department to report at budget hearings on other funding sources that could be available and its efforts to secure these sources.

Issue 8: School Construction Filing Fees Trailer Bill Language

Budget. The budget provides trailer bill language (TBL) that would allow DGS to adjust filing fees that accompany applications to construct or alter any school building (when costs exceed $100,000) in order to maintain a reasonable balance in the associated fund (Public School Planning, Design, and Construction Review Revolving Fund).

Background. Plans for the construction or alteration of any public elementary or secondary school building, as well as community colleges are required to be submitted to DGS for approval. A filing fee is also submitted to DGS with those plans. Currently, DGS has the authority to adjust the filing fee amounts within the below specified limits:

- For the first $1 million, the fee should not be more than 0.7 percent of the estimated cost.
- For project costs larger than $1 million, the fee should not be more than 0.6 percent of the estimated cost.
- In any case the minimum fee is $250.

The filing fees are used to pay the salaries of architects and engineers that review the plans submitted by school districts and community colleges. In recent years there have been several salary increases that have led to a request to increase fees. Increased sophistication of buildings leading to longer review times, and new building requirements has also necessitated this fee increase. Fees are generally collected at the time of plan submission and are then adjusted at the end of construction, if needed, due to any cost adjustments that were not predicted at the beginning of the project. The fee rate has not been adjusted since the 1990s.

The proposed TBL would adjust the fees as seen below:

- For the first $1 million, the fee should not be more than 1.25 percent of the estimated cost.
- For costs larger than $1 million, the fee should not be more than one percent of the estimated cost.

The TBL would also require DGS to reduce fees if the fund balance exceeds six months of expenditures.

In fiscal year 2016-17 the Public School Planning, Design, and Construction Review Revolving Fund received a loan from DGS' Service Revolving Fund. Proposed budget bill language would require this loan, and other similar loans, to be repaid as soon as there are sufficient funds in the recipient fund to repay the amount loaned and no later than 18 months after the date of the loan. The loan is expected to be repaid in 2017-18.

Staff Recommendation. Approve proposed trailer bill language.

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 30, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

OUTCOMES

PART A

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION AND VOTE

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

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 30, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

Consultant: Mark Ibele

ITEMS FOR DISCUSSION AND VOTE

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ISSUES PROPOSED FOR DISCUSSION AND VOTE

PROPOSITION 2 PROPOSAL

Issue Overview. Proposition 2, which revised the state's Budget Stabilization Account (BSA), was approved by the voters in November 2014. The measure changes the way the state pays down debts and liabilities, as well as how it sequesters money in reserves. According to the Legislative Analyst's Office (LAO), Proposition 2 could result in roughly $15 to $20 billion being used to pay down certain state debts through the duration of the measure's debt payoff requirement. Calculations made under Proposition 2 determine the amount of funds that are split evenly between the BSA and debt pay-down. Payments on the state's debts and liabilities represent budget choices, as payments on these restrict legislative discretion and displace funding for ongoing or expanded program costs.

Issue 1: Debts Eligible for Proposition 2 Payments

Governor's Proposal. Under the Administration's calculations, Proposition 2 captures a total of $2.4 billion in the budget year. Proposition 2 requires that this amount be split evenly between paying down existing state debt and deposits to the reserve. The Governor proposes to spend the required $1.2 billion on paying down $252 million in special fund loans, $400 million in prior-year Proposition 98 costs known as "settle-up" and $235 million in transportation loans. In addition, the Governor's plan would use $100 million for state retiree health and $169 million for University of California employee pensions. The Administration's multi-year budget plan proposes to fully repay transportation loans by 2019-20, and payoff special fund loans and Proposition 98 settle-up by the end of 2020-21. Due to the dynamic nature of budgeting and changing fiscal circumstances, the pay-off schedule always changes somewhat from year to year. Detail on the Governor's current plan is displayed in the table below.

Proposal for Debts and Liabilities Payments
(Dollars in Millions)

Category	Amount Beginning of 2017-18	Payment in 2017-18
Budgetary Borrowing		
Special Fund Loans and Interest[1]	$1,365	$252
Proposition 98 Settle-Up Underfunding[1]	1,026	400
Transportation Loans (Pre-Proposition 42)[1]	706	235
Subtotal Debt	**$3,097**	**$887**
Retirement Liabilities		
State Retiree Health[1]	74,103	100
State Employee Pensions	49,592	0
Teacher Pensions	72,626	0
Judges' Pensions	3,279	0
CalPERS Deferred Payment	627	0
UC Employee Pensions[1,2]	15,141	169
UC Retiree Health[2]	21,087	0
Subtotal Liabilities	**$236,455**	**$269**
Grand Total	**$239,552**	**$1,156**

[1] Payment under Proposition 2.
[2] Not a state government liability.

The special fund loans (other than the transportation loan categorized separately above) that would be repaid under the Governor's budget are shown below.

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

Fund Name	Amount
Greenhouse Gas Reduction Fund	100,000
Immediate and Critical Needs Account	90,000
Hospital Building Fund	15,000
False Claims Act Fund	12,700
Contingent Fund of the Medical Board of California	9,000
Behavioral Science Fund	6,300
Firearms Safety and Enforcement Special Fund	4,900
Registry of Charitable Trust	2,700
Environmental Water Fund	2,400
California Water Fund	1,100
Total	**$244.1**

Background. Through budget actions over the last decade, the state borrowed from special funds, deferred various payments to schools and other entities, and took certain other actions in order to help balance the state budget. By the close of 2010-11, the Department of Finance (DOF) indicates that a total of $34.7 billion in loans and deferrals had accumulated and remained unpaid. This amount largely represents the debt overhang from prior year budgets adopted under the previous Administration and was formerly referred to as the "wall of debt." The DOF no longer formally calculates the "wall of debt"; however, the amount formerly included in this calculation is expected to be reduced to a total of about $3.1 billion by the inception of 2017-18.

Some of these obligations have required repayment in specified years due to constitutional requirements or due to scheduled bond debt service. Other debt payments are more flexible and can be repaid over time depending upon the budget condition, as long as borrowing does not interfere with the activities that a special fund loan supports. The General Fund is typically used to pay off budgetary debt. In addition to these budgetary obligations, the state has accumulated liabilities for retirement costs for state employees, teachers, judges, and University of California employees. These latter liabilities will total an estimated $236.5 billion at the start of 2017-18. Some of these unfunded liabilities are being addressed with routine annual payments over time.

Legislative Analyst's Office Comments. In its analysis the LAO notes options that would create additional General Fund flexibility. First, it indicates that weight fee loans could be considered loans under the Proposition 2 'eligible debt' definition. If the amounts owed under this loan were repaid under the Proposition 2 debt umbrella – as opposed to using General Fund as the Governor proposes – this would free up $380 million in General Fund resources on a one-time basis. Second, the LAO notes that the recent change in the investment return, enacted by CalPERS and STRS, resulted in an annual increase in the state's contribution rates and a corresponding increase over the base payment amounts incorporated in Proposition 2. It is possible – although uncertain – that the difference between the base amount and the increased requirement would be eligible for Proposition 2 debt repayment. This approach could potentially result in additional unspecified General Fund room of a few hundred million dollars, according to the LAO.

Staff Comment. The Governor has prioritized using Proposition 2 funds to pay off special fund loans and prior-year Proposition 98 settle-up obligations. However, alternative uses of these funds could pay down certain liabilities faster or potentially free up General Fund dollars for other purposes. For example, prior years highlighted the $74 billion unfunded liability for retiree health care costs. The Governor has instead pursued a plan – to this date, largely successful – substantially reliant upon employee bargaining to eliminate the unfunded liability over a 30 year period. While the Administration could have used more of the Proposition 2 funds to pay down some of the retiree health care unfunded liability, the Governor proposes to begin working down this debt with a relatively minor initial commitment of $100 million, which then ratchets up to reach $300 million in 2020-21.

In addition, the state could pay off more or less special fund loans now than the Governor proposes. Some of the loan repayments proposed are fiscally necessary and some of the loans could be repaid to help meet the desired program objectives; however, some repayments are unnecessary to make at this time, as the programs have been operating for many years without the funds. While working down the smaller amounts of special loan repayments cleans up the state's balance sheet, augmenting resources devoted to pension liabilities sooner can have a substantial impact on future state liabilities. In addition, the LAO notes two alternative approaches to Proposition 2 debt payments which are worthy of consideration. In any event, the loans and amounts for repayment are likely to change in the May Revision and any action would be premature at this time.

Staff Recommendation. Hold open.

Vote:

8885 COMMISSION ON STATE MANDATES

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

The CSM is responsible for determining whether a new statute, executive order, or regulation contains a reimbursable state mandate on local governments, and for establishing the appropriate reimbursement to local governments from a mandate claim. The Constitution generally requires the state to reimburse local governments when it mandates that they provide a new program or higher level of service. Activities or services required by the Constitution are not considered reimbursable mandates. The Constitution, as amended by Proposition 1A of 2004, requires that the Legislature either fund or suspend local mandates. In most cases, if the Legislature fails to fund a mandate, or if the Governor vetoes funding, the legal requirements are considered suspended pursuant to the Constitution.

In prior years, there have been proposals to repeal certain mandates, but no such repeal is proposed in the budget. Repealing mandates does not offer any additional budget savings relative to suspension; however, if the mandate will otherwise be suspended indefinitely, the repeal of statutory provisions cleans up the code, improves statutory transparency, and provides more certainty to local governments.

Issue 1: Funded and Suspended Mandates

Governor's Proposal. The proposed funding for non-education mandate payments to local governments is included in the budget of CSM. 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 $34.5 million related to funding non-education mandates. The budget would continue to fund the 19 mandates that were kept in force for 2016-17, the payments on which constitute the bulk of the General Fund cost. Most mandates funded in the budget concern public safety or property taxes. Funded mandates are listed in the following table.

Mandate Funding in Governor's Budget
General Fund
(Dollars in Thousands)

Mandate Title	Amount
Accounting for Local Revenue Realignments	$ 97
Allocation of Property Tax Revenues	570
California Public Records Act	-
Crime Victims' Domestic Violence Incident Reports	164
Custody of Minors-Child Abduction and Recovery	12,555
Domestic Violence Arrest Policies	7,756
Domestic Violence Arrests and Victims Assistance	1,896
Domestic Violence Treatment Services	2,379
Health Benefits for Survivors of Peace Officers and Firefighters	2,413
Local Agency Ethics	5
Medi-Cal Beneficiary Death Notices	14
Medi-Cal Eligibility of Juvenile Offenders	3
Peace Officer Personnel Records: Unfounded Complaints and Discovery	678
Post Election Manual Tally	-
Rape Victim Counseling	444
Sexually Violent Predators	3,693
Sheriff Court-Security Services	803
State Authorized Risk Assessment Tool	629
Threats Against Peace Officers	1
Tuberculosis Control	97
Unitary Countywide Tax Rates	313
Total	**$34,510**

The budget incorporates a total of $985.1 million in savings from maintaining mandate suspensions or deferring payment of claims. Some 56 mandates are suspended under the budget proposal. In addition, payments on another 21 mandates that have been deferred or have expired have been delayed. The savings breakdown is as follows: (1) $284.1 million savings from deferring payment of post-2004 mandate claims for mandates that have since expired or are otherwise not in effect; (2) $596.1 million savings by continuing the suspension of certain local mandates; and, (3) $104.9 million savings from deferring payment on employee-rights mandates in effect.

Staff Comment. Revisions to the mandate process that would provide more certainty to the Legislature and local governments should be a priority for the policy process. The existing procedures fall short in terms of clarity, transparency and effectiveness. However, given the current system, the Governor's proposal is reasonable.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 2: Election Mandates

Budget Issue. The state currently has in place six local government mandates that govern the conduct and activities associated with state and local elections. The first of the activities determined to be a mandate was adopted in 1975, and the most recent mandate was adopted in 2009. Three of the six mandates have been suspended in the budget (and thus not required to be conducted by local governments) since 2011, and the remaining three were suspended beginning in 2013. The Governor's budget proposes to continue the suspension of all six election mandates.

Under legislation adopted along with the 2015 Budget Act, the Department of Finance (DOF) was required to submit a report to the Legislature regarding the funding of the election mandates. The language in SB 84 (Committee on Budget and Fiscal Review), Chapter 25, Statutes of 2015, states:

> *"The Department of Finance, in collaboration with the Secretary of State and the Legislative Analyst's Office, shall convene a working group to evaluate alternatives for funding election-related mandates. The working group shall commence no later than September 1, 2015. By September 1, 2016, the Department of Finance shall submit to the Legislature a report that summarizes the findings of the working group, including recommendations to the Legislature."*

The report was provided to the Legislature in October of 2016. Prior to 1979 and the passage of Proposition 4, local election officials primarily used property tax revenues to pay for election costs. After that, local governments typically have submitted claims for the reimbursement of election costs associated with mandates imposed by legislation. As noted above, Proposition 1A requires the state to either fund or suspend local mandates, including those associated with elections. The six election mandates are:

- **Absentee Ballots.** Requires that absentee ballots be available by election officials to any registered voter.

- **Absentee Ballots – Tabulation by Precinct.** Requires that an election official's listing of absentee voters include the voter's precinct.

- **Modified Primary Election.** Requires voter registration cards to include a notice to decline-to-state voters of their ability to vote on a party ballot if allowed by the party.

- **Permanent Absent Voters.** Requires election officials to allow any voter to apply for permanent absent voter status.

- **Voter Identification Procedures.** Requires election officials to compare the signature on each provisional ballot with the signature on the voter's affidavit of registration using specified procedures.

- **Voter Registration Procedures.** Requires county clerks to accept affidavits of registration at any time up to 28 days immediately preceding the election.

The budget acts of 2015 and 2016 suspended the six election mandates. The date of suspension, along with the balance of amounts owed to local governments and the annual costs of funding the mandates, are shown in the table below. Note that if the mandates are "reactivated", the state must pay all past accrued costs, not just annual costs.

Election Mandates
Balance and Annual Costs
(Thousands of Dollars)

Mandate Title	Date Initially Suspended	Accrued Balance 2016	Estimated Annual Cost
Absentee Ballots	2011	$49,608	$24,800
Absentee Ballots – Precinct Tabulation	2011	68	34
Modified Primary Election	2013	1,817	316
Permanent Absent Voters	2013	11,907	4,700
Voter Identification Procedures	2013	10,075	1,600
Voter Registration Procedures	2011	2,481	1,300
Total Outstanding Balance and Annual Costs		**$75,956**	**$32,750**

The DOF report notes that data indicates a trend of voters moving away from traditional polling places and gravitating to a vote-by-mail system with a preference for permanent absentee voter status, and observes that state election laws have not adapted to these changing trends. With these considerations, and after discussions with stakeholders, the DOF report presents the following alternatives to funding the mandates:

- **Legislative Changes.** The report indicates that several of the mandates, together with existing election laws, result in redundancies, inhibit cost-effective election procedures, and may reduce the natural migration of voters to permanent absent voters. Specially, the report indicates that:

  - The Absentee Ballots mandate could potentially be repealed and voters encouraged to obtain permanent absent voter status. This would relieve local governments of significant ballot printing and polling place staffing costs.

  - Repealing the Absentee Ballots mandate could also render the need for the Absentee Ballots – Precinct Tabulation mandate moot. The non-reimbursable duty of local officials to maintain accurate voter lists would allow them to make needed precinct adjustments.

- Repealing the Voter Identification Procedures mandate could reduce costs without compromising the intent of the legislation, since prior law already directs local election officials to "examine the records" associated with provisional ballots.

- **Voting Methods.** The report suggests a careful examination of the vote-centered method of voting, that would allow counties to send voters a ballot prior to Election Day, permit in-person voting before and through election day, and allow voting to occur at established centers for all voters, irrespective of the voters' county of residence. This approach would reduce dramatically the number of polling places and their associated costs.[1]

- **Competitive Grant Program.** The report recommends consideration of a competitive grant program (with a matching requirement), with a goal to develop innovative and outcome based processes at the local level to reduce election costs. Cost-saving activities could include system upgrades for processing, increasing uniformity implementing mandates, and development of best practices.

The DOF was also required to conduct a survey of county election officials regarding whether counties carried-out requirements set forth in the suspended mandates. Forty seven of the 58 counties responded with 40 of those returned surveys deemed complete. The survey indicated widespread compliance with the suspended mandate requirements. Specifically, all 40 respondents indicated complying with: Absentee Ballots – Precinct Tabulation; Modified Primary Election; Permanent Absent Voters; and, Voter Registration Procedures. All but two counties complied with both Absentee Ballots and Voter Identification Procedures.

Staff Comment. It is apparent that election laws have not evolved as quickly as election behavior, particularly with respect to absentee ballots, which now represent 60 percent of voters. While this trend suggests that the state should consider adjustments that align election laws with voter behavior, DOF acknowledges that additional research is needed. The survey conducted by DOF indicates wide-spread compliance among those counties whose responses were deemed complete. However, almost one-third of counties did not respond or responded incompletely. There is little reason to assume that counties that did not respond to the survey would display voluntary compliance with the requirements of the suspended mandates to similar degree as those counties which responded to the survey.

The DOF report provides a good starting point to address the significant budgetary impacts of election mandates, while being mindful of the sensitivity of the issues and the importance of election participation. Election law is a crucial policy area for the Legislature, and any changes in these laws should be based on extensive deliberation and analysis. While there is a significant budgetary impact in the decision to fund or not fund any election mandate, the policies surrounding such mandated activities should be considered in conjunction with the existing legislative policy-making procedures and protocols.

Staff Recommendation. Informational item.

[1] Colorado has implemented a vote-centered system and experienced substantial cost–savings. Data from the state indicates the cost of $16.00 per voter in 2008 was reduced to $9.56 per voter in 2012.

9210 LOCAL GOVERNMENT FINANCING
9100 TAX RELIEF

Item Overviews. Local Government Financing provides general-purpose revenue to counties, cities, and special districts when special circumstances occur. The program includes those payments to local governments where the funds may be used for any general government purpose as well as funds for one-time, designated purposes.

The Tax Relief item provides funding for cities and counties to help defray the loss of revenue as a result of the Homeowners' Property Tax Relief Program, the Open Space Subventions Program, and for 2017-18 provides for population-based incentive grants for cities and counties, to encourage their participation in the United States Census Bureau's update of its Master Address List for the 2020 Census.

Issue 1: Local Government Census Work (BCP)

Governor's Proposal. The Governor has proposed $7 million in grant authority to local governments that are to be used for participation in the Census Bureau's Local Update of Census Addresses (LUCA) program. The one-time program will be administered by the Department of Finance and will provide financial incentives for local governments to review and update the master address lists used to conduct the decennial census.

Background. Local governments are in a suitable position to provide information regarding housing, living quarters and other factors that can help inform the census undertaking. To provide assistance in this regard, the Legislature in 2007-08 appropriated $3 million for grants to local governments to assist in the census undertaking, with grant amounts ranging from $1,000 to $75,000. Possibly because of the potentially low grant amount, the participation rate among 535 counties and cities was only 42 percent, drawing down $1.8 million of the amount of funds available. The state also provided $2 million to the Complete Count Committee for the 2010 Census, which encouraged full participation in the census. (The Complete Count Committee also received $10 million in private funding.)

Under the proposed program, grants would range from $7,500 to $125,000, thus encouraging greater participation. Greater participation in the program for this census round is important, since the Census Bureau will no longer be conducting 100 percent canvassing, but rather rely on the US Postal Service, state and local governments, and third-party vendors to update the 2010 Census address list. The census results can have an impact on the calculation of federal funding; the undercount in 2000 cost the state an estimated $1.5 billion in federal funds over ten years for eight programs that rely on census data. The census is also used for congressional apportionment purposes.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) suggests that the LUCA funds could be better targeted; in particular, county assessors could be better positioned, in some cases, to verify the Census Bureau addresses. County assessors are charged with maintaining the county rolls, which contain the addresses of all legal properties in the counties. Rather than distributing the funds across all cities and counties, encouraging LUCA participation by county assessors (on behalf of the county and its cities) could increase the funding available to each county. Targeting the work to the county assessors could result in a larger portion of California addresses being reviewed and verified.

Staff Comment: The proposal for increased resources to assure an accurate census count for the state is fiscally prudent, and will assure that California federal representation accurate reflects its population. It is not clear to staff how the exact figure of $7 million was arrived at and whether the amount reflects need, efficiency or simply an outside parameter. In addition, LAO raises a reasonable option regarding assessors. The department should consider language and program design that would incorporate the county assessors as an option, where appropriate.

Staff Recommendation: Hold open.

Vote.

Issue 2: Local Government Finance – Property Taxes and Vehicle License Fees (TBL)

Budget Issue. As a result of reductions in the vehicle license fee (VLF) and shifts of revenue sources pursuant to realignment (and previous legislation), some newly-incorporated cities – as well as cities with newly-annexed areas – do not receive revenue that they would otherwise have received under prior law. Specifically, cities used to receive additional VLF funding under the law prior to 2004. The reduction in financial resources has resulted in significant fiscal challenges for these cities, with potential impacts on their financial stability. The language before the subcommittee would increase the amount on a continuing basis of property taxes that are received by certain cities that incorporated after 2004 and before 2012. The change would reflect the following:

- For the 2017-18 fiscal year, the city's base VLF adjustment amount is calculated by multiplying the city's population by the per capita amount of countywide VLFAA funding received by cities in the county.

- For each fiscal year thereafter, the prior year's VL adjustment amount is recalibrated to reflect the year-to-year change in assessed property values within the city.

Background. In lieu of a property tax on motor vehicles, the state collects an annual VLF and allocates the revenues, to cities and counties. In 1998, the VLF rate was reduced from 2 percent to 0.65 percent of a vehicle's value and the lost VLF revenues to cities and counties were backfilled from the state's General Fund. Traditionally, VLF had been allocated on a per-capita basis, meaning new cities that incorporated, or existing cities that annexed inhabited areas, received larger shares of the VLF. As part of the 2004-05 budget agreement, the Legislature enacted the VLF-property tax swap, which replaced the VLF backfill from the state General Fund with property tax revenues (the VLF adjustment amount) that would otherwise have gone to schools through the Educational Revenue Augmentation Fund (ERAF). The state's General Fund backfilled schools for lost ERAF money to meet the Proposition 98 funding guarantee.

Prior to the VLF-property tax swap, a newly incorporated city received additional VLF revenues generally for the first seven years, based on a calculation of three times the number of registered voters in the city at the time of incorporation. However, the swap did not provide extra corresponding property tax revenues to cities yet to be incorporated. Therefore, cities incorporated after 2004 received less VLF funding than they would have if they had incorporated prior to the swap. AB 1602 (Laird) Chapter 556, Statutes of 2006, changed the allocation of VLF funds to restore the VLF revenues for city incorporations that were lost under the 2004 swap, based on a $50 per capita allocation, adjusted annually. SB 89 (Committee on Budget and Fiscal Review), Chapter 35, Statutes of 2011, implementing portions of the Governor's public safety realignment proposal, reversed these provisions of AB 1602 and shifted the funds to state public safety programs that had been realigned to local governments. SB 89 redirected VLF revenues from newly incorporated cities to the Local Law Enforcement Account to help fund realignment.

SB 89 subtracted $15 million in the Motor Vehicle License Fee Account revenues in 2011-12 from four newly incorporated cities. By reducing the allocation of VLF funds to newly incorporated cities, the realignment shift had a significant impact on the fiscal viability of communities that rely on VLF revenues. Four new cities incorporated after AB 1602 enacted new VLF funding allocations for new cities and before those allocations were repealed, specifically: City of Wildomar, (incorporated July 1, 2008); City of Menifee, (incorporated October 1, 2008); City of Eastvale, (incorporated October 1, 2010), and City of Jurupa Valley, (incorporated July 1, 2011).

SB 107 (Senate Committee on Budget and Fiscal Review), Chapter 325, Statutes of 2015, included a mechanism to provide nearly $24 million in fiscal relief to the four recently incorporated cities that lost funding under SB 89's reallocation of VLF revenues. The fiscal relief authorized by SB 107 was used to forgive more than $1 million in debts owed by the cities of Wildomar and Menifee and more than $21 million in debts owed by the City of Jurupa Valley for services the County of Riverside provided to those cities after they incorporated. The one-time fiscal relief provided by SB 107 did not address the ongoing fiscal impact of SB 89 on these cities.

Staff Comment. Cities argue that SB 89's elimination of VLF allocations jeopardizes the financial viability of recently incorporated cities and cities that annexed inhabited areas. Local officials want the Legislature to recalculate the VLF adjustment amount to give additional resources to four recently incorporated cities and to cities that annexed inhabited areas after 2004. SB 89 effectively returned VLF funding for city incorporations to the amounts that were provided for in the original 2004 VLF-property tax swap. The higher VLF adjustment amounts they would receive under the formula in the trailer bill language would reduce the amounts of property tax revenues they contribute to ERAF. This would typically result in increased General Fund pressure, to the extent the state must backfill the property tax revenues that schools won't get from ERAF. The annual loss to the state General Fund would increase in the future.

Staff Recommendation: The subcommittee should consider adoption of the trailer bill language.

Vote:

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, March 30, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

Consultant: Mark Ibele

ITEMS FOR DISCUSSION AND VOTE

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

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, April 20, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

Consultant: Mark Ibele

Oversight Hearing: Board of Equalization

Evaluation/Audit of the Board of Equalization

Department of Finance, Office of State Audits and Evaluations

- Jennifer Whitaker, Chief, Office of State Audits and Evaluations
- Diana Antony, Manager, Office of State Audits and Evaluations

Board of Equalization

- David Gau, Executive Director
- Brenda Fleming, Acting Chief Deputy Director
- Michele Pielsticker, Chief, Legislative and Research Division
- Julia Findley, Chief, Financial Management Division
- Amy Kelly, Acting Chief Counsel

Reform Options for the Board of Equalization

Legislative Analyst's Office

- Seth Kerstein, Economist, Legislative Analyst's Office

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, April 20, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

Consultant: Mark Ibele

Oversight Hearing: Board of Equalization

Subject
This oversight hearing will focus on the programs, activities, procedures, and reports of the Board of Equalization, the findings of the recent evaluation of that agency by the Department of Finance, Office of State Audits and Evaluations, and a consideration of reform measure options for the tax agency and the role of its board.

Board of Equalization Background
As stated in the BOE Strategic Management Plan 2015-2020:

> *"The mission of the Board of Equalization is to serve the public through fair, effective, and efficient tax administration."*

The Board of Equalization (BOE) administers tax and fee programs concentrated in four general areas: sales and use taxes, property taxes, special taxes, and the tax appellate program. BOE has over 30 tax and fee programs, which generated $60.5 billion in revenue and accounted for more than 30 percent of all state revenue for fiscal year 2014-15. Of the $60.5 billion, sales and use tax activities accounted for $52.1 billion. Because a majority of sales and use taxes are self-assessed, BOE has developed an audit and compliance program to verify businesses remit the correct amounts and provide related education.

The BOE collects and allocates the state and local sales and use tax for cities, counties, and other districts. The over 30 tax and fee programs administered by BOE provide revenues to support state and local government programs and services, including but not limited to, schools and colleges, hospitals and health care services, natural resources, transportation, and housing. BOE is the nation's only elected tax commission, which consists of four elected board members, each representing an equalization district, and the State Controller, an ex officio member representing the state at large. The elected board members each represent a district with boundaries that encompass approximately the same population size.

As a whole, the five member board acts in a quasi-judicial capacity as the appellate body for appeals from various business tax assessments, Franchise Tax Board (FTB) actions, and public utility assessments. In its administrative capacity, the board issues rules and regulations. Additional board responsibilities are as follows:

- Establish and adopt BOE policies in monthly public meetings.
- Meet to hear and decide tax appeals, approve regulator changes, annually set property tax values for state assesses, consider reports from various department managers, and receive input from the public.
- Hire the executive director and approve the hiring of all executive leaders and career executive assignment personnel.
- Ensure the agency runs effectively and efficiently by setting policy and guiding executive leadership.
- Supervise policy development through four committees chaired by each of the four elected board members.

Individual board member's duties include facilitating and resolving constituent concerns, educating taxpayers, influencing public policy, and interacting with the media. Under the general direction of the board and in accordance with established policies, daily operation and management of the agency is delegated to the executive director and the executive team. As of July 2016, BOE had over 4,800 authorized positions to carry out its daily operations. These positions are organized into programmatic and administrative units within BOE's Sacramento headquarters, 22 field offices, and 4 out-of-state offices. This organizational structure administers the various programs within 12 departments and divisions.

Legislature's Evaluation Request

In response to concerns regarding the BOE's revenue-generating responsibilities – generally tax audits and collections – Senate Budget and Fiscal Review Subcommittee No. 4 worked with the Department of Finance (DOF) to structure an evaluation of BOE's compliance with legislative directives that govern its activities in this area. Subcommittee No. 4 approved the evaluation and its funding at its April 7, 2016 hearing. The evaluation was conducted by DOF's Office of State Audits and Evaluations (OSAE). In particular, the required evaluation was to focus on the BOE's compliance with *Provision 1* of the budget act, which reads:

> *It is the intent of the Legislature that all funds appropriated to the State Board of Equalization for processing tax returns, auditing, and collecting owed tax amounts shall be used in a manner consistent with the board's authorized budget and with the documents that were presented to the Legislature for its review in support of that budget.* ***The State Board of Equalization shall not reduce expenditures or redirect funding or personnel resources away from direct auditing or collection activities without prior approval of the Director of Finance. The director shall not approve any such reduction or redirection sooner than 30 days after providing notification to the Joint Legislative Budget Committee.*** *Such a position shall not be transferred from the organizational unit to which it was assigned in the 2017–18 Governor's Budget and the Salaries and Wages Supplement, as revised by legislative actions, without the approval of the Director of Finance.* ***Furthermore, the board shall expeditiously fill budgeted positions consistent with the funding provided in this act.***

In addition, the scope of OSAE's work was to include an assessment of the supplemental annual report (SAR) provided to the Legislature regarding BOE's audit and collection activities. This report is governed by supplemental reporting language adopted initially in 2002. The reporting requirements read:

> *The BOE shall provide to the Chairs of the JLBC and chairs of the fiscal committees of the Legislature by December 1 of each year, beginning December 1, 2002, a report containing the following information: (a) description of the methodological approach used to conduct its audit and compliance activities, including the work plan relating to these activities; (b) the number of hours and costs associated with direct audit and compliance activities, as well as supporting (overhead) activities; (c) the revenues associated with its audit and compliance activities; and (d) data regarding the revenue and cost impacts associated with any increase or decrease in resources devoted to audit and compliance activities. Items b, c, and d should include prior-year actual data, current-year estimated data, and budget-year projected data. This information shall also be provided to the Department of Finance, in a format it specifies, with submission of documents used to prepare the Governor's budget as well as when BOE makes a request to alter funding or personnel services for audit or compliance activities. Such information shall also be provided as a part of any budget change proposal submitted to the Legislature regarding resources for auditing or compliance activities.*

The reporting requirements for the SAR were augmented and tightened in 2006, 2010 and 2011 to impose reporting on other items including: audit selection methodologies, benefit-cost metrics, and the Statewide Compliance and Outreach Program performance. The SAR has been relied on by both the Legislature and DOF for purposes of evaluating the effectiveness of and return to revenue-generating activities. One of the SAR's key purposes is to allow for the Legislature and DOF to examine appropriate staffing levels between the state two main tax agencies (BOE and the Franchise Tax Board) and among their various revenue-generating units and activities.

After approval by the Subcommittee No. 4, the scope of the OSAE evaluation was subsequently broadened to encompass other components, including outreach activities and the BOE's remedies to the misallocation of sale and use tax revealed by the State Controller's review of the agency's internal accounting and administrative controls. SB 826 (Committee on Budget and Fiscal Review), Statutes of 2016, Chapter 23 specifies the scope of the OSAE evaluation, pursuant to the following budget bill language:

> *Of the amount appropriated in Schedule (3), $750,000 shall be available for: the Office of State Audits and Evaluations to perform an evaluation of the activities of the State Board of Equalization's Sales and Use Tax Department, including, but not limited to, audits, collections, compliance enforcement, and outreach; the State Board of Equalization's taxpayer outreach and related activities; and the State Board of Equalization's corrective actions related to the Controller's internal accounting and administrative controls review. The scope and objectives of the evaluation shall be defined by the Department of Finance in consultation with the Legislature. A report shall be provided to the chairpersons of the fiscal committees of each house of the Legislature and the Chairperson of the Joint Legislative Budget Committee by March 31, 2017.*

Findings of the Evaluation

The OSAE evaluation found specific instances of: inconsistencies in operations; breakdowns in centralized processes; misuse of budget resources and personnel; inaccurate and misleading reporting; failure to establish, document and maintain proper tax allocation procedures; and board activities contrary to state law and legislative directives. Even more troubling and noteworthy are the following findings and observations contained in the audit:

- BOE's operational culture impacts its ability to report accurate and reliable information to decision-makers.

- Certain board member practices have intervened in administrative activities and created inconsistencies, breakdowns, and activities not supported by law.

- BOE had difficulty providing complete and accurate documentation in response to evaluation inquiries.

- Individuals interviewed for purposes of the evaluation reported a fear of retaliation if staff did not respond to the directions of individual board members.

- Various levels of management were not aware of, and could not speak to, certain district activities for which they had oversight responsibilities.

- Staff resource utilization practices have negatively impacted personnel and accounting records and do not accurately depict current operational activities.

- Supplemental annual reports submitted to the Legislature do not comply with the budget act reporting requirements and are incorrect.

- BOE's corrective remedies regarding the misallocation of sales and use tax were themselves incorrect on a repeated basis.

Staff Comments

The BOE is a unique agency, not only for California, but nationally. California is the only state with an elected board that both administers the state's taxes and serves as appellate body for tax disputes. The institutional structure of the agency presents a significant challenge in applying the state's tax laws fairly, impartially and effectively. The OSAE evaluation provides a glimpse into the manner in which the agency's culture may significantly affect the application of the state's tax laws. From a 'good government' perspective, the findings of the OSAE evaluation of BOE are quite disturbing. As indicated by the evaluation, the examples of inappropriate use of resources, board member involvement, and inaccurate data and reporting, suggest a pattern established and abetted by an institutional culture. That is, the instances cited are neither one-time nor unusual; rather they distinctly appear to be indicative of a pervasive and potentially corrosive atmosphere.

The administration and collection of taxes is, for many of California's individuals and businesses, the most sensitive point of contact with their state government. As a consequence, the state's power and decision to tax its residents carries with it a reciprocal obligation to administer those taxes fairly and impartially. BOE has been given the charge of administering and adjudicating California law in this extremely sensitive and important area. Given this responsibility, the BOE is obligated go to tremendous lengths to assure that the tax law is administered appropriately and taxpayers are treated fairly. Unfortunately, the results of the OSAE evaluation are very concerning in this regard. In response to the evaluation:

- A BOE board member proposed the naming of a public trustee to manage the daily affairs of the agency.

- The State Controller called for stripping the agency of its tax administration, compliance, and audit functions.

- The Governor issued a letter that:

    - Directed the Department of Human Resources, and requested the Department of Justice, to investigate employee complaints and the potential misuse of state resources at the board.

    - Suspended the board's delegated authority in the expenditure areas of personnel, contracting and technology.

    - Convened legislative leaders to identify statutory changes to address problems at the board by June 2017.

The executive summary of the OSAE evaluation concludes with the statement:

> *"Information included in this report can be used by the board and BOE executive management to effectuate cultural change of its practices."*

The BOE should take steps to address the problems identified in the evaluation; however, given the highly critical findings of OSAE's evaluation and the seriousness of the subject matter, such internal reforms are quite likely to be inadequate. In his letter, the Governor voiced his deep concern regarding the agency's conduct, and his directives imply a distinct lack of confidence in the agency's ability to undertake necessary changes on its own. Given these factors, the Legislature could consider further, and potentially more fundamental, reform options that would guard against abuse and partiality in the application of California's tax laws. There are a range of additional more comprehensive options that could begin to address the multitude of issues raised by, or alluded to, in the evaluation that would help protect both California's taxpayers and the state's revenue system. These potential options range from alterations in the way in which the agency operates and its jurisdiction, to broad institutional changes in the overall structure of the agency. Several alternatives will be presented by the Legislative Analyst's Office.

LAO
LEGISLATIVE ANALYST'S OFFICE

April 20, 2017

Options for Reforming the State Board of Equalization

L E G I S L A T I V E   A N A L Y S T ' S   O F F I C E

Presented to:
Senate Budget and Fiscal Review Subcommittee No. 4 on
State Administration and General Government
Hon. Richard D. Roth, Chair

LAO
LEGISLATIVE ANALYST'S OFFICE

Current Structure of State Board of Equalization (BOE)

- ☑ ***Elected Board in Charge of State Tax Agency.*** BOE is headed by a five-member board, with four members elected directly by district, and the fifth—the State Controller—elected on a statewide basis. BOE is established by the State Constitution, but the vast majority of its duties are assigned by statute. Statute also authorizes the board to appoint the agency's Executive Director.

- ☑ ***BOE Has Eclectic Mix of Duties and Powers.*** BOE's current organizational structure combines institutional features of three different branches of government:

  - ***Executive Activities.*** BOE runs the Sales and Use Tax Program and many other statewide tax and fee programs, and promulgates related regulations.

  - ***Quasi-Judicial Activities.*** The Board rules on tax appeals for the taxes they administer and for the taxes administered by the Franchise Tax Board (FTB).

  - ***Quasi-Legislative Activities.*** Four of BOE's five board members are elected from geographically distinct districts. Some individual board members regard themselves as representatives of—and advocates for—the constituents who elected them.

LAO LEGISLATIVE ANALYST'S OFFICE

Problem For Legislature to Address

☑ ***Structure Creates Conflicts.*** Under BOE's current structure, board members are administrators, arbiters, and advocates. It is extremely difficult—if not impossible—for a single entity to perform all of these functions effectively.

☑ ***Recent Concerns Notable . . .*** The Department of Finance's (DOF) recent evaluation raised concerns about various aspects of BOE's operations, such as redirections of staff away from their budgeted purposes. In recent years, some board members, the Legislature, and other observers have expressed concerns about other aspects of BOE's use of resources, including outreach and communications activities, vacancies, executive pay, furniture acquisition, and the use of office space.

☑ ***. . . But Fundamental Problems Are Longstanding.*** Although DOF's evaluation has presented the Legislature with new information about specific activities at BOE, the organization's fundamental problem—board members' conflicting roles—is not new. For example, our office discussed this issue in our analysis of the *1949-50 Budget Bill* (displayed below).

> *Analysis*
>
> The efficiency of the revenue administration of the Board of Equalization is below maximum because of divergent interests and the lack of centralized authority. This arises from the districting of the board members, and the feeling of personal responsibility which each board member has for the administration of liquor and tax matters within his district. The result of the personal control over each of the four districts by its members is a lack of uniformity in policy, and a difference in organization, personnel, facilities and scope of the work between each of the four districts. This means that when the work load of one district appears to have increased out of proportion to the state as a whole, new positions, facilities and equipment are requested to take care of that work load, without regard to whether other districts may have more than enough personnel to handle their work load.

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Key Decision: What Role Should Board Members Have?

- ☑ ***Could Maintain Current Mix of Roles.*** Under this approach, the Legislature would maintain BOE's current organizational structure. The Legislature could use other tools to try to improve BOE's performance in certain areas, such as resource management and tax appeals. These tools include statutory changes, new budgetary restrictions, or reporting requirements.

- ☑ ***Could Emphasize Statewide Nature of Board.*** Under this approach, the Legislature would make statutory changes to encourage consistent, uniform statewide tax administration.

- ☑ ***Could Create Greater Separation Between Board and Agency.*** Under this approach, the Legislature would make statutory and/or budgetary changes to draw clearer boundaries between the elected board and the administrative agency.

- ☑ ***Could Make Major Changes.*** Finally, the Legislature could make major changes to the board's duties. For example, the Legislature could remove most of the board's executive functions or all of its appellate functions through statutory changes.

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Options Under Current Mix of Roles

☑ **Options Related to Resource Management.**

- ***Restrict Board Members' Use of Resources.*** DOF's recent findings cast doubt on BOE's ability to limit board members' redirections of resources away from their budgeted purposes. The Legislature could pass stricter, more extensive statutory language regarding board members' use of resources. However, such language has not always prevented such redirections, so other actions may be necessary. For example, the budget could appropriate resources for board members in a separate line item from resources for the rest of the agency. (This latter approach to budgeting could complement some options described later in this presentation.)

- ***Require Board Members to Report on Their Use of Resources.*** The Legislature could adopt language requiring board members to provide detailed annual reports on their use of staff and other resources—particularly those not budgeted specifically for their use. This reporting requirement could include not only staff redirections but also, for example, the use of agency outreach resources, such as mail and video production services.

☑ **Options Related to Tax Appeals.**

- ***Require Comprehensive Reports on Appeals.*** The Legislature could require BOE to submit quarterly reports summarizing the outcomes of all of its tax appeals—including those resolved at the staff level.

Options Under Current Mix of Roles

(Continued)

- ***Strengthen Laws Regarding Financial Conflicts of Interest.*** Under current law, board members cannot participate in adjudicatory decisions involving parties who have contributed $250 or more to them in the prior 12 months. However, behested payments—donations to nonprofits solicited by officials—are not subject to these restrictions. Furthermore, these statutes do not address payments made outside of the 12-month window. The Legislature could strengthen these requirements in a variety of ways, such as extending the restrictions beyond 12 months or applying them to behested payments.

- ***Address Ex Parte Communications.*** Current statutes establish few limits on contact between board members and parties awaiting hearings before the board. Furthermore, BOE regulations direct board members to "remain accessible" at all times, which may be consistent with a view that board members should act as quasi-legislators. However, ex parte communications—which occur outside of formal hearings—may impede impartial adjudication of tax appeals. The Legislature could restrict these communications.

- ***Change FTB Appeals Process.*** Current law does not provide a clear mechanism for FTB to appeal BOE decisions. Under some interpretations, this may be possible through a process that requires a majority vote of FTB's board. However, two of the three members of FTB's board—the BOE chair and the Controller—also are members of BOE's board. As a result, they could decide whether to appeal their own rulings—a clear conflict of interest. The Legislature could clarify the process for FTB to appeal BOE rulings. At the same time, the Legislature could address the conflict by changing the composition of the Franchise Tax Board to reduce or eliminate the overlap between the two boards.

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Options for Emphasizing Statewide Nature of Board

☑ ***Remove District-Specific Duties From Statute.*** Government Code Section 15623 requires each board member to "investigate" BOE's tax administration within the district that elected him or her. As worded, the statute does not place clear limits on an individual board member's involvement in the agency's administrative activities within his or her district. The Legislature could make major changes to this statute (for example, prohibiting board members from investigating individual tax cases on their own) or simply repeal it altogether.

☑ ***Vest Powers in the Board as a Whole, Not in Individual Members.*** BOE currently assigns some responsibilities to individual board members that have no meaningful connection to the four geographic districts. For example, each board member is responsible for one of BOE's four offices that serve out-of-state taxpayers. The Legislature could specify in statute that all of the board's duties and powers are collective, not individual. For example, the Legislature could prohibit individual board members and their personal staff from examining taxpayers' records.

☑ ***Restrict Individual Board Members' Interactions With Agency Staff.*** Even if they lack explicit statutory powers, individual board members could try to direct agency staff on an informal basis. The Legislature could prohibit individual board members and their personal staff from directing agency staff.

Options for Distancing Board From Agency

☑ ***Restrict Board's Interactions With Agency Staff.*** In addition to placing limits on individual board members, the Legislature could further prescribe the manner in which the board collectively could interact with agency staff. For example, statutes could require board members and their personal staff to communicate directly with agency staff only at the board's public meetings, perhaps with some limited exceptions related to the scheduling and planning of such meetings.

☑ ***Prohibit Board From Interfering With Tax Administration and Personnel Decisions.*** The Legislature could place explicit limits on the extent to which board members and their personal staff involve themselves in various aspects of agency operations, including personnel matters and the day-to-day operations of the agency's tax and fee programs.

☑ ***Limit Board's Power Over Executive Staff.*** The Legislature could limit the board's power to hire and fire the agency's Executive Director and other members of the executive team. For example, statute could set a fixed term for the Executive Director, during which the board could dismiss him or her only under narrowly defined circumstances.

☑ ***Maintain Physical Separation Between Board Members and Agency Staff.*** The *2016-17 Budget Act* and the Governor's 2017-18 proposal contain provisional language directing the administration to relocate board members into a single state-owned space when their current leases expire. The Legislature could consider whether it wants to maintain some physical distance between this space and the office space occupied by agency staff, such as the BOE headquarters building.

Options For Making Major Changes

- ☑ ***Limit Board's Administrative Duties.*** Through statutory changes, the Legislature could reassign most of BOE's executive functions to existing agencies or to a new entity. The State Constitution and statutory voter initiatives assign a few programs to BOE—such as the Alcoholic Beverage Tax Program—but these activities make up a small share of the agency's current workload.

- ☑ ***Remove Board's Appellate Duties.*** BOE's appellate functions are statutory. The Legislature could instead assign these duties to another entity, such as a specialized tax court.

- ☑ ***Consolidate Tax Agencies.*** The Legislature could consolidate most of the tax functions of BOE, FTB, and the Employment Development Department (EDD) into a single Department of Revenue, with an Executive Director appointed by the Governor. Our office has recommended moving in this direction since the 1940s. That said, consolidation would be a difficult undertaking that could result in added spending in the near term.

- ☑ ***Amend Constitution to Eliminate Board Member Elections.*** The Legislature could submit a constitutional amendment to voters to make the board appointed rather than elected—or simply to eliminate the board altogether.

DEPARTMENT OF FINANCE

EDMUND G. BROWN JR. ▪ GOVERNOR

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March 30, 2017

Honorable Holly J. Mitchell, Chair
Joint Legislative Budget Committee
Senate Budget and Fiscal Review Committee
State Capitol, Room 5080
Sacramento, CA 95814

Honorable Phil Ting, Chair
Assembly Budget Committee
State Capitol, Room 6026
Sacramento, CA 95814

Dear Honorable Mitchell and Honorable Ting:

Final Report—California State Board of Equalization Evaluation

The California Department of Finance, Office of State Audits and Evaluations, has completed its evaluation of the California State Board of Equalization (BOE) pursuant to the Fiscal Year 2016-17 Budget Act. This evaluation was considered a non-audit service and does not constitute an audit conducted in accordance with generally accepted government auditing standards.

The enclosed report is for your information and use. BOE's response and our evaluation of the response are incorporated into this final report. Overall, BOE agreed with our results and we appreciate its willingness to improve its practices. This report will be placed on our website.

We appreciate the assistance and cooperation of BOE's staff. If you have any questions regarding this report, please contact Diana Antony, Manager, at (916) 322-2985.

Sincerely,

Jennifer Whitaker, Chief
Office of State Audits and Evaluations

Enclosure

cc: Mr. Daniel Alvarez, Secretary of the Senate, Office of the Secretary of the Senate
Ms. Diane F. Boyer-Vine, Legislative Counsel, Office of Legislative Counsel
Mr. E. Dotson Wilson, Chief Clerk, California State Assembly, Office of the Chief Clerk
Mr. David Gau, Executive Director, California State Board of Equalization
Mr. Justyn Howard, Program Budget Manager, California Department of Finance
Ms. Kristin Shelton, Program Budget Manager, California Department of Finance

Evaluation

California State Board of Equalization
Sales and Use Tax Reporting
Retail Sales Tax Fund Adjustment

California State Board of Equalization Building
Source: BOE website

Prepared By:
Office of State Audits and Evaluations
California Department of Finance

170860001/170860005

March 2017

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Final reports are available on our website at http://www.dof.ca.gov

You can contact our office at:

California Department of Finance
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Table of Contents

In accordance with the 2016-17 Budget Act, the California Department of Finance, Office of State Audits and Evaluations (Finance), performed an evaluation of the California State Board of Equalization's (BOE) sales and use tax resource utilization, outreach activities, sales and use tax reporting, and the November 2015 California State Controller's Office's *Internal Accounting and Administrative Controls Review* (SCO Review) corrective actions pertaining to Findings 1 through 6, including the proposed Retail Sales Tax Fund allocation adjustment.

BOE administers over 30 tax and fee programs, which generated $60.5 billion in revenue during fiscal year 2014-15. BOE is governed by a five-member Board (Board) and executive management team. The Board, acting as a whole, establishes BOE's overarching policies and delegates authority to the Executive Director and the executive team to manage the day-to-day operations. As such, the Board and the executive management team are jointly responsible for establishing and implementing a fair, effective, and efficient tax administration program.

In performing this evaluation, we noted BOE's operational culture impacts its ability to report accurate and reliable information to decision makers including, the Legislature, Finance, and the Board. Specifically, certain board member practices have intervened in administrative activities and created inconsistencies in operations, breakdowns in centralized processes, and in certain instances result in activities contrary to state law and budgetary and legislative directives.

During our evaluation, BOE had difficulty providing complete and accurate documentation in response to our evaluation inquiries and in some instances various levels of management were not aware of and could not speak to certain district activities for which they held oversight responsibilities. Specific examples include the informal establishment of a call center, creating an unofficial office location, and inconsistent use of community liaisons.

In addition, staff resource utilization practices have negatively impacted personnel and accounting records. These records do not accurately depict current operational activities. Despite having dedicated staff and operating budgets of $1.5 million, some board members routinely supplement their staff by redirecting revenue generating staff to perform non-revenue generating board member activities, including outreach activities. These redirections violate Provision 1 of the Budget Act. Additionally, BOE is unable to accurately reflect revenue and cost impacts in its accounting records and Annual Report on Sales and Use Tax Audit and Collection Activities, Statewide Compliance and Outreach Program and Audit Selection Improvements (supplemental annual report).

Further, the External Affairs Department (External Affairs) coordinates numerous aspects of the education and outreach program and the general policy is for board member offices to request certain outreach services through External Affairs. However, this policy is not consistently followed. Instead operational administration of these activities have shifted to board member offices and staff in Field Operations. These outreach activities have a limited nexus with BOE's administered tax programs and have increased in recent years. Additionally, BOE has not implemented budgets and cost tracking measures for these outreach activities, and has hired staff for these activities using practices that bypass the budgetary and legislative processes.

Moreover, BOE's supplemental annual reports submitted to the Legislature do not comply with the Budget Act reporting requirements. Due to staff resource utilization practices noted above, the audit and collection's revenue and personnel costs are incorrect, which further skews the reported cost benefit ratios. The supplemental annual reports are intended to be used by the Legislature as a tool to assess the effectiveness of BOE's existing sales and use tax audit and compliance efforts, and as a means to measure whether the level and design of BOE's current efforts are appropriate. As a result of BOE's staff resource practices, the supplemental annual reports' usefulness is diminished.

Lastly, BOE provided 11 different versions of its proposed sales and use tax allocation adjustment and with each version, Finance continued to find errors and omissions. Since the proposed adjustment continues to change and BOE has not prepared a comprehensive explanation of its assumptions and methodologies, further review of the proposed allocation adjustment is imperative.

BOE has a fiduciary responsibility to promote an operational environment that provides fair, effective, and efficient tax administration over the billions of dollars for which it is responsible. Information included in this report can be used by the Board and BOE executive management to effectuate cultural change of its practices.

Background

The California State Board of Equalization (BOE) administers tax and fee programs concentrated in four general areas: sales and use taxes, property taxes, special taxes, and the tax appellate program. BOE has over 30 tax and fee programs, which generated $60.5 billion in revenue and accounted for more than 30 percent of all state revenue for fiscal year 2014-15.[1] Of the $60.5 billion, sales and use tax activities accounted for $52.1 billion. Because a majority of sales and use taxes are self-assessed, BOE has developed an audit and compliance program to verify businesses remit the correct amounts and to provide related education.

Budgetary and legislative directives have restricted BOE's resource utilization and required it to report on its audit and compliance efforts. For example, between 1992-93 and 1997-98, the Legislature approved 250 audit positions to augment BOE's audit program. However, in March 1999, the California State Auditor issued a report[2] that found BOE redirected over half (127 of 250) of its new audit positions to perform support activities. As a result, the 1999-00 Budget Act enacted Provision 1, which specifically prohibited BOE from redirecting resources from audit and collection activities without prior approval from Finance and notification to the Joint Legislative Budget Committee.

In addition, in 2002, the Legislative Analyst's Office (LAO) requested BOE to begin reporting information regarding its performance. Specifically, the 2002-03 Budget Act Supplemental Report[3] required BOE to submit an Annual Report on Sales and Use Tax Audit and Collection Activities (supplemental annual report). The report requires BOE to report the revenue and cost impacts associated with any increase or decrease in resources devoted to audit and compliance activities. Subsequently, in 2006, 2010, and 2011, additional reporting requirements[4] were imposed requiring, among other items, BOE to report on audit selection methodologies, cost benefit analysis, and Statewide Compliance and Outreach Program (SCOP) performance. See Appendix A for a listing of the supplemental annual report requirements.

Further, in November 2015, the California State Controller's Office issued its *Internal Accounting and Administrative Controls Review* (SCO Review), which identified numerous internal control weaknesses and errors with the allocation of the Retail Sales Tax Fund. BOE submitted a Corrective Action Plan (CAP) to SCO in May 2016 and subsequently updated the status in July 2016.

[1] BOE's Annual Report for 2014-15.
[2] California State Auditor Report 98118.1, *State Board of Equalization: Budget Increases for Additional Auditors Have Not Increased Audit Revenues as Much as Expected.*
[3] Supplemental Reports are special requests by the LAO. Specifically, they are statements of legislative intent and requests for studies adopted during budget deliberations.
[4] LAO's Budget Act Supplemental Reports.

In July 2016, in accordance with the 2016-17 Budget Act,[5] Finance was directed to evaluate BOE's Sales and Use Tax Program's activities, including, but not limited to, audits, collections, compliance enforcement, and outreach; BOE's taxpayer outreach and related activities; and BOE's corrective actions related to the SCO Review. Finance, in consultation with the Legislature, further defined the specific objectives of the evaluation to focus on sales and use tax resource utilization, outreach activities, sales and use tax reporting, and the SCO Review corrective actions pertaining to Findings 1 through 6, including the proposed Retail Sales Tax Fund adjustment.

MISSION AND ORGANIZATION

BOE's mission is to serve the public through fair, effective, and efficient tax administration. BOE collects and allocates the state and local sales and use tax for cities, counties, and other districts. The over 30 tax and fee programs administered by BOE provide revenues to support hundreds of state and local government programs and services, including but not limited to, schools and colleges, hospitals and health care services, natural resources, transportation, and housing.

BOE is the nation's only elected tax commission, which consists of four elected board members, each representing an Equalization District (district), and the California State Controller, an ex officio member representing the State at large. The elected board members each represent a district with boundaries that encompass approximately the same population size. Figure 1 on the following page illustrates the district boundaries as of January 2015.[6]

[5] 2016-17 Budget Act section 8860-001-0001, Provision 8.
[6] As of January 5, 2015, BOE's district boundaries were reconfigured as a result of the California Citizens Redistricting Commission.

Figure 1: BOE Equalization Districts

Source: BOE website

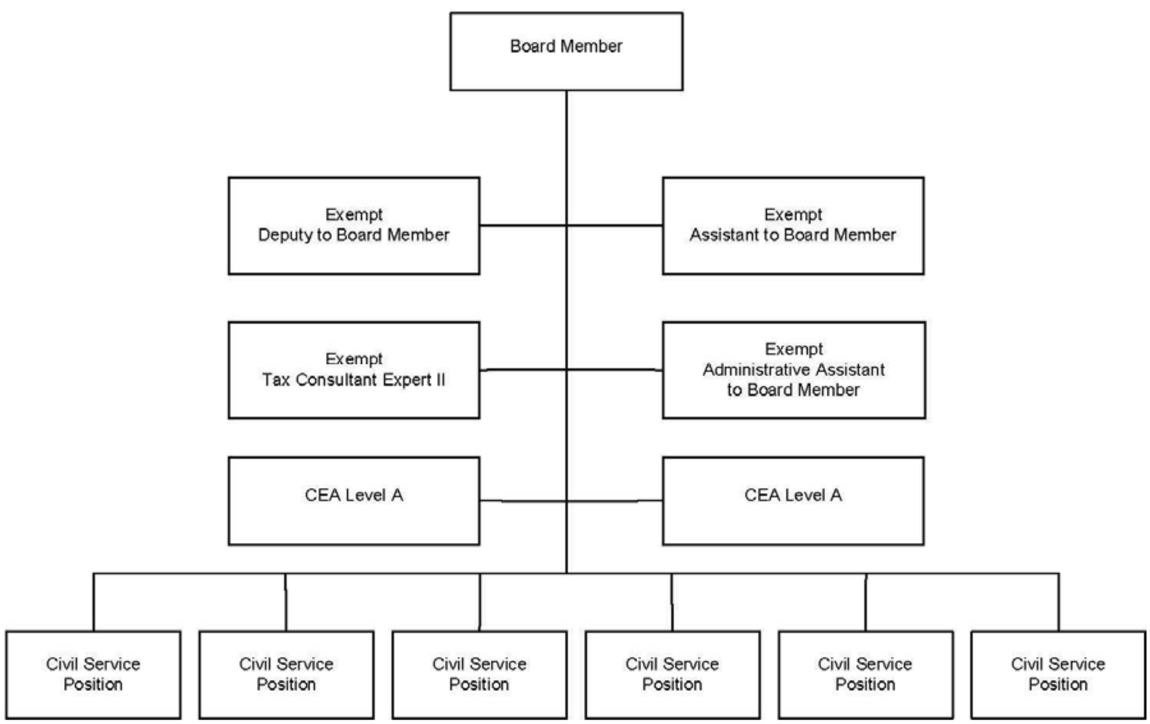
The five member board (Board), as a whole, acts in a quasi-judicial capacity as the appellate body for appeals from various business tax assessments, Franchise Tax Board (FTB) actions, and public utility assessments. In its administrative capacity, the Board issues rules and regulations. Additional Board responsibilities as stated in BOE Publication 545.2 are as follows:

- Establish and adopt BOE policies in monthly public meetings.
- Meet to hear and decide tax appeals, approve regulator changes, annually set property tax values for state assesses, consider reports from various department managers, and receive input from the public.
- Hire the Executive Director and approve the hiring of all executive leaders and Career Executive Assignments (CEA).
- Ensure the agency runs effectively and efficiently by setting policy and guiding executive leadership.
- Supervise policy development through four committees chaired by each of the four board members.

Individual board member's duties include facilitating and resolving constituent concerns, educating taxpayers, influencing public policy, and interacting with the media.

According to BOE's Human Resources Division, each board member's office is comprised of 12 positions, which consist of 2 CEAs, 4 exempt,[7] and 6 civil service positions, as shown in Figure 2. For 2015-16, each board member was allocated a $1.5 million operating budget.

Figure 2: Board Member Office Organizational Chart

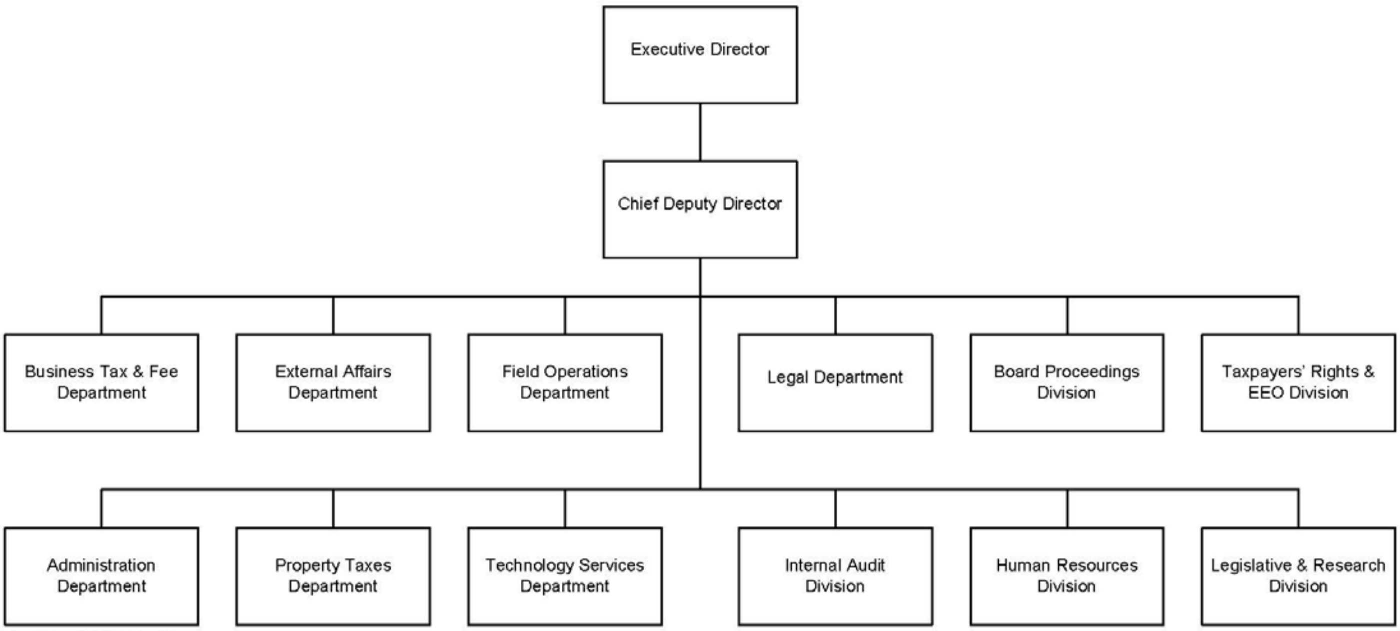


Source: BOE Human Resources Division

[7] Exempt from civil service under section 4, Article VII of the State Constitution. Two of these positions require approval by the Governor.

Under the general direction of the Board and in accordance with established policies, the Board delegates authority to the Executive Director and the executive team to manage the day-to-day operations. As of July 2016, BOE had over 4,800 authorized positions to carry out its daily operations. These positions are organized into programmatic and administrative units within BOE's Sacramento headquarters, 22 field offices, and 4 out-of-state offices. This organizational structure administers the various programs within 12 departments and divisions. See Figure 3.

Figure 3: BOE Organizational Chart



Source: BOE website

Sales and Use Tax Program

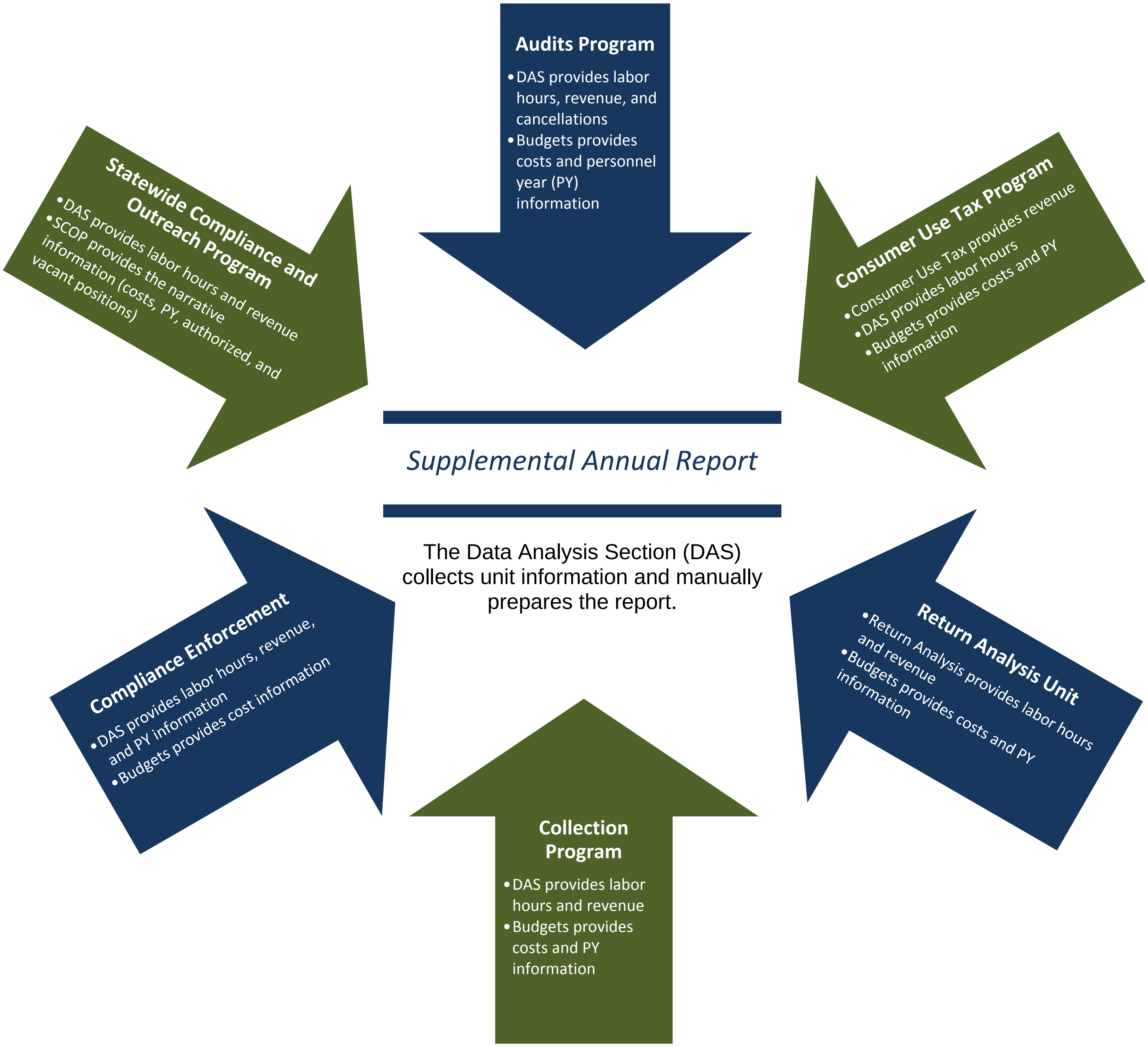
In 2015, the Sales and Use Tax Department was reorganized into the Business Tax and Fee Department and the Field Operations Department (Field Operations). These departments are responsible for administering California's state, local, and district sales and use tax programs, which account for more than 80 percent of BOE-collected revenues totaling $52.1 billion during 2014-15.

> **Sales and Use Tax Audit and Compliance Programs**
>
> **Audit**—Conducts sales and use tax audits to ensure businesses report neither more nor less tax than required by law.
>
> **Consumer Use Tax**—Works closely with state and federal agencies in administering use tax due on non-dealer sale of vehicles, vessels, aircraft, and mobile homes.
>
> **Collection** - Collects outstanding sales and use taxes due to BOE.
>
> **Return Analysis Unit**—Examines sales and use tax returns to investigate discrepancies, create billings, make adjustments to amounts reported, process refunds, or take other actions as warranted.
>
> **Compliance Enforcement**—Uses data from various state and federal agencies to identify non-filers and under-reporters of use tax from imported items, untaxed property brought into the state, and unpermitted business that may owe use tax.
>
> **SCOP**—Provides outreach, educates business owners on their sales and use tax responsibilities, and increases tax compliance via permit checks, business registration updates and enforcement, and referring leads for audit. SCOP is reported within the Audit and Compliance Enforcement programs in the supplemental annual report.
>
> Source: BOE 2015-16 supplemental annual report

As described above, BOE is required to submit a supplemental annual report regarding its sales and use tax audit and compliance activities. The report includes data regarding various sales and use tax audit and compliance programs as detailed in the text box.

BOE's Data Analysis Section (DAS) is responsible for compiling the supplemental annual report. DAS works closely with numerous units such as the Budget Branch, Consumer Use Tax, Return Analysis, and Field Operations to obtain the required information to compile the report, as shown in Figure 4 on the following page. Currently, the information provided by these units originates from a variety of sources, such as data system queries and manual spreadsheets. DAS manually compiles the information received to prepare the supplemental annual report.

Figure 4: BOE Supplemental Annual Report Process



Source: BOE staff interviews

Education and Outreach

> **Education and Outreach Methods**
>
> **In-Person**—SCOP, Business Consultations, Interested Parties Meetings, Seminars, Workshops, International Fuel Trade Agreement Workshops, Classroom Sessions, Conferences, Speakers Bureaus, and Stakeholder Relations
>
> **Web-based**—Webinars, Industry Specific Webpages, Videos and Public Service Announcements
>
> **Email, Mail, and Telephone**—EBlasts, Special Notices, Educational Publications, Newsletters, Written Tax Advice, Telephone Inquiries, Telephone Townhalls, and Proactive Outreach Manager
>
> **Other**—Social Media and Translations
>
> Source: 2016-17 Education and Outreach Plan, January 2017

The Harris-Katz California Taxpayers' Bill of Rights (Taxpayers' Bill of Rights) requires BOE to develop and implement a taxpayer education and information program. Accordingly, BOE's education and outreach program is required to be directed at, but is not limited to, the following groups: newly registered taxpayers, recurrent taxpayer noncompliance,[8] and BOE audit and compliance staff. Further, the Taxpayers' Bill of Rights requires the program to include, among other things, mailings or appropriate and effective contact with the above mentioned groups, written communication with newly registered taxpayers, and participation in small business seminars and similar programs organized by federal, state, and local agencies.

BOE's goal is to increase voluntary compliance with the tax and fee programs it administers by maximizing the effectiveness of outreach within its districts in the most efficient and cost-effective manner. Various programs within BOE have responsibilities for organizing and facilitating a variety of outreach activities and events using methods ranging from in-person programs to web-based services and social media, as noted in the text box. External Affairs coordinates numerous aspects of the education and outreach program such as media inquiries, press releases, responding to taxpayer inquiries, and managing the design, printing, and mailing of publications and notices. External Affairs' Outreach Services Division (Outreach Services)[9] is responsible for developing BOE's annual outreach plan and for planning and executing conferences and other events.

At a district level, BOE utilized community/district liaisons (liaisons) within Field Operations to assist with planning and executing education and outreach activities. According to BOE's outreach plan, the liaisons, in coordination with Outreach Services, develops the annual regional outreach plans for each district. The regional outreach plans include the events and activities each district plans to conduct to increase taxpayer awareness and educate individuals on the tax and fee programs BOE administers.

[8] Revenue and Taxation Code, section 7085, requires BOE to perform an annual systematic identification of recurrent taxpayer noncompliance areas.
[9] The Outreach Services Deputy Director position has been vacant since April 2016.

Chapter 1

Evaluation of Resource Utilization, Outreach Activities, and Sales and Use Tax Reporting

BOE's operational culture impacts its ability to report accurate and reliable information to decision makers including the Legislature, Finance, the Board, and BOE executive management. Specifically, BOE's operating environment limited our ability to comprehensively evaluate its sales and use tax resource utilization, outreach activities, and sales and use tax reporting.

During our evaluation, we interviewed over 70 employees at BOE's Sacramento headquarters, 8 field offices, and a "non-public" office located in El Segundo, California. We also attended two BOE outreach events including the *Connecting Women to Power Conference* in District 4 and a *Small Business Resource Seminar* in District 3. Further, between January 20, 2017 and January 30, 2017, we met with all five board members individually to provide a summary of our evaluation and obtain their perspective.

As described in the Background section, the Board, acting as a whole, establishes BOE's overarching policies. BOE's Executive Director and executive team are responsible for executing the established policies and directing BOE's daily operations. Board members have dedicated staff and operating budgets to implement their individual board member duties; however, these duties do not include directing the daily operations of BOE.

During interviews, individuals responsible for specific functions within BOE were unable to provide complete and accurate documentation or answer basic questions regarding operations related to our evaluation objectives. Additionally, various levels of management were not aware of and could not speak to certain activities conducted within the districts for which they held oversight responsibilities. Several individuals stated that board members, acting individually, intervene in the daily operations within their respective districts. These individuals also reported a fear of retaliation if staff did not respond or follow the directions of the individual board members. Examples include being informed of potential office relocations or told "one more vote and you're gone" meaning their job appointment could be dismissed by a vote of three board members.

The practice of individual board members intervening in the daily BOE operating activities creates inconsistencies in operations, breakdowns in centralized processes, and in certain instances result in activities contrary to state law and budgetary and legislative directives. Specific examples include, but are not limited to:

> *Culver City Call Center*—District 3's board member was involved in the Culver City call center's (call center) development, including a request to expedite the hiring process and providing direction on the job classifications for some of these positions. The call center was created by hiring over 10 staff into temporary positions and utilizing space in the Culver City field office. Further, Board meeting minutes do not indicate that the call center had been presented, discussed, or approved by the Board during a public meeting.

Establishment of El Segundo Office—BOE established and currently maintains two adjacent offices in El Segundo, California. One suite houses the District 3 board member's office and the adjacent suite houses ten staff from Field Operations and External Affairs. According to BOE's Physical Office Space Report,[1] the El Segundo suite that houses the ten staff is identified as a "non-public" field office. When asked about the El Segundo location, BOE's executive management stated the second suite was initially established to accommodate District 3's Assistant Chief of Field Operations due to a shortage of space within the Culver City field office. However, executive management could not explain why the El Segundo location has been in operation since 2014 and houses ten BOE staff.

Community/District Liaisons—BOE's established community liaisons are inconsistent among the four districts. District 3 uses the Business Taxes Specialist job classification, referred to as District Liaisons. According to the duty statement, liaisons serve as the "Board Member District Liaison" representative and will, among other duties, "advise the Board Member" on complex and difficult audit and compliance issues. Further, the Business Taxes Specialist classification is considered a revenue-generating position. In contrast, all other districts use the Information Officer job classification, referenced as Community Liaisons, and outline their duties as primarily creating and overseeing an outreach and education plan and providing public relations "advice to Field Operations". The Information Officer classification is a non-revenue generating position. When asked about the inconsistencies, executive management stated that the establishment of community liaisons was at the discretion of districts and individual board members.

San Diego Field Office—District 4 board member staff are currently located in the San Diego field office among the audit and compliance staff. When asked about the seating arrangement, the Executive Director and San Diego field office District Administrator could not provide a clear explanation why board member staff were located in the field office.

Rotational Program—District 3 created a "rotational program" for revenue generating Tax Technicians to work in the District 3 board member's office for up to 1 year to gain broader organizational experience. However, according to BOE's Human Resources Division, this program is only offered at this board member's office.

Outreach Activities—External Affairs indicated that board member offices and community/district liaisons have not consistently communicated with External Affairs regarding the planning and execution of outreach activities conducted within the individual districts. Further, board member driven outreach activities and costs have significantly increased. Additionally, these activities have a limited nexus with BOE's administered tax programs.

STAFF RESOURCE UTILIZATION

BOE's personnel and accounting records do not accurately depict its operational activities. BOE does not have a centralized process for monitoring and recording redirections of revenue generating staff, including sales and use tax audit and compliance personnel. The redirections affect BOE's ability to comply with Provision 1 of the Budget Act and appropriately reflect revenue and cost impacts in its accounting records and supplemental annual reports.

[1] Report on Physical Office Space, as Required by the Supplemental Report of the 2016-17 Budget Act (Item 0860-001-0001, Provision 1), dated February 1, 2017.

Despite having dedicated staff and operating budgets of $1.5 million, some board members routinely supplement their staff by redirecting revenue generating staff to perform non-revenue generating board member activities, including outreach activities. BOE does not have documented policies and procedures governing staff redirections or a centralized process to monitor and record these redirections. Neither BOE's Human Resources Division nor executive management could provide a comprehensive list detailing the nature, frequency, duration, or cost impacts of redirected staff.

In response to this evaluation, BOE provided organizational charts and compiled a list of staff that were redirected or functionally reporting to the board member offices between July 2013 and November 2016. To compile the list, BOE relied on verbal communications from board member offices. As shown in Table 1, BOE reported 47 staff were intermittently redirected to perform board member activities.

Table 1: Redirected Staff for Board Member Activities Between July 2013 and November 2016

	Redirected Positions			
	6 Months or Less	Over 6 Months	Over 1 Year	Total
District 1	2	2	2	6
District 2 *	9	0	2	11
District 3 **	3	3	15	21
District 4 *	1	5	3	9
Total	**15**	**10**	**22**	**47**

* During this time period, a change in the board member occurred.
** Three staff were identified as being part of the District 3 rotational program.

Source: BOE Human Resources Division

Based on interviews with board members, a few of the redirections were to temporarily fill board member office vacancies. However, a majority of the redirections were for extended periods of time. For example, 22 staff (47 percent) were redirected for more than 1 year with 7 staff redirected for over 2 years. In one instance, an individual has been redirected for over 4 years and continues to work in the District 3 board member's office. Further, District 3 created a “rotational program” for revenue generating Tax Technicians to work in the District 3 board member's office for up to 1 year to gain broader organizational experience.

However, the list of 47 staff compiled by BOE did not include information pertaining to staff redirected to perform non-revenue generating activities on a shorter term (i.e., daily) basis. For example, on November 3, 2016, Finance attended the *Connecting Women to Power Conference* in Escondido, California, where 113 field office staff in District 4 were redirected to work at the event, as shown in Table 2 on the following page. The majority of redirected staff (98 staff) were sales and use tax audit and compliance personnel with monthly salaries ranging between $2,384 and $8,450. The redirected staff performed duties including, but not limited to, registration, parking lot duty, and break area facilitation. The redirection was made at the request of District 4 board member's staff. The 98 staff were not included in the compiled list of redirected staff. When asked about the event during an interview on January 6, 2017, BOE's Executive Director and Deputy Director stated they had recently been informed of the staff redirections and were unaware if it was a common practice among all district offices. BOE board members sponsor approximately ten similar large outreach events annually.

Table 2: Connecting Women to Power Conference, November 3, 2016

District 4 Redirected Staff	Number of Staff	Monthly Salary Range	Tasks Assigned During 8-hour Conference
Associate Tax Auditor	25	$4,829-6,350	Parking lot duty, registration, break area facilitation, and other.
Business Taxes Representative	19	3,247-5,029	
Tax Auditor	17	3,247-5,280	
Business Taxes Compliance Specialist	13	4,829-6,048	
Business Taxes Specialist I	8	5,571-6,973	
Business Taxes Administrator I	7	5,307-6,973	
Tax Technician I	6	2,384-3,203	
Tax Technician III	6	3,085-3,864	
Supervising Tax Auditor II	3	5,826-7,660	
Tax Technician II	3	2,758-3,455	
Staff Information Systems Analyst	2	5,295-6,963	
Business Taxes Specialist II	1	5,826-7,660	
Graphic Designer III	1	4,565-5,716	
Office Technician	1	2,758-3,455	
Supervising Tax Auditor III	1	6,428-8,450	
Total	**113**		

Source: BOE Field Operations Department, San Diego Field Office and 2017-18 Budget Salaries and Wages Supplement

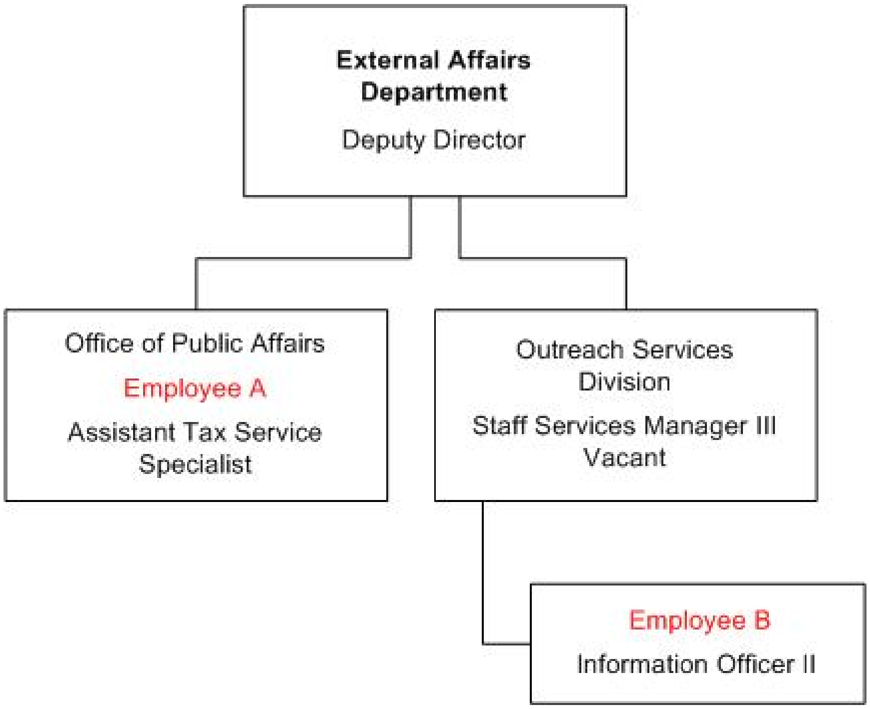
Further, the official organizational charts provided by BOE do not reflect its current operations. Specifically, the long-term redirected staff noted in Table 1 were not accurately reflected in the organizational charts. For example:

Employee A—BOE's official organizational chart depicts Employee A in External Affairs, Office of Public Affairs, directly reporting to the Deputy Director of External Affairs (External Affairs Deputy). During a Finance on-site interview in October 2016, Employee A stated that although his office was physically located in the District 3 board member's office in El Segundo, he directly reported to the External Affairs Deputy in the Sacramento headquarters office. However, after further inquiry, Employee A confirmed that he had never met nor communicated with the External Affairs Deputy, his supervisor for four months. In November 2016, the External Affairs Deputy and BOE Human Resources Division confirmed Employee A had been redirected to the District 3 board member's office for over four years. Employee A is included in Table 1 above.

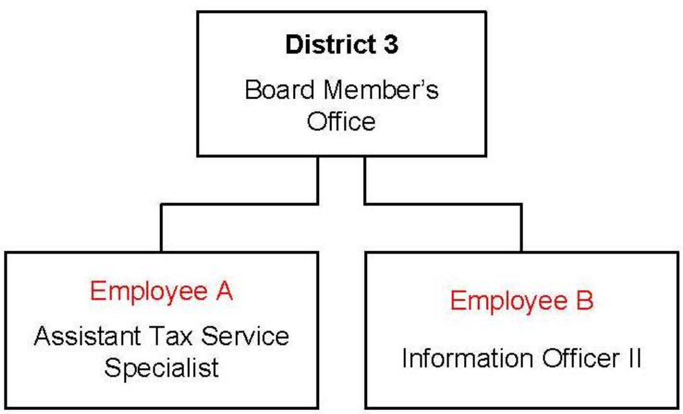
Employee B—BOE's official organizational chart depicts Employee B in External Affairs, Outreach Services Division, directly reporting to the External Affairs Deputy. During a Finance on-site interview in October 2016, Employee B stated that she reported to the External Affairs Deputy in the Sacramento headquarters office. However, after further inquiry and a subsequent field visit to the El Segundo non-public field office in November 2016, Employee B confirmed that she spent part of her time answering phones at the District 3 board member's office and was scheduled to work on organizing the Volunteer Income Tax Assistance (VITA) efforts. Although Employee B is included as a redirected staff in Table 1, BOE incorrectly reported her redirection as March 2014 through July 2015. However, as noted above, Employee B was still redirected as of November 2016.

The following organizational charts detail the Employee A and B descriptions described above.

BOE's Official Organizational Chart*



BOE's Functional Organizational Chart*



*Source: Interviews with BOE staff and BOE's official organizational chart

Additionally, the organizational charts do not include all BOE field office locations. Specifically, during on-site interviews, Finance identified an office adjacent to the District 3 board member's office in El Segundo, California that was not displayed in any official organizational charts. This office has been operational since 2014 and houses ten Field Operations and External Affairs staff. Executive management could not explain why this office was in operation and not reflected in the organizational charts.

The staff redirections, which include revenue generating classifications, violates Provision 1 of the Budget Act. The provision prohibits BOE from redirecting personnel resources away from direct audit and collection activities without prior approval from Finance and notification to the Joint Legislative Budget Committee. Specifically, 12 of the reported 47 staff (26 percent) in Table 1 and 98 of the 113 staff (87 percent) in Table 2 are classified as revenue generating positions. BOE did not receive prior approval from Finance nor did it notify the Joint Legislative Budget Committee of the redirections.

> **Provision 1 of the Budget Act**
>
> It is the intent of the Legislature that all funds appropriated to BOE for processing tax returns, auditing, and collecting owed tax amounts shall be used in a manner consistent with BOE's authorized budget and with the documents that were presented to the Legislature for its review in support of that budget.
>
> BOE shall not reduce expenditures or redirect funding or personnel resources away from direct auditing and collection activities without prior approval of the Director of Finance. The director shall not approve any such reduction or redirection sooner than 30 days after providing notification to the Joint Legislative Budget Committee.
>
> Such a position shall not be transferred from the organizational unit to which it was assigned in the specific Governor's Budget and the Salaries and Wages Supplement, as revised by legislative actions, without the approval of the Director of Finance. Furthermore, BOE shall expeditiously fill budgeted positions consistent with the funding provided in this act.
>
> Source: 1999-00 to 2016-17 Budget Acts

Moreover, the magnitude of the costs and lost revenue of the redirected staff are unknown. BOE does not track or adjust the hours or cost information for the redirected staff in its accounting records or the supplemental annual reports. Additionally, BOE does not calculate the lost revenue incurred as a result of the redirections. Specifically, according to BOE's Budget Branch, the hours/cost for the redirected staff are charged to the originating unit despite BOE's established timekeeping polices requiring employees to appropriately account for redirected hours.[2] The impacts on the accounting records and supplemental annual report for the identified redirections include:

- *Personnel Costs*—Staff costs and hours for the 12 and 98 redirected revenue generating staff in Tables 1 and 2, respectively, were captured in the originating unit; therefore the reported cost benefit ratios in the supplemental annual report are inaccurate. Further, the supplemental annual report does not reflect the lost revenue.

- *Board Member Costs*—The majority of redirected staff was for board member office activities. Because these redirected staff costs are captured in the originating unit, the reported personnel costs for the board member's office is understated.

- *Outreach Costs*—BOE conducts approximately ten large events annually similar to the *Connecting Women to Power Conference*. Because BOE does not require staff to track their time by outreach event, it is unable to determine the total staff hours for these events. As a result, the actual costs associated with these events is understated.

[2] The BOE-666 Time Reporting Manual provides guidance on timekeeping for loaned staff.

OUTREACH ACTIVITIES

As described in the Background section, External Affairs coordinates numerous aspects of the education and outreach program. The general policy is for board member offices to request certain outreach services through External Affairs. However, this policy is not consistently followed. Instead, operational administration of these activities have shifted to board member offices and staff in Field Operations. BOE's outreach activities that have a limited nexus with BOE's administered tax programs have increased in recent years. These activities concentrate on board member driven events. Additionally, BOE has not implemented budgets and cost tracking measures for these outreach activities, and has hired staff for these activities using practices that bypass the budgetary and legislative processes.

As a result, our evaluation focused on specific outreach activities that are generally driven by board member offices.

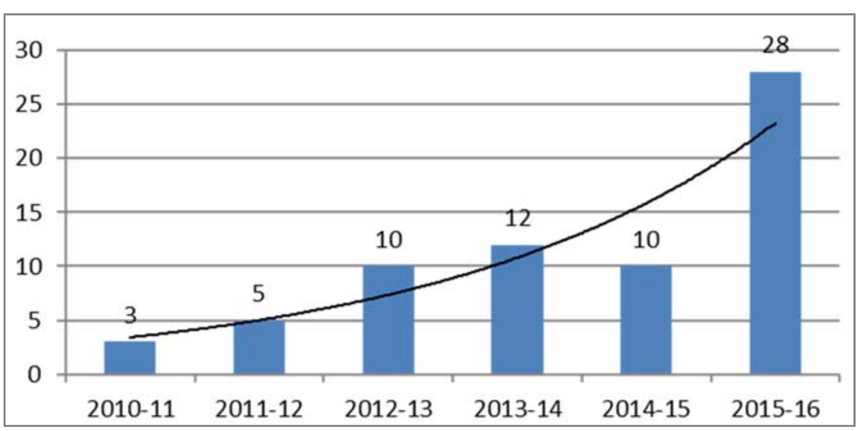
Volunteer Income Tax Assistance

VITA is sponsored by the Internal Revenue Service (IRS) and offers free income tax assistance to individuals and families. Specifically, the program provides IRS-certified volunteers to assist in the preparation of federal and state income tax returns for individuals who generally make $54,000 or less, persons with disabilities, and limited English speaking taxpayers. Although VITA is a volunteer based program, BOE has allowed staff to use state time for training, volunteering, and promoting VITA events; and utilized state funds for associated expenses.

When asked how an income tax program supported BOE's administered tax programs, executive management and the District 3 board member's office stated VITA provided many benefits for BOE such as collecting use tax. Specifically, the District 3 board member claimed BOE's 2016 VITA efforts generated an estimated total use tax revenue of $156,000. However, according to BOE's 2015-16 outreach costs, it spent $124,000 in printing and postage alone for District 3 VITA events.

Further, as shown in Figure 5, between 2010-11 and 2015-16, BOE increased its participation in VITA events from 3 to 28, or over 800 percent. The largest increase occurred between 2014-15 and 2015-16, due to District 3's and District 4's increased participation in VITA.

Figure 5: Number of VITA Events



Source: BOE Annual Reports, Archive of BOE's In-Person Seminars, and BOE's Outreach Services Division

Additionally, between January 2017 and April 2017, District 3 board member's office offers daily VITA services during state business hours at four of the five field offices, as noted in the text box. Records indicate this service has been offered for over the last three tax seasons. However, these events are not included in Figure 5 nor documented in BOE's annual outreach plans.

In contrast, FTB, whose primary mission is to administer personal and corporate income taxes, has a policy that strictly limits staff's VITA participation to a voluntary basis. Although FTB encourages employees to participate in the VITA program, it does not provide state time or resources for its staffs' VITA volunteer activities.

Sample of Daily Field Office VITA Events

Monday, February 6, 2017
Free Income Tax Preparation

Free volunteer tax-filing assistance to help low and moderate-income individuals and families qualify for up to $6,269 in Federal Earned Income Tax Credit (EITC) and up to $2,706 in new State Earned Income Tax Credit (EITC). Volunteer income tax preparation assistance is provided by certified tax preparers.

BOE West Covina District Office
1521 West Cameron Avenue, Suite 300, West Covina, CA 91790

9 a.m. to 4 p.m. (closed noon to 1 p.m.)
Register online or by calling 1-626-480-7200

Tuesday, February 7, 2017
Free Income Tax Preparation

Free volunteer tax-filing assistance to help low and moderate-income individuals and families qualify for up to $6,269 in Federal Earned Income Tax Credit (EITC) and up to $2,706 in new State Earned Income Tax Credit (EITC). Volunteer income tax preparation assistance is provided by certified tax preparers.

BOE Culver City District Office
5901 Green Valley Circle, Suite 200, Culver City, CA 90230

9 a.m. to 4 p.m. (closed noon to 1 p.m.)
Register online or by calling 1-310-342-1000

Source: District 3's board member website

Conferences and Seminars

BOE sponsors conferences and seminars that have a limited nexus with BOE's administered tax programs, including *Connecting Women to Power Conference, Health Wealth Wellness Conference and Resource Fair, Senior and Professional Affordable Housing Symposium,* and various business and nonprofit seminars.

Several of the topics covered at these conferences and seminars are not directly related to BOE administered tax programs. For example, the agenda for the November 3, 2016 full-day *Connecting Women to Power Conference* in Escondido, California, contained a total of 23 breakout sessions. Of the 23 breakout sessions, only 2 were directly related to business tax topics. The remaining time was focused on general business practices, resources, and other topics such as *Desk Yoga, Think Like a Negotiator,* and *No Limit Leadership.*

Additionally, on January 20, 2017, District 3 sponsored the full-day C*alifornia Business International and Domestic Trade Conference*, in Bel Air, California. The conference agenda included opening remarks, key note speakers, and nine breakout sessions. Of the nine breakout sessions, only one session focused on various tax topics. This session was approximately one hour and encompassed information about state and federal tax credits and free government services, as well as tax pitfalls. The session was presented by BOE, IRS, FTB, and Employment Development Department staff. The remaining conference time focused on general business practices, such *as Finding Reputable International Buyers, Getting Paid: Trade Finance and Insurance,* and *Port and Airport Resources—The Ideal Platform for Exports.*

Further, BOE sponsors a variety of business and nonprofit seminars. For example, on October 12, 2016, Finance attended the half-day *Business Resources Seminar and Expo*, in El Monte, California. The seminar agenda included eight topics, of which two were BOE tax subjects. The remaining topics included several subjects not related to BOE's administered tax programs, including *Be Prepared for Your Success* and *Forms of Ownership.*

Sponsorship of these conferences and seminars include printing, venue, postage, and miscellaneous costs such as newspaper advertisements and furnishings. For example, the two 2015-16 *Connecting Women to Power Conference* costs approximated $189,000; this amount does not include costs of staff time for planning, organizing and participating in the event. When asked why BOE sponsors events that have a limited nexus with BOE's administered tax programs, BOE executive management and some board members stated that BOE was required to provide education and outreach in accordance with the Taxpayers' Bill of Rights.

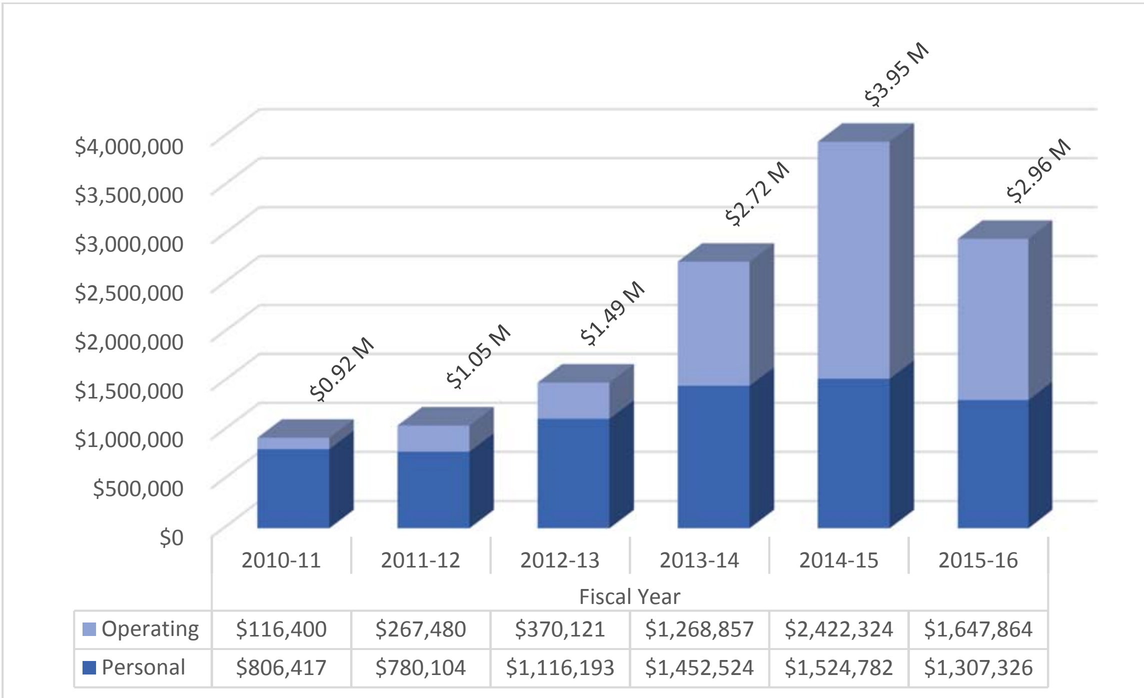
However, other entities have responsibility and funding to provide these types of resources to businesses. For example, Go-Biz serves as the Governor's lead entity for economic strategy and the marketing of California on the issues of business development, private sector investment, economic growth, and export promotion. This program works with local, state, and federal partners to attract, retain, and grow businesses.

Moreover, the Taxpayers' Bill of Rights states that BOE shall participate in small business seminars and similar programs "organized by federal, state, and local agencies". It does not specifically require BOE to sponsor such events. Accordingly, BOE's Speakers Bureau program participates in these events by providing subject matter experts. For example, BOE's 2016-17 Statewide Education and Outreach Plan identified events where BOE subject matter experts would participate, such as the *California Small Business Day*, sponsored by the California Small Business Association, and the *California Public Utilities Commission Small Business Expo*.

Budgets and Costs for Outreach Activities

BOE has not established budgets or cost accounting measures to track the full extent or cost of board member driven outreach activities. In response to our evaluation, External Affairs provided a summary of activities and estimated costs. The information represents costs incurred by External Affairs, which includes Outreach Services. As shown in Figure 6 on the following page, costs for board member driven outreach activities increased over the past six fiscal years. Between 2010-11 and 2015-16, labor and operating costs increased by over $2 million ($2.96 million - $.92 million).

Figure 6: Board Member Directed Outreach Services Costs
Fiscal Years 2010-11 through 2015-16



Source: BOE's response to fiscal year 2014-15 Joint Hearing with Budget Subcommittee #4 and Outreach Services costs

Although Figure 6 indicates an increase in outreach costs, the data is inaccurate and understated because not all costs are included. For example, in 2014-15, BOE provided a summary of outreach costs to the Legislature's budget subcommittee. The documentation provided to the Legislature indicated a total of $1.8 million for 2013-14. However, according to the information provided in Figure 6, outreach costs totaled $2.7 million for the same period.

In addition, the cost data is not all inclusive as demonstrated by the following examples:

- *VITA Costs*—BOE does not track all costs incurred for VITA activities, including state time used for training, volunteering, and promoting the program.

- *Redirected* Staff—As noted in the Resource Utilization section, 113 staff were redirected to assist at the November 2016 *Connecting Women to Power Conference*. The salary costs for redirected staff for these types of events are not captured in the cost data above.

Moreover, in addition to the External Affairs staff, BOE has a total of 28 positions within Field Operations where the majority of their duties include outreach and education activities, as shown in Table 3 on the following page. The majority of the positions are classified as Information Officers or Business Taxes Specialists, which BOE refers to as Community or District Liaisons (liaison). However, the costs associated with these Field Operations staff are not captured in Figure 6. Using the mid-range annual salary costs for these 28 positions, the estimated annual cost is $1.9 million. As a result, the total outreach costs for 2015-16 in Figure 6 above would increase from $2.96 million to over $4.86 million.

Table 3: Field Operations Staff Dedicated to Outreach Activities

	Number of Staff	Monthly Salary Range
DISTRICT 1		
Information Officer II	1	$5,553-6,901
Information Officer I	7	4,600-5,758
Business Taxes Specialist I	1	5,571-6,973
DISTRICT 2		
Information Officer II	2	5,553-6,901
Information Officer I	2	4,600-5,758
Business Taxes Specialist II	1	5,826-7,660
DISTRICT 3		
Information Officer I	1	4,600-5,758
Business Taxes Administrator II	1	6,110-7,984
Business Taxes Specialist I	5	5,571-6,973
DISTRICT 4		
Information Officer II	1	5,553-6,901
Information Officer I	5	4,600-5,758
Tax Technician I	1	2,384-3,203
Total	**28**	

Source: BOE's Organization Charts and 2017-18 Budget Salaries and Wages Supplement

During the December 2016 Board meeting, the Executive Director referenced BOE's legal department's memorandum which specifically stated "clear guidelines for implementing the VITA program throughout the equalization districts have not been developed, budgetary limits have not been set, and the recommended annual evaluations of the program's effectiveness and viability have not taken place."

On January, 13, 2017, External Affairs proposed several improvements to BOE's Statewide Education and Outreach Plan, including establishing budgets and parameters for board member driven outreach activities.

Blanket Positions

BOE hired staff for board member driven outreach activities using practices that bypass the budgetary and legislative process. Specifically, during the budgetary process in 2012, BOE requested and was approved for multiple outreach positions. However, during this same time period, BOE hired additional staff to assist with outreach activities using temporary funding, called the temporary help blanket (blanket). These staff remained in blanket positions for extended periods of time while they worked on board member driven outreach activities.

There are several statewide policies related to establishing and adjusting a department's authorized positions. In general, adjustments to permanent authorized positions are required to be approved through the normal budgetary and legislative process. This process includes requesting position adjustments through a Budget Change Proposal (BCP).[3] However, certain administrative tools are available to provide state departments flexibility in managing staffing resources and workload issues. These tools include blanket positions.

[3] A BCP is a proposal to change the level of service or funding sources for activities the Legislature authorized, or to propose new program activities not currently authorized.

As noted in the text box, budgetary requirements restrict the use of blanket positions for temporary, seasonal, or intermittent uses and further requires an employee to be moved into an authorized position as soon as a vacancy becomes available. Further, these tools are intended to quickly allow departments to respond to changes in workload and operational needs outside of the normal budgetary and legislative process. BOE has not complied with these requirements.

BOE submitted two 2012-13 BCPs[4] and was approved to hire 9.5 outreach positions in External Affairs. Four of these positions were to expand the outreach effort for Assembly Bill 155 (AB155).[5] Concurrently, BOE hired additional outreach staff through the blanket bypassing the BCP process.

Blanket Positions

The blanket is a budgetary tool that provides staffing flexibility to meet operational needs and allows departments to hire above the Total Authorized Positions "cap".

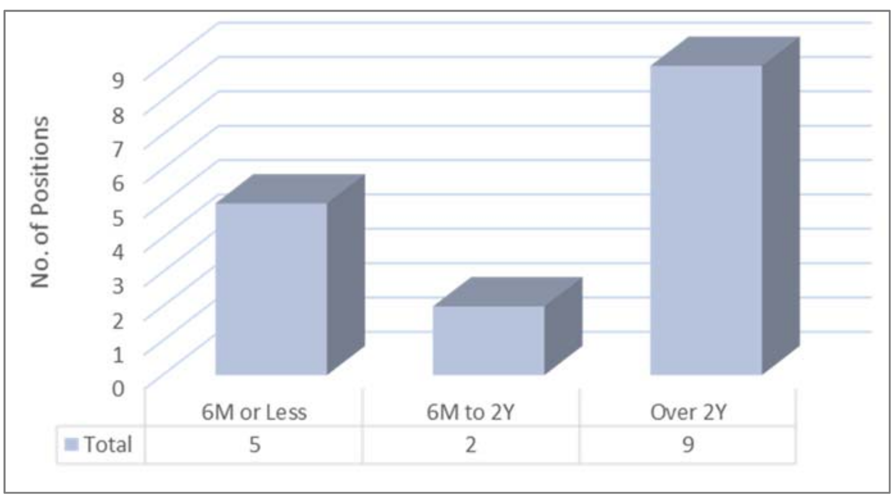
The blanket provides an approved budget that **may be spent for short-term or intermittent uses**; such as:

- Position overlaps
- Special consultant studies
- Student assistants
- Special projects or contracts of a limited nature
- Seasonal workload
- Overtime peak workloads

Source: State Administrative Manual (SAM) section 6518 and Budget Letter 16-30, *Position Control*, October 7, 2016

As of November 2016, BOE had 16 permanent fulltime staff residing in blanket positions. Of the 16 staff, 9 staff (56 percent) have been in blanket positions for over a two year period, as shown in Figure 7.

Figure 7: Permanent Staff in Blanket Positions as of November 2016



Source: BOE's Human Resources Department

Of the 16 staff in blanket positions, 8 staff were hired to work on outreach activities in both Field Operations and External Affairs. Two of these staff were hired into blanket positions in July 2016 and September 2016, which was during the time when BOE was reducing the number of permanent employees in the blanket. Specific examples include:

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4 2012-13 BCP Number 5, *AB155: Use Tax Nexus*, dated January 4, 2012; 2012-13 BCP Number 2, *Tax Gap II*, dated January 4, 2012.

5 AB155 enables California to impose a use tax collection obligation on out-of-state retailers without nexus in California, among other things.

Employee A[6]—In May 2012, during the time BOE requested positions through the BCP process, Employee A was hired into a blanket position to work in External Affairs. He was immediately redirected to the District 3s board member's office, where he remains in a blanket position. Employee A continues to work in the board member's office.

Employee C—In December 2014, Employee C was transferred into a blanket position to work in External Affairs, specifically to oversee District 3's AB155 outreach activities. However, Employee C was never reclassified into an authorized AB155 position. Further, in October 2015, Employee C was promoted into another blanket position. His new duty statement designated him as the "CalVITA Service Coordinator" to manage VITA events. However, BOE has never requested nor has BOE been approved for any VITA outreach positions.

BOE has over 600 vacant positions; however, BOE executive management could not explain why it bypassed the budgetary and legislative processes to hire additional outreach staff and why these staff continue to reside in blanket positions.

SALES AND USE TAX REPORTING

BOE's sales and use tax information reported in its supplemental annual report does not comply with Budget Act reporting requirements as described in Appendix A and highlighted in the text box. The report is used by the Legislature as a tool to assess the effectiveness of BOE's existing sales and use tax audit and compliance efforts, and as a means to measure whether the level and design of BOE's current efforts are appropriate.

As shown in the text box under "item d", the supplemental annual report requires BOE to report *data regarding revenue and cost impacts associated with changes in resources devoted to audit and compliance activities*. However, as described within the Staff Resource Utilization section, BOE is not monitoring or recording the redirection of revenue generating staff, and redirected staff's costs are charged against the originating units, including audits and collections. Therefore, the personnel costs included in the supplemental annual reports are incorrect and skew the cost benefit ratios reported.

Supplemental Annual Report Requirements

BOE shall provide to the Chairs of the Joint Legislative Budget Committee and chairs of the fiscal committees of the Legislature by December 1 of each year, beginning December 1, 2002, a report containing the following information:

a) Description of the methodological approach used to conduct its audit and compliance activities, including the work plan relating to these activities

b) The number of hours and costs associated with direct audit and compliance activities, as well as supporting (overhead) activities

c) The revenues associated with its audit and compliance activities

d) Data regarding the revenue and cost impacts associated with any increase or decrease in resources devoted to audit and compliance activities

Items (b), (c), and (d) should include prior-year actual data, current-year estimated data, and budget-year projected data. This information shall also be provided to the Department of Finance, in a format it specifies, with submission of documents used to prepare the Governor's budget as well as when BOE makes a request to alter funding or personnel services for audit or compliance activities. Such information shall also be provided as a part of any budget change proposal submitted to the Legislature regarding resources for auditing or compliance activities.

Subsequently, in 2006, 2010, and 2011, additional reporting requirements were imposed requiring among other items, BOE to report on audit selection methodologies, cost benefit analysis, and Statewide Compliance and Outreach Program performance.

Source: 2002-03 Budget Act Supplement Report

[6] Employee A is the same Employee A previously reported on page 18.

In addition, BOE's supplemental annual report's process contains many manual procedures that use standalone spreadsheets which are prone to errors. Further, there is an absence of standardized, written policies and procedures to ensure the accuracy and consistency of the information reported. The following conditions, both individually and collectively, affect the accuracy and clarity of the supplemental annual report:

- *Errors within the supplemental annual report are not identified and corrected prior to submittal*. For the 2014-15 report, total Audit Program staff hours were overstated by 86 percent due to a formula error within a spreadsheet used to create the supplemental annual report.

- *Significant fluctuations and changes in methodology from prior year reports are not clearly communicated.* For example, the methodology to calculate personnel years (PY) for the Compliance Enforcement program was updated in the supplemental annual report for 2014-15 in an effort to provide a more accurate representation. The change in methodology resulted in reported Compliance Enforcement total PY's to decrease by 19 percent from the prior fiscal year. Additionally, the total reported direct and indirect costs, which are calculated based on the amount of PYs, decreased by 16 percent. However, the report did not include context to clarify that the reason for the decrease was mainly due to a change in the calculation process and not programmatic factors.

- *Methodologies, assumptions, and procedures used to compile the supplemental annual report are not documented and in some instances were unknown.* Staff could not explain differences with certain Excel formulas used to calculate direct and indirect costs for the programs within the supplemental annual report. Finance asked staff to clarify the rationale on why certain cost units and categories were being included and excluded between the different programs. However, the staff could not explain the differences between the formula calculations and stated they utilize the formulas that were developed when the report was first required.

- *Limitations with BOE's data system, Integrated Revenue Information System (IRIS), require manual workarounds and manipulation of data to obtain necessary information for the Supplemental Annual Report*. For example, BOE cannot generate monthly reports of billing adjustments that reduce the amount of total revenue reported for the Consumer Use Tax program using IRIS alone. Instead, each month staff must derive the information by manually accessing individual accounts within IRIS and manually aggregating the information into the detail and format needed for the supplemental annual report.

Similar to BOE, FTB is required to submit a supplemental annual report on its audit and compliance activities. For reference, some of the components used by FTB to address its supplemental annual report requirements are included in Appendix B.

Although BOE submits its supplemental annual reports timely, when performance reports contain errors, the reports' usefulness as a tool for decision makers is diminished. Additionally, without clearly communicating significant fluctuations or methodology changes, the reports may not allow readers to fully assess the effectiveness of BOE's audit and compliance efforts.

Chapter 2

Proposed Retail Sales Tax Fund Allocation Adjustment and Corrective Action Plan

Proposed Allocation Adjustment to Retail Sales Tax Fund

As noted in the Background section, Finance's evaluation includes BOE's CAP related to the 2015 SCO Review. The SCO's Review identified numerous internal control weaknesses, and multiyear misallocations and reporting errors of sales and use tax to the various funds including the State Local Revenue Fund, 2011 Local Revenue Fund, Local Public Safety Fund, Fiscal Recovery Fund, State General Fund, and local, county, and special taxing jurisdictions. A fundamental component of BOE's CAP is the computation of an adjustment to correctly allocate the sales and use tax revenue for 2011-12 through 2015-16.

In July 2016, BOE provided Finance the proposed allocation adjustment, which consisted of a summary spreadsheet and numerous supporting schedules. However, the adjustment provided did not include a comprehensive explanation of the methodologies and assumptions used to calculate the adjustment or management's review process. Additionally, the summary spreadsheet and supporting schedules contained various errors, omissions, and data inconsistencies. In response to inquiries by Finance, BOE revised its proposed allocation adjustment. Specifically, between July 2016 and February 2017, BOE revised its adjustment 11 times for the errors and omissions enumerated in Table 4.

Table 4: Proposed Adjustment–Errors and Omissions

Version	Quarters (Q)	Date Provided	Examples of Errors and Omissions
1	3Q 2011 - 2Q 2015	July 14, 2016	Omits $102 million in journal entries and $30 million in adjustments to the Fiscal Recovery and Local Funds.
2	3Q 2011 - 2Q 2016	November 18, 2016	Omits $51.8 million in corrections related to additional sales tax on diesel fuel.
3	3Q 2011 - 2Q 2016	December 8, 2016	Error of $1.1 billion due to change in rounding of percentage factors. In addition, two day cut-off correction adds $95 million in remittances. Errors from Version 1 are corrected.
4	3Q 2011 - 2Q 2016	December 13, 2016	Formula error results in $360 million overstatement of revenue.
5	3Q 2011 - 2Q 2016	December 19, 2016	Corrects $51.8 million omission to corrections related to additional sales tax on diesel fuel.
6	3Q 2011 - 2Q 2016	December 22, 2016	Corrects $360 million overstatement of revenue.
7	3Q 2011 - 2Q 2016	December 27, 2016	Fiscal year and quarterly analysis schedules are not updated for prior corrections.
8	3Q 2011 - 2Q 2016	January 23, 2017	Omits previous corrections for the $102 million journal entries referred to in Version 1.
9	3Q 2011 - 2Q 2016	January 25, 2017	Increases the correction related to additional sales tax on diesel fuel from $376.7 million to $743.2 million due to a major change in assumptions.
10	3Q 2011 - 2Q 2016	February 17, 2017	Includes $743.2 million adjustment related to additional sales tax on diesel fuel on summary page despite a supporting schedule note stating the adjustment is no longer recommended. Formula error on summary page results in components of adjustment being greater than adjustment.
11a [1]	3Q 2011 - 3Q 2016	February 17, 2017	Adds an additional quarter to the analysis and contains same errors as noted in Version 10.
11b [1]	3Q 2011 - 3Q 2016	February 17, 2017	Includes significant change to presentation and methodology for calculating the proposed adjustment.

[1] *Version 11 includes two separate worksheet tabs summarizing the proposed adjustment using two different methodologies.*

BOE's collection and allocation of over $50 billion in annual revenues has relied on a financial infrastructure involving legacy information systems and multiple standalone databases and manual spreadsheets. Thus, the compilation of financial data, such as the allocation adjustment, requires manual workarounds and estimations that are at high risk of error and misstatement. Therefore, to assure the integrity of the allocation adjustment, it is critical for BOE to exercise due diligence in documenting its methodologies and assumptions used in the compilation including management's review of the adjustment.

In January 2017, in response to the multiple and significant revisions to the proposed allocation adjustment, Finance requested BOE to prepare a comprehensive explanation of all the methodologies and assumptions (both past and present) used to prepare the adjustment. Further, Finance required the final proposed adjustment to be vetted and approved by all responsible units and executive management, including the Executive Director.

On February 17, 2017, BOE submitted its revised allocation adjustments (both Versions 10 and 11), which also included additional information. However, BOE again submitted its proposed allocation adjustment without clearly documenting the significant changes in methodology and assumptions used. Instead, portions of the methodology were buried throughout various documents and spreadsheets. Further, BOE's review process was omitted and the allocation adjustments still reflected errors in the spreadsheets provided.

Since the proposed allocation adjustment continues to change, and BOE has not prepared a comprehensive explanation of its assumptions and methodologies, further review of the adjustment is imperative. The potential fiscal impact to the local agencies and the state continues to be unknown.

Corrective Action Plan

Finance's evaluation of BOE's CAP focused on Findings 1 through 6, which included the Retail Sales Tax Fund proposed allocation adjustment noted above and the inaccurate Retail Sales Tax Fund accounts receivable balance. In general, revenue allocation methodologies and accounting processes reported as implemented on BOE's CAP remain under development and in several instances were inconsistently documented. Further, the Retail Sales Tax Fund accounts receivable write-offs were unsupported and unreconciled.

In addition, full implementation is dependent on key actions remaining in process or planned, including: (1) the development of relevant and reliable information system reports, (2) a control agency approved calculation of misallocations and proposed adjustments, and (3) comprehensive and complete documentation of policies and procedures over the revenue allocation cycle. As a result, the CAP will be reviewed in conjunction with the final allocation adjustment review.

APPENDIX A

The Supplemental Reports of the Budget Act contains statements of legislative intent that are adopted during deliberations of budget packages. Below are requirements specified for BOE regarding its sales and use tax audit and compliance activities.

Board of Equalization's Supplemental Reports of the Budget Act Reporting Requirements
Supplemental Report of the 2002-03 Budget Act Requirements
BOE shall provide to the Chairs of the Joint Legislative Budget Committee (JLBC) and chairs of the fiscal committees of the Legislature by December 1 of each year, beginning December 1, 2002, a report containing the following information: a) Description of the methodological approach used to conduct its audit and compliance activities, including the work plan relating to these activities. b) The number of hours and costs associated with direct audit and compliance activities, as well as supporting (overhead) activities. c) The revenues associated with its audit and compliance activities. d) Data regarding the revenue and cost impacts associated with any increase or decrease in resources devoted to audit and compliance activities. Items (b), (c), and (d) should include prior-year actual data, current-year estimated data, and budget-year projected data. This information shall also be provided to the Department of Finance, in a format it specifies, with submission of documents used to prepare the Governor's budget as well as when BOE makes a request to alter funding or personnel services for audit or compliance activities. Such information shall also be provided as a part of any budget change proposal submitted to the Legislature regarding resources for auditing or compliance activities.
Supplemental Report of the 2006-07 Budget Act Requirements
BOE shall provide to the chairs of the JLBC and the fiscal committees of both houses of the Legislature a report on the outcomes of each of the following audit selection enhancement: • Utilizing new software called Clementine, which will enhance the department's audit selection capabilities by improving data sorting capabilities. • Putting U.S. Customs data into the audit selection database for local district use. • Extending the time allowed for audit selection, in order to facilitate more careful selections. • Sharing information with local districts on the deductions claimed by taxpayers on their returns. • Making greater use of data from the Franchise Tax Board's (FTB's) Integrated Nonfiler Compliance (INC) database to identify taxpayers who may be underreporting sales and use tax liabilities. • Utilizing North American Industry Classification System (NAICS) data to identify tax under reporters. The report shall, in addition to describing the above methods and the outcomes associated with them, also discuss the additional revenues generated and costs incurred through using these methods, and identify other audit selection improvements where additional resources would aid in closing the tax gap further. The report shall be provided annually as part of the department's existing supplemental report requirement regarding audit and collection activities.

Supplemental Report of the 2010-11 Budget Act Requirements
BOE shall provide to the chairs of the JLBC and the fiscal committees of both houses of the Legislature a report on the outcomes of each of the following audit selection enhancement: a) Description of the methodological approach used to conduct its audit and compliance activities, including the work plan relating to these activities. b) The number of hours and costs and costs associated with direct audit and compliance activities, as well as supporting overhead activities. c) The revenues associated with its audit and compliance activities. d) The average and marginal benefit/cost ratios of all its audit and compliance activities. e) Data regarding the revenue and cost impacts associated with any increase or decrease in resources devoted to audit and compliance activities. Increases in resources related to workload growth augmentations devoted to audit and compliance activities will be reported as a component of items (b) and (c). Increases in resources related to specific program enhancements of audit and compliance activities will be reported as a component of item (e). Items (b), (c), (d), and (e) should include prior-year actual data, current-year estimated data, and budget-year projected data. This information shall also be provided as part of any budget change proposal submitted to the Legislature regarding resources for auditing or compliance activities. Included in reporting related to items (b), (c), (d), and (e) should be specific data—directly comparable to that included in the applicable budget change proposal (BCP)—for new and expanded activities approved for 2010-11 concerning sales and use tax collection program enhancement, alcoholic beverage tax audit programs, participation in the High Intensity Financial Crimes Area task force, and the Southern California appeals and settlement unit, including a tally of the number of new positions authorized in that BCP that have been filled to date. In addition to the December 1, 2010 report described above, the board shall submit additional reports with data only for these four new and expanded activities on or before April 1, 2011 and on or before August 1, 2011.
Supplemental Report of the 2011-12 Budget Act Requirements
BOE shall report to the Legislature and the Department of Finance annually, not later than March 1 of each year, on the performance of the Statewide Compliance and Outreach Program (SCOP). The report shall include, but not be limited to, a schedule of authorized positions, vacant positions, expenditures, and revenues attributable to the program.

Source: Legislative Analyst's Office Supplemental Report of the Budget Acts for Fiscal Years 2002-03, 2006-07, 2010-11, and 2011-12

APPENDIX B

The following represents some of the components used by FTB to compile its supplemental annual report.

FTB Supplemental Report Practices	Purpose
Notes for significant one-time fluctuations or changes in methodology	Large one-time fluctuations or changes in reporting methodology are explained in footnotes to provide the readers additional context for significant changes.
Revenue from Budget Change Proposals (BCP) is shown in separate exhibits	This provides an additional tool for readers to assess the performance of changes made through BCPs.
Glossary of Terms	The glossary provides the reader a convenient source to look-up information that is not easily displayed in exhibits.
Discussion of current issues for each program	Provide a description of issues that may significantly impact programmatic functions and how the agency will address them.
A review of the Supplemental Annual Report by Chief Financial Officer prior to publication	Any fluctuations in year-to-year metrics can be noted in the report and management can address issues. The review process allows management to notice errors and to correct them prior to publication.

Source: Interviews with FTB staff and FTB's 2015-16 supplemental report

STATE OF CALIFORNIA

STATE BOARD OF EQUALIZATION
OFFICE OF EXECUTIVE DIRECTOR, DAVID J. GAU
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PO BOX 942879, SACRAMENTO, CALIFORNIA 94279-0073
1-916-327-4975 • FAX 1-916-324-2586
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March 24, 2017

Ms. Jennifer Whitaker, Chief
Department of Finance
Office of State Audits and Evaluations
915 L Street
Sacramento, CA 95814-3706

Evaluation
California State Board of Equalization Sales and Use Tax Reporting
Retail Sales Tax Fund Adjustment

Dear Ms. Whitaker,

The Board of Equalization is in receipt of your draft report—California State Board of Equalization (Board) Evaluation. Attached please find the Board's response to the draft report.

If you have any questions, please contact me at (916) 327-4975.

Sincerely,

David J. Gau
Executive Director
Board of Equalization

DJG:ls
Attachment

cc: Mr. Justyn Howard, Department Of Finance
Ms. Kristin Shelton, Department Of Finance
Ms. Brenda Fleming
Ms. Amy Kelly

DRAFT REPORT
CALIFORNIA STATE BOARD OF EQUALIZATION EVALUATION

BOE's Response

March 24, 2017

The State Board of Equalization (BOE) is responding to the draft report titled "California State Board of Equalization Sales and Use Tax Reporting Retail Sales Tax Fund Adjustment" (the report). Based on the limited time we have had to review and respond to the report, our response is limited to the key points raised.

BOE strongly agrees with the report's observation that it "has a fiduciary responsibility to promote an operational environment that provides fair, effective, and efficient tax administration over the billions of dollars for which it is responsible." The report raises significant concerns, and BOE will use it to continue to effect cultural change and improve its practices.

Clarification Regarding Sales and Use Tax Allocation and Proposed Adjustment

The report states that BOE provided 11 different versions of its Sales and Use Tax (SUT) adjustment, each containing errors and omissions. To clarify, the Department of Finance (DOF) requested multiple changes to the information provided to add additional quarters of data, as they became available. BOE did not produce 11 versions of erroneous information. Throughout the review, DOF acknowledged the complexity inherent to the allocation of more than 35 programs in an obsolete computer system. BOE has exercised due diligence in documenting its methodologies and assumptions used in the computation, including management's review of the adjustment. Contrary to the report's assertion, BOE provided DOF complete, accurate, and comprehensive supporting documentation and explanation of the Sales and Use Tax allocation and proposed adjustment methodologies. We are able to confirm with confidence that Version 11, dated February 17, 2017, correctly reflects the adjustment required for accurate sales and use tax fund allocation components.

Governance Structure

The report identified several areas where BOE can improve its policies and processes, budget controls, and operational culture, and BOE has taken action on a number of items. First, in 2016, BOE employed a formal, documented governance structure comprised of seven action committees whose members are selected from a diverse group of programs across the agency. This new structure encourages cross-departmental communication, transparent decision-making and policy and process improvements central to a strong management structure. Examples of policies considered through this structure are the Board's Voluntary Income Tax Assistance Program (VITA) policy, which was updated at the December 2016 Board meeting, alternatives for the Board's cash acceptance policy, presented to the Board for discussion at the December 2016 Board meeting, and the Physical Office Space Report in Response to Item 0860-001-0001 of the Supplemental Report to the 2016-17 Budget Act.

Policies and Controls

As previously noted, the report observes that BOE does not have sufficient policies and procedures in place. Staff is strengthening and developing a number of policies and controls. For example, the Board approved the 2017 Annual Education and Outreach Plan, which identifies outreach activities scheduled for the remainder of fiscal year (FY) 2016-17 and specifies an allocation of funds amounting to $200,000 for each equalization district to devote to these activities. This plan will be updated every fiscal year, commencing with FY 2017-18, and requires vigilant tracking of outreach event spending. BOE acknowledges that the scope of its outreach events requires greater examination, including a cost-benefit analysis, and management control over the assignment of employees. BOE also is updating the BOE Administrative Manual (BEAM) to provide strict guidelines to all managers and employees regarding attendance and participation in events and conferences. Moreover, as part of outreach event tracking, BOE is developing tighter management controls to ensure appropriate staff assignments and tracking of time.

Additionally, BOE has updated its facilities leasing policy in BEAM sections 5200-5225, and acknowledges the need to ensure Board Member staff is located in offices separate from BOE operations. Further, BOE has reduced its temporary help blanket positions from 157 (as of January 15, 2015) to 8 (as of March 22, 2017), has reduced loaned positions significantly, and is developing a formal loan policy, consistent with Provision 1.

Harassment Policy

The report states several anonymous employees alleged that Board Members intervened in daily BOE operations within their respective districts. It also notes that the employees feared retaliation if they did not cooperate. BOE management is committed to addressing any and all retaliation and/or potential hostile work environment issues.

BOE has a zero tolerance policy prohibiting harassment and discrimination based on protected status categories, which applies even to conduct that may not rise to the level of unlawful discrimination. Under this policy, employees have the right to be treated with courtesy and respect and to work in an environment free from discrimination. Employee rights are specified in BEAM section 1670 et seq.

Retail Sales Tax Fund Allocation Process Controls

BOE also takes seriously the finding of the State Controller's Office (SCO) and the DOF evaluation of the Proposed Retail Sales Tax Fund Allocation Adjustment and Corrective Action Plan. As a result of the SCO finding, BOE made system and process changes. These include modifications to system reports and changes to the statistical factoring process to allocate daily receipts that more closely track current reported sales and use tax allocations. In addition, BOE reconciles daily sales and use taxes collected to reported amounts every quarter. BOE has worked carefully to ensure adequate controls are in place and documented to verify the accuracy of sales and use taxes collected and deposited into the various fund components.

Data Reports

The report states that BOE's supplemental annual reports process contains many manual procedures that use standalone spreadsheets, which are prone to errors. BOE is implementing the Centralized Revenue Opportunity System (CROS) to replace its outdated computer systems. The CROS solution will increase automation and minimize manual processes to provide accurate and detailed reports. In the interim, BOE continues to develop additional legacy system reports to improve the availability and accuracy of BOE data. This will improve the quality of the Sales and Use Allocation reports and the Supplemental Annual Report.

BOE looks forward to working collaboratively with the legislative budget committees, the Legislative Analyst Office, and the DOF to address the concerns identified in the report. Please contact Mr. David Gau or Ms. Brenda Fleming at (916) 327-4975, if you have questions or need assistance with this response.

BOE's response to the draft report has been reviewed and incorporated into the final report. In evaluating BOE's response, we provide the following comments:

Chapter 1: Resource Utilization, Outreach Activities, and Sales and Use Tax Reporting

BOE stated it strongly agrees that it has a fiduciary responsibility to promote an operational environment that provides fair, effective, and efficient tax administration over the billions of dollars for which it is responsible.

We appreciate BOE's openness to use our report to improve its practices. While BOE's response was limited, we encourage BOE to acknowledge its operational culture impediments and implement immediate compensating controls. Further, because the Board and executive management are jointly responsible for BOE's tax administration, we agree with BOE that it will need to work collaboratively with the Legislature and Finance to effectuate changes.

Chapter 2: Proposed Retail Sales and Use Tax Fund Allocation Adjustment and Corrective Action Plan

BOE disagrees with the reported interim results. BOE states "Finance requested multiple changes to the proposed adjustment to add additional quarters of data as they became available". This statement is incorrect as Finance made one such request. Specifically, on November 3, 2016, Finance requested BOE to incorporate four recently closed quarters. The intent was to mitigate subsequent adjustments.

In addition, BOE states it did not produce 11 versions of erroneous information. However, as noted in Table 4 of the report, BOE revised its proposed allocation adjustment in response to numerous errors, omissions, and inconsistencies noted by Finance.

Lastly, BOE states that Version 11 correctly reflects the adjustment. Because we have not performed an evaluation of Version 11, we cannot comment on the accuracy. As noted in our report, the status of BOE's corrective actions to the SCO Review will be reviewed in conjunction with the evaluation of BOE's February 2017 proposed allocation adjustment.

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, April 27, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART A

Consultants: Renita Polk and James Hacker

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

2240– Department of Housing and Community Development (HCD)

1. **Headquarters Lease Amendment.** The budget requests an ongoing budget augmentation of up to $517,000 from various funds, including $31,000 in General Fund resources, to lease additional office space at the current headquarters location. HCD's staffing has grown from 451 headquarters staff in 2013-14 to 508 in 2016-17, and to date has accommodated this growth by converting storage and temporary space to office space, but has indicated that such an approach is not a feasible solution for recent staffing increases related to several new and expanded programs, such as the No Place Like Home Program. The requested augmentation, which will be phased in over five years, will enable HCD to expand its existing headquarters space to accommodate additional staff.

2. **Mobilehome Registration (AB 587).** The budget requests $360,000 from the Mobilehome Manufactured Home Revolving Fund and four three-year limited-term positions to implement the requirements of AB 587 (Chau), Chapter 296, Statutes of 2016. AB 587 established a three-year tax and penalty abatement program for owners of mobilehomes who are unable to properly register their ownership interest with the Department because of past dues and fees. In doing so, it is likely to create an increase in mobilehome registration applications for HCD to process. During consideration of AB 587, HCD estimated a fiscal impact that closely aligns with this request.

3. **Regulations for Water Submetering (SB 7).** The budget requests $151,000 per year for two years from the Building Standards Administration Special Revolving Fund for one two year limited-term position to implement the requirements of SB 7 (Wolk), Chapter 623, Statutes of 2016, which requires, as of January 1, 2018, that individual water meters, also called submeters, be installed on all new multifamily residential units or mixed commercial and multifamily units, and requires that landlords bill residents for the increment of water they use. It also establishes comprehensive tenant protections and landlord rights regarding the submetering. During consideration of SB 7, HCD estimated a fiscal impact that generally aligns with this request.

Staff Recommendation:
Approve as budgeted.

Issues Proposed for Discussion

0850 CALIFORNIA STATE LOTTERY COMMISSION

Overview. In 1984, Proposition 37 amended the California Constitution to authorize the establishment of a statewide lottery. As an initiative statute, the California State Lottery Act of 1984 created the California State Lottery Commission and gave it broad powers to oversee the operations of a statewide lottery. The purpose of the act was to provide supplemental monies to benefit public education. The lottery is overseen by a five-person commission appointed by the Governor and confirmed by the State Senate.

In 2010, the act was changed to allow the lottery flexibility to pay out more money in prizes and reduce the administrative cost limit to 13 percent of total revenues. Along with that flexibility, the new law requires the lottery to meet minimum levels of contribution to public education. Revenues to education are placed in a special fund, known as the California State Lottery Education Fund.

Budget. The lottery is supported solely by the sale of lottery products and does not receive any financial support from the state and the state is not liable for any obligations of the State Lottery Fund. During fiscal year 2016-17, the commission is expected to take in $1.5 billion after prizes, gaming costs, and operating expenses have been deducted. Of this $1.5 billion, $1.1 billion will go to the Department of Education for K-12 education, $226.8 million will go to California Community Colleges, $55.4 million to California State University, $36 million to the University of California system, $129,000 to other public colleges and universities, and $382,000 to miscellaneous educational institutions.

Issue 1: Informational Reports Trailer Bill Language

Budget. The budget proposes to remove the commission from the budget act (Item 0850-001-0562) and provides trailer bill language (TBL) that codifies reporting requirements in statute.

Background. The lottery is a non-appropriated item in the budget act, and receives no support from the state. Since 1986-87 a special display showing the lottery’s statement of operations has appeared in each Governor’s budget. The lottery submits its annual operating budget to the commission for approval each June. This budget process is outside of the legislative budget process.

Prior to Assembly Bill 142 (Hayashi), Chapter 13, Statutes of 2010, the lottery was required to return a fixed 50 percent of total annual revenues to the public in the form of prizes and to return 34 percent of total revenues to the benefit of public education, with no more than 16 percent of total revenues to be used for administrative costs. AB 142 provided flexibility for the lottery to pay out more money in prizes. It required the lottery to return at least 87 percent of total revenues to the public in the form of prizes and net revenues to benefit public education and limited administrative costs to 13 percent of total revenues. In the 31 years since sales began, the California State Lottery has raised nearly $31 billion for public education, including $1.59 billion in FY 2015-16. Because of the inherently variable nature of lottery ticket sales, revenue estimates for 2016-17 and 2017-18 cannot be made with certainty.

Trailer Bill Language. The proposed TBL would require the director of the California State Lottery to provide specific informational reports to the Department of Finance, the Joint Legislative Budget Committee, and the budget committees of the Legislature. The reporting details are listed below:

- No later than January 10 of each year, the director shall provide a copy of the proposed administrative budget for the fiscal year beginning the following July 1.

- No later than June 1 of each year, the director shall provide a copy of the proposed administrative budget and expected sales revenues for the fiscal year beginning the following July 1. The report should include any detail on any administrative funding that is proposed to be used to supplement the prize pool of any lottery game.

- No later than June 30 of each year, the director shall provide the final budget and revenue projections for the fiscal year that begins the following July 1.

Staff Comment. In the 1999 Budget Act the Legislature included an item of appropriation (reflected as a non-add) for the lottery, along with a provision requiring the lottery to report on its proposed administrative budget, revisions to that budget, and a comparison of estimated administrative costs to budgeted administrative costs. Since then, the lottery has remained in the budget act. Removing the commission from the budget act will have no impact on the display in the Governor’s budget, as it will continue to appear in the Governor’s budget. Since the commission’s budget process is already outside of the legislative budget process this TBL makes no substantive changes and staff has no concerns with the proposal.

8260 CALIFORNIA ARTS COUNCIL

Overview. The California Arts Council (CAC) consists of eleven members; nine appointed by the Governor and one each appointed by the President pro Tempore of the Senate and the Speaker of the Assembly. The council establishes general policy and approves program allocations.

The council is statutorily required to:

- Encourage artistic awareness, participation, and expression among the citizens of California.
- Help independent local groups develop their own arts programs.
- Promote the employment of artists and those skilled in crafts in both the public and private sectors.
- Provide for the exhibition of art works in public buildings throughout California.
- Enlist the aid of all state agencies in the task of ensuring the fullest expression of artistic potential.

Budget. The Governor's budget includes $20.1 million ($8.3 million General Fund, $1.1 million Federal Trust Fund, $2.5 million special funds and $8.2 million reimbursements) and 19.2 positions to support the council and its programs.

Issue 1: Overview of Programs, Impact and Funding

The following is an informational item to provide the subcommittee with more detailed information about the CAC, its programs, and funding.

CAC Initiatives and Grant Programs. The CAC invests in California nonprofit organizations through competitive grant programs. CAC grants fund local programs that support arts education; underserved communities; veterans and their families; youth in juvenile justice settings; recently incarcerated individuals; local economic development; community development; recent immigrant; native communities; rural communities; and various arts service organizations. In 2015-16, the CAC awarded a record number of grants to California nonprofits, totaling $8.7 million. In 2016-17 the CAC will invest close to $15 million in more than 1,000 direct grants in fourteen unique, competitive grant programs. The table below provides examples of some of the initiatives and programs funded by the CAC.

Program	Description
Local Impact	Revitalizing California's underserved and rural communities through the arts.
Veterans Initiative in the Arts	Enriching the lives of veterans and their families through arts programming.
Artists in Schools	Supporting projects that integrate community

	arts resources into arts learning at school sites.
Poetry Out Loud	Helping students master public speaking skills and build self-confidence.
Creative California Communities	Transforming communities through the arts and economic development.
Artists Activating Communities	Supporting sustained artistic residencies in community settings.
Professional Development and Consulting	Provides opportunities for arts organizations to grow and thrive through professional development.
State-Local Partnership	Fostering arts and cultural development through local/county agencies.

Program impact. Research studies have shown arts programs have a proven positive impact on public safety, public health, and community well-being. Participants in the Arts in Corrections program demonstrated improved social competence, emotional control, active initiative, and self-confidence. Teenagers and young adults of low socioeconomic status (SES) who have a history of in-depth arts involvement show better academic outcomes than do low-SES youth who have less arts involvement. They earn better grades and demonstrate higher rates of college enrollment and attainment. Veterans who engage in the arts demonstrate an increased ability to cope with some of the most pervasive and devastating combat-related health issues, including post-traumatic stress, traumatic brain injury and major depression. Research has also shown that community-based arts programs have a positive impact on reducing dependency and maintaining independence in aging adults.

Funding. Funding for the CAC is provided through four primary sources: General Fund; the National Endowment for the Arts; proceeds for sales and renewals of California's arts license plates, and donations from the "Keep Arts in Schools" voluntary contribution fund. The 2016-17 budget provided $12.8 million in budget-year augmentations as follows: $6 million to increase arts programs in underserved communities; $800,000 to establish a reentry grant program; $2 million in ongoing reimbursement authority for the Arts in Corrections program; and $4 million to expand the Arts in Corrections program partnership with the California Department of Corrections and Rehabilitation. The CAC budget also includes $1.1 million in annual federal support from the National Endowment for the Arts (NEA), and approximately $2.5 million in annual funds from sales and renewals of California's Arts License Plate and voluntary state tax return contributions to the Keep Arts in Schools Fund. According to the National Assembly of State Arts Agencies, California now ranks 40 out of the 50 states in per capita state arts funding.

Staff Comment. Arts funding in California faces significant challenges this year. During the 2016-17 budget process, the Senate approved a total of $14 million in ongoing funding for the CAC. However, $6.8 million of that funding, for reentry programs for former inmates and programs for underserved communities, was changed to one-time later in the budget process. Additionally, proposed funding cuts to the NEA on the federal level present a threat to arts funding in California.

The CAC has not been able to hire two positions it was authorized for last year, as it did not receive permanent funding to support annual salary and benefit costs. The loss of the $6.8 million and/or federal funding will require the CAC to cut back on some of its programs and functions. Elimination of that funding will lead to the following:

- Artists in Schools extension grants that currently provide funding for 137 arts organizations to hire close to 1,000 teaching artists to serve over 20,000 students across California will be lost.

- Artists in Schools exposure grants that allow another 71 arts organizations to serve more than 1,778 schools across California will also be eliminated.

- All re-entry programs for former incarcerated individuals to help them transition back into their communities and prevent them from being incarcerated again will be discontinued.

- Critical grant programs supporting the development and growth of organizations rooted in communities of color, recent immigrant and refugee communities, or tribal groups will cease to grow.

- Of all 50 states, California will return to the bottom of the list in arts investment per capita.

Given the current national political climate with the new administration, CAC state funding may be more important than ever. The federal budget put forth by the Trump Administration proposes to eliminate the NEA. The NEA awarded $8.6 million in direct grants in California last year; $1.1 million was granted directly to the CAC for an annual state partnership agreement. These critical funds are used in conjunction with state dollars to support grants and services across the entire state. Grants and services supported by NEA and the CAC provide access to the arts, employment, arts education, community well-being, and cultural heritage in communities of all sizes across the state. If NEA funding is eliminated the public would undoubtedly look to the state and the CAC to fill this substantial void in vital arts funding.

Staff Recommendation. Informational item. No action is necessary.

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 $644.3 million and supports 835 positions at HCD in 2017-18, including roughly $40 million and 274 positions. This is a reduction of roughly $296 million from 2016-17, mostly due to Affordable Housing Sustainable Communities Program funding carried over from 2015-16 to the Current Year.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
1660	Codes and Standards Program	196.2	203.9	199.9	$31,093	$32,789	$32,545
1665	Financial Assistance Program	177.1	195.7	218.3	334,566	832,673	571,038
1670	Housing Policy Development Program	15.3	17.3	19.3	29,447	37,208	2,867
1675	California Housing Finance Agency	251.7	273.6	273.6	39,682	39,689	40,013
1680	Loan Repayments Program	-	-	-	-14,200	-1,944	-1,944
1685	HPD Distributed Administration	-	-	-	-141	-141	-141
9900100	Administration	126.4	123.1	124.1	13,684	15,158	15,859
9900200	Administration - Distributed	-	-	-	-13,684	-15,158	-15,859
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**766.7**	**813.6**	**835.2**	**$420,447**	**$940,274**	**$644,378**

Issue 1: Overview of Affordable Housing in California

Governor's Proposal: The Administration's budget proposes a total of $3.2 billion for a variety of affordable housing programs. This includes $262 million for the No Place Like Home Program; $1.25 billion for the California Housing Finance Agency's (HFA) Single Family 1st Mortgage Lending Program; roughly $340 million in both federal and state Low Income Housing Tax Credits; and $75 million for veteran's housing. This does not include the $355 million in General Fund debt service for previously-approved affordable housing bonds.

Additionally, the 2017-18 budget proposes the following resources for the various programs within the Department of Housing and Community Development:

Affordable Housing Sustainable Communities (AHSC) Program. HCD has awarded $289 million in 2016-17; however, due to significant revenue uncertainty, HCD cannot predict the amount of funding for the next round of applications provided by the Greenhouse Gas Reduction Fund.

Proposition 46 & 1C: In 2017-18, $48.1 million that has reverted from projects that underspent their awards will be used to make awards for the Multifamily Housing Program – Supportive Housing and Infill Infrastructure Grant programs. Barring any additional unspent funds, these will be the final awards for Propositions 46 and 1C.

No Place Like Home (NPLH). Authorized by AB 1618 (Committee on Budget), Chapter 43, Statutes of 2016, the new NPLH Program uses $2 billion in revenue bond proceeds to develop permanent supportive housing for persons who are in need of mental health services and are experiencing homelessness, chronic homelessness, or risk of chronic homelessness. The bonds will be repaid by revenues from Proposition 63, the Mental Health Services Act.

Proposition 41 – Veteran's Program. In June 2014, voters passed Proposition 41, the Veteran's Housing and Homelessness Prevention Bond Act, which redirected $600 million from Proposition 12 (2008) bond authority to fund multifamily housing for veterans. HCD has awarded $179 million and will be making its third round of awards in May 2017, which includes budget authority of $75 million, with $10 million set aside for transitional housing projects.

California State Emergency Solutions Grant (CA ESG) Program. The new state-funded ESG program will complement the existing federal ESG program by providing grants to assist individuals and families who are unsheltered, operate emergency shelters, provide services for homeless individuals and families, rapidly rehouse the homeless, and prevent families and individuals from becoming homeless. HCD will make its first round of awards in the fall of 2017.

Federal Programs. Although combined federal funding for three major programs (the Community Development Block Grant, or CDBG program; HOME; and the federal ESG program) has been reduced by 34 percent over the past ten years, in 2017-18 HCD will be making $10 million in National Housing Trust Fund (NHTF) awards.

General Fund Revenues. In 2016-17 the Manufacturing Housing Program estimates collection of $2.6 million from the Registration and Titling Program. The budget act allows HCD to keep the first $1.8 million collected from program operations, with the excess collections deposited into the General Fund.

Background: California's high cost of housing is well documented. The Department of Housing and Community Development (HCD) estimates that California built an average of 80,000 new homes a year over the last ten years. However, the department projects that the state will need to produce 180,000 new homes a year between 2015 and 2025 to keep up with housing demand. This undersupply, combined with a growing economy, has pushed housing prices upwards and created a significant affordability gap for many Californians.

The Housing Affordability Gap

Housing affordability depends on both housing prices and household income. According to the US Department of Housing and Urban Development (HUD), housing is considered affordable when a person pays no more than 30 percent of income for housing costs, including utilities. When a person pays more than 30 percent of income, they are considered housing cost-burdened; when they pay more than 50 percent, they are considered severely housing cost-burdened. Income categories are used to analyze housing affordability because they allow an analysis of similar households adjusted for regional variations. HCD's analysis uses an area's mean income (AMI) to analyze housing affordability. Low-income households are defined as less than 80 percent of an area's AMI (with extremely low-income households having 0-30 percent of AMI); moderate income households as 80 – 120 percent AMI; and above moderate income households as greater than 120 percent AMI. The figure below quantifies the number of households in each category experiencing rent burden in California.

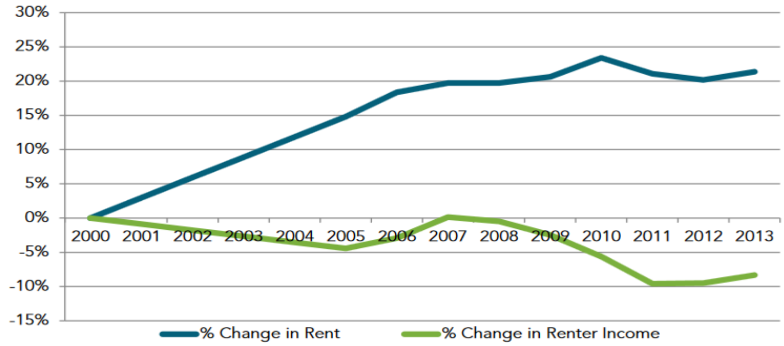
Percentage of California's Renters Experiencing Rent Burden By Income Category

Income	Total Renter Households (million)	% Rent Burdened	% Severely Rent Burdened
Extremely Low-Income	1.27	90%	80%
Very Low-Income	.95	87%	51%
Low Income	1.11	65%	18%
All Lower-Income Renter Households (80% AMI and below) **Subtotal of above**	3.33	81%	51%
Moderate-Income	1.03	35%	4%
Above Moderate-Income	1.54	8%	0%
All Renter Households Total	5.9	54%	30%

Source: 2016 National Low-Income Housing Coalition tabulations of 2014 American Community Survey Public Use Microdata Sample (PUMS) housing file.

Despite the economic recovery that has occurred since the 2008 financial crisis, incomes have not kept pace with housing costs. This issue is particularly acute among renters, who are typically lower income than homeowners. This dynamic has increased the proportion of Californians who are either housing cost-burdened or severely housing cost-burdened. The figure below highlights the growing gap between income and rental costs.

Renter Income vs. Rental Costs
2000 through 2013



Source: California Housing Partnership analysis of 2000 Decennial Census and 2005-2013 American Community Survey 1 year data. 2001-2004 are an estimated trend. Graphic recreated by HCD.

The affordability issue has become a national problem over the last several years. The National Low Income Housing Coalition estimates that, nationwide, the supply of affordable rental homes can only accommodate 31 of 100 extremely low-income renter households. In California, the current supply of rental housing can only accommodate 21 of every 100 extremely low-income renter households.

The increasing rental burden in California is mirrored in homeownership, where median home prices have increased from $370,405 in 1991 to $526,580 in August of 2016 (adjusted to 2015 dollars). This has resulted in a significant decline in home affordability. According to HCD, as of the first quarter of 2016, California Association of Realtors estimates that only 34 percent of households in California can afford to purchase the median-priced home in the state. The California homeownership rate is currently 53.7 percent, the lowest since the 1940s.

Current Housing Policies

A variety of federal, state, and local policies aim to help close the housing affordability gap in the state. These normally take one of three approaches to the problem: (1) increasing the supply of affordable housing, (2) paying a portion of household rent costs, and (3) limiting the price and rents property owners may charge for housing.

- **Increasing the Supply of Affordable Housing.** The federal and state governments both provide a variety of direct financial assistance, typically tax-credits, grants, or low-cost loans, directly to housing developers for the construction of affordable rental housing. The largest of these programs is the federal and state Low Income Housing Tax Credit (LIHTC), which provides tax credits to affordable housing developers. The LAO estimates that the LIHTC subsidizes the construction of roughly 7,000 units of new housing per year.

- **Paying a Portion of Household Rent Costs.** The federal government makes payments to landlords, known as housing vouchers, on behalf of low-income households in California. These payments generally cover the portion of a renting household’s monthly cost that exceeds 30 percent of that household’s income.

- **Limiting the Price and Rents Property Owners May Charge.** Some local governments have policies that require property owners to charge below-market rate rents, or that limit the amount landlords can raise rents by in any single year. In most cases, these housing units are then limited to low-income renters. About 15 cities in California currently have such rent control laws, and the California Housing Partnership Corporation estimates that 478,654 such “deed-restricted” affordable units exist in the state.

Previous affordable housing programs have been largely bond-financed. The state continues to pay debt service on the Housing and Emergency Shelter Trust Fund Act of 2002 (Proposition 46) and the Emergency Shelter Trust Fund Act of 2006 (Proposition 1C). The proceeds provided by these bonds have largely been expended for the construction or rehabilitation of roughly 80,000 affordable housing units. However, the state will also pay roughly $355 million from the General Fund for debt service for these bonds in 2017, part of the estimated $10.7 billion in total debt service for these bonds over their life. Recent state actions have also funded a variety of affordable housing programs, including the No Place Like Home Program, which provides $2 billion in bond authority for housing for the chronically homeless and mentally ill, supported by Proposition 63 Mental Health Services Act funding. Several housing-related bills were approved in 2016, including bills that streamlined approvals for accessory dwelling units and provided density bonuses for affordable housing developers.

Staff Comment: The Governor's budget proposals move away from the 2016 Budget Act proposal to set aside funding for affordable housing. Additionally, the Governor's budget replaces a “by-right" proposal with a set of principles to collaborate with the Legislature through the policy process, while highlighting legislative measures that were enacted last year. The Subcommittee may wish to consider various approaches will result in reaching the goal of producing more housing in California.

Staff Recommendation:

Informational Item, no action required.

Issue 2: Veterans Housing and Homelessness Prevention Program

Governor's Proposal: The budget proposes a baseline increase of $903,000 (Housing for Veterans Funds) and six permanent positions for the Veterans Housing and Homelessness Prevention Program (VHHP). Local Assistance funds are proposed to remain constant at $75 million.

Background: In 2008, California voters approved the Veteran's Bond Act of 2008 (Proposition 12), a $900 million general obligation bond to help veterans purchase single family homes, farms, and mobile homes through the CalVet Home Loan Program. As a result of various factors, including the 2008 economic crisis and the state's housing downturn, the program did not experience the projected demand.

In 2013, AB 639 (Eggman), Chapter 727, Statutes of 2013 restructured the Veterans Bond Act of 2008, authorizing $600 million in existing bond authority to fund multifamily housing for veterans with 50 percent serving extremely low-income veterans. HCD continues to work with the California Housing Finance Authority (CalHFA) and the California Department of Veterans Affairs (CalVet) to explore different models that include capital funding to construct housing projects and provide operating or rental subsidies to reduce rents to a level affordable to extremely low-income and homeless veterans.

VHHPP projects follow a lifecycle that includes the origination phase (Notice of Funding Availability, or NOFA) and the award process), the construction loan closing stage, the permanent loan closing stage, the project's initial operating year, and long-term project monitoring. VHHP currently has 10 positions associated with it, including six positions for program administration and one attorney for project origination.

Staff Comments: HCD has indicated that the proposed increase in the VHHP from 10 positions in 2016-17 to 16 positions in 2017-18 is based on workload associated with VHHP project lifecycles. HCD plans to make $75 million per year available for eligible projects, and estimates that the construction loan close phase will begin for 15 percent of projects in the second year, 60 percent in the third year, and 25 percent in the fourth year. Following this, the department estimates that 15 percent of projects will reach permanent loan closing in the fourth year, 60 percent in the fifth year, and 25 percent in the sixth year, at which point they will enter the long-term monitoring phase. This suggests that there is likely to be growing long-term workload for the department to administer the program.

The current staffing level for the VHHP does not include staff to develop and revise program guidelines. HCD has instead absorbed the required workload by temporarily diverting staff from other work. However, HCD has indicated that guideline development and revision is required for each of the four upcoming NOFA rounds. The department is therefore requesting one position to perform this work.

Issue 3: Community Block Grant Program Workload Adjustment

Governor's Proposal: The budget requests one position and $157,000 (General Fund) ongoing, to meet the federal match requirement for California's Community Development Block Grant (CDBG) program and streamline the CDBG program in response to reduced federal funding levels. This proposal includes trailer bill language.

Background: The CDBG program was established by the federal Housing and Community Development Act of 1974, and subsequent legislation and regulations enabled states to administer the program for smaller cities and counties. HCD began administering CDBG for smaller cities and counties in 1992.

According to HCD, 70 percent of the annual CDBG allocation must benefit low-income families and individuals. HCD makes those funds available each year to eligible jurisdictions through both a competitive process and a process for economic development projects.

HCD receives about 429 million in federal CDBG funds annually to provide CDBG awards to small cities and counties throughout the state. The CDBG program allows the state to spend no more than three percent of its federal allocation from CDBG on administration, and requires that all money spent after the first $100,000 be matched by state funds, either directly or in-kind.

Staff Comments: Funding for the program has declined 43 percent over the last eight years, yet program administration expenditures have not decreased accordingly, in part due to extensive statutory requirements that dictate program structure. Additionally, HCD has indicated that CDBG funds are very slow to reach grantees for two reasons. First, large amounts of "program income," the gross income received by the grantee and its subrecipients directly generated from the use of CDBG funds, delays the drawdown of new CDBG funds. Second, the small, rural jurisdictions with relatively fewer resources that are eligible under the California program lack the capacity to put CDBG funds to work in a timely manner.

CDBG has proposed trailer bill language to streamline the program to address some of these issues. Specifically, HCD proposes to provide more flexibility to allow for the efficient redesign and streamlining of the program, given new lower funding levels. This includes reducing the set-aside for economic development projects (which are often undersubscribed), speeding the redistribution of unused funds, and clarifying the uses of program income (income generated and returned to local governments after initial project award), as well as reducing the number of activities eligible for funding.

In 2014-15, nine three-year limited-term positions were authorized to address the CDBG workload. These positions are set to expire on June 30, 2017. These positions completed workload associated with resolving HUD audit findings, oversaw HUD funding obligations, and reduced backlogged workload.

Issue 4: National Housing Trust Fund Workload Adjustment

Governor's Proposal: The budget proposes three positions and $10.4 million in federal funds ($423,000 State Operations and $10 million Local Assistance) to administer the National Housing Trust Fund (NHTF) Program for this year and ongoing. Additionally, this proposal includes trailer bill language to clarify that HCD is authorized to expend up to 10 percent of the federal award on administrative costs.

Background: In 2008, the Housing and Economic Recovery Act established the NHTF to provide states an ongoing source of funds to support the production of affordable housing targeted to extremely low-income and very low-income households. On December 16, 2014, the Federal Housing Finance Agency issued an interim final rule setting forth requirements related to allocations by the government-sponsored enterprises (Fannie Mae and Freddie Mac) into the NHTF. The first allocations from the NHTF to states were announced in the summer of 2016. California was awarded $10.1 million to be allocated by HCD to affordable housing projects in the state.

Legislative Analyst's Office (LAO) Comments: The LAO has reviewed this request, and provided the following comments:

> HCD's increase in workload to administer the NHTF allocation justifies its request for three additional staff in 2017-18. The need for these staff on an ongoing basis, however, is somewhat unclear given lack of certainty about future NHTF allocations. The LAO suggests the Legislature ask HCD for its assessment of the likelihood of future NHTF allocations. Should future allocations appear unlikely, the Legislature could consider approving the $432,000 but not the three permanent positions. HCD instead could fill these staffing needs by filling three previously authorized but vacant positions.

Staff Comments: The state budget relies on the continuation of federal funding in many areas. With the change in the federal Administration and Congress, many programs are vulnerable to federal action. Many housing programs, in particular, are facing significant budget cuts in recent proposals. However, it is unclear at this time how or when these changes will be implemented. HCD has indicated that the NHTF will receive funds for at least one additional year, though further out-year funding is uncertain. This suggests that permanent ongoing resources for this program may be inappropriate.

The proposed trailer bill language seems generally reasonable, as it aligns HCD's administrative funding with recently-updated federal rules and regulations. The committee may want HCD to clarify what activities it intends to count as "reasonable administrative expenses."

Issue 5: California Emergency Solutions Grant Program Workload Adjustment

Governor's Proposal: The budget proposes that the remaining fund balances in the Emergency Housing and Assistance Fund, along with five positions, be used to administer the California Emergency Solutions Grant (CA ESG) Program for a total of $2,785,000 (local assistance and state operations programmed in 2017-18 and 2018-19). These funds will be combined with the $35 million General Fund appropriation from the 2016 Budget Act for CA ESG.

Background: In 1983, the Emergency Housing Assistance fund was established to provide grants to local governmental agencies and nonprofit organizations to provide emergency shelter to needy persons. The remaining balances for the fund include $2,660,000 in local assistance and $125,000 in state operations for a total of $2,785,000.

HCD currently administers the federal ESG program, which provides grants to (1) assist individuals and families who are unsheltered, (2) operate emergency shelters providing service for homeless individuals and families, (3) rapidly re-house the homeless, and (4) prevent families and individuals from becoming homeless.

The 2016 Budget Act included a trailer bill, SB 837, which created the CA ESG Program that appropriated $35 million to support rapid rehousing, emergency shelter, and other services to address homelessness throughout the state.

The CA ESG Program expands on the federal program for purposes of addressing the state's unique homelessness challenges. The purpose of the state program is to build local capacity, provide technical assistance for federal Continuum of Care program point-in-time homelessness counts, apply for federal Continuum of Care program funding, and coordinate entry into housing and services vulnerable populations.

Staff Comments: As measured on a single night in 2016, California had the nation's highest number of individuals experiencing homelessness: 118,100, or 22 percent of the nation's homeless. California has over one third of the nation's population of chronically homeless, which is the most costly homeless population.

The CA ESG program is intended to be a California-focused, flexible program that is available to "entitlement areas." Currently, HCD can only serve non-entitlement areas with federal ESG funding. This proposal would transfer the remaining balances of the Emergency Housing Assistance Fund into the newly created CA ESG program. Transferring the funds from an outdated program to the newly created ESG program will allow California to align its goals with the federal ESG program and complement the proposed work included in the No Place Like Home Program.

Issue 6: Bond Appropriation Requests

Governor's Proposal: The budget requests a reappropriation of $22.2 million for the Infill Infrastructure Grant (IIG) Program; a reappropriation of $10 million in local assistance funding for the Veterans Housing and Homeless Prevention (VHHP) Program; and a liquidation period extension for the Housing Related Parks Program (HRPP). This proposal includes budget bill language.

Additionally, the Administration requested further appropriations of $28.6 million for the IIG, including $22.2 million in monitoring funds that are no longer necessary and $6.4 million in savings from previously-funded projects.

Background: California voters approved the Housing Emergency Shelter Trust Fund Act of 2006 (Proposition 1C), authorizing $850 million for the IIG program and $200 million for the HRPP program. AB 639 (Pérez), Chapter 727, Statutes of 2013, restructured the Veterans' Bond Act of 2008, authorizing $600 million in existing bond authority to fund multifamily housing for veterans with 50 percent serving extremely low-income families.

The IIG program provides grants to fund infrastructure improvements that facilitate new housing development in residential or mixed-use infill projects. In 2012, the Legislature authorized HCD to reappropriate IIG program funds, including any funds returned to HCD from disencumbrances of projects during the 2012-13 and 2013-14 fiscal years. The 2016 Budget Act appropriated $22.2 million in previously disencumbered funds in the IIG to allow HCD to make new IIG awards. HCD anticipates that it will not be able to award all the IIG funds in the current fiscal year. With $22.2 million available, HCD normally seeks to issue a NOFA concurrent with another complementary loan and grant program. However, HCD has not yet determined the viability or anticipated success of a small IIG NOFA, and it may not be feasible to award all the IIG funds by June 30, 2017, encumbrance deadline.

Originally, HCD set aside funding for long-term monitoring of IIG projects, as is standard for housing programs. The unobligated monitoring reserve is currently $22.2 million. However, because IIG funds infrastructure projects that facilitate housing projects, rather than housing projects themselves, the program does not require typical HCD monitoring. All IIG projects also receive funding from other HCD programs or from the Tax Credit Allocation Committee, all of which have their own reporting requirements. HCD has determined that the reporting requirements fulfill the IIG reporting requirements, and that the unobligated reporting reserve can therefore be used to fund further IIG projects. Additionally, the department has identified $6.4 million in recent disencumbrances related to project savings that can be reprogrammed to future IIG projects. Because $6.4 million is too small to warrant its own standalone funding round, HCD is proposing to combine this with the $22.2 million in reporting funding for a total appropriation increase of $28.6 million.

The HRPP provides grants for the creation, development, or rehabilitation of community or neighborhood parks to cities, counties, cities and counties. HCD awarded the build of its $200 million in the last three fiscal years and plans to make the final award of $34.5 million in 2016-17. HCD is requesting a liquidation period extension to accommodate a request by a grantee (Sacramento County) for more time to complete a project. This is the first grantee under the HRPP program that has requested an extension and is a one-time request. Due to the anticipated end of the awarding phase in 2016-17, HCD does not anticipate accommodating any future liquidation extension requests from HRPP projects at this time.

The VHPP program provides loans to fund acquisition, construction, or rehabilitation of affordable multifamily rental, supportive and transitional housing for veterans. Provisional language in the budget act authorizes local assistance to be awarded in excess of $75 million based on proposed awards, subject to legislative notification and approval by the Department of Finance. For VHPP, AB 1622 (Committee on Budget), Chapter 44, Statutes of 2016, specified that $10 million of appropriated funds should be made available for loans to counties and/or private nonprofit organizations for the construction or rehabilitation of transitional housing or shelter facilities that provide services to homeless veterans. HCD and stakeholders are concerned that the one-year encumbrance period will not be met.

Staff Comments: The requested reappropriations are consistent with actions taken by previous subcommittees. Staff generally concurs with HCD’s assessment that IIG monitoring funds could be better spent on project funding.

Issue 7: Housing for a Healthy California

Proposal: The Corporation for Supportive Housing (CSH) and Housing California requests $90 million in one-time General Fund resources to create a "Housing for a Healthy California Program." This would leverage federal and county funding for a pilot program to match services with rental assistance to end chronic homelessness for between 1,200 to 1,500 Californians. This proposal is identical to a proposal that was included in the 2016-17 Governor's Budget, but which was rescinded by the Governor.

Background: Homeless individuals are estimated to cost California public systems an average of $2,897 per month, two-thirds incurred through the health system. Californians experiencing chronic homelessness incur, on average, between $40,000 and $80,000 per year in health care costs alone.

In 2015, the Department of Health Care Services (DHCS) proposed using Medi-Cal to fund rental assistance and housing-based services to address the health needs of beneficiaries experiencing homelessness and chronic health conditions. The Federal Centers for Medicare & Medicaid Services (CMS) approved a final 1115 Medicaid Waiver that included the Whole Person Care (WPC) pilot program to fund services, but disallowed use of federal Medicaid dollars for long-term rental assistance.

Though CMS rejected using federal Medicaid dollars to pay for rental assistance in the final 1115 Medicaid Waiver, the Whole Person Care pilot terms acknowledge state dollars could fund rental assistance, and match that assistance with Whole Person Care services. New York, for example, currently uses state dollars to pay for rental assistance based on estimates of Medicaid costs saved by moving high-cost beneficiaries into supportive housing.

Staff Comments: This request accompanies AB 74 (Chiu) which would establish the Housing for a Healthy California Program and is currently pending in the Assembly Appropriations Committee.

The committee may want to consider how this request fits into the broader state approach to affordable housing and homelessness, and how the proposed pilot could help inform future policy decisions.

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 $335.5 million and 38.9 positions to support OPR in the budget year, as shown in the figure below. This is a decrease of 1.5 positions and $52 million, mainly due to a decline in Greenhouse Gas Reduction Fund resources and an expiration of certain limited-term funding sources.

3-YR EXPENDITURES AND POSITIONS

		Positions			Expenditures		
		2015-16	2016-17	2017-18	2015-16*	2016-17*	2017-18*
0360	State Planning & Policy Development	19.1	12.5	11.0	$8,837	$13,935	$3,856
0365	California Volunteers	16.8	21.9	21.9	28,507	31,749	31,754
0370	Strategic Growth Council	9.0	6.0	6.0	1,833	341,879	299,878
TOTALS, POSITIONS AND EXPENDITURES (All Programs)		**44.9**	**40.4**	**38.9**	**$39,177**	**$387,563**	**$335,488**

FUNDING		2015-16*	2016-17*	2017-18*
0001	General Fund	$8,716	$13,499	$3,343
0890	Federal Trust Fund	27,328	27,988	27,916
0995	Reimbursements	1,003	4,037	4,037
3228	Greenhouse Gas Reduction Fund	1,833	341,737	299,736
9740	Central Service Cost Recovery Fund	297	302	456
TOTALS, EXPENDITURES, ALL FUNDS		**$39,177**	**$387,563**	**$335,488**

Issue 1: State Clearinghouse Federal Grant Administrator

Governor's Proposal: The budget includes trailer bill language clarifying that the Office of the Federal Grant Administrator, within the State Clearinghouse, shall not be created until an appropriation for that purpose in the annual budget act.

Background: The State Clearinghouse was created within the Office of planning and Research by Executive Order in 1973. It coordinates the state-level review of environmental documents that are prepared pursuant to the California Environmental Quality Act (CEQA). Operation of the Clearinghouse is governed and defined by the *CEQA Guidelines* (California Code of Regulations, Title 14, Sections 15000-15387), which describes the Clearinghouse's roles and responsibilities regarding environmental review.

The Clearinghouse also functions as the "State Single Point of Contact" for coordinating state and local review of applications for federal grants or loans under select state programs pursuant to Presidential Executive Order 12372. In this capacity, the Clearinghouse coordinates state and local review of federal financial assistance applications, federally required state plans, direct federal development activities, and federal environmental documents. The purpose of the process is to afford state and local participation in federal activities occurring within California. The Executive Order does not replace public participation, comment, or review requirements of other federal laws, such as the National Environmental Policy Act (NEPA), but gives the states an additional mechanism to ensure federal agency responsiveness to state and local concerns.

AB 1348 (Irwin), Chapter 444, Statutes of 2016, established within the Clearinghouse a federal grant administrator, to serve as the primary point of contact for information of federal grants related to community, economic, and local development. It also required that the federal grant administrator prepare a summary of federal grant funding to the state on or before January 1, 2018, and annually thereafter.

During consideration of AB 1348, OPR estimated that implementing the requirements of the bill would require up to two permanent positions and $200,000 to $300,000 in General Fund support. However, the Administration has yet to request additional position authority to implement the requirements of this bill.

Staff Comments: While AB 1348 was passed, signed, and chaptered, OPR has yet to request budget authority for the associated positions or resources. This makes it impossible for OPR to meet the January 1, 2018 reporting requirement included in the bill. Taking action to extend this deadline until such time as OPR is properly resourced to meet it is therefore an appropriate step.

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, April 27, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

PART A
OUTCOMES

Consultants: Renita Polk and James Hacker

Vote Only Calendar

Item	Department	
2240	**Department of Housing and Community Development**	
Issue 1	Headquarters Lease Amendment **Approved as budgeted, 3-0**	3
Issue 2	Mobilehome Registration (AB 587) **Approved as budgeted, 3-0**	3
Issue 3	Regulations for Water Submetering (SB 7) **Approved as budgeted, 3-0**	3

Items Proposed for Discussion

Item	Department	Page
0850	**California State Lottery Commission**	
Issue 1	Informational ReportsTrailer Bill Language **Approved as proposed, 3-0**	4
8260	**California Arts Council**	
Issue 1	Informational: Overview of Programs, Impact, and Funding **Informational. No action needed.**	6
2240	**Department of Housing and Community Development**	
Issue 1	Overview of Affordable Housing in California **Informational. No action needed.**	10
Issue 2	Veterans Housing and Homelessness Prevention Program **Approved as budgeted, 3-0**	14
Issue 3	Community Block Grant Program Workload Adjustment **Held open**	15
Issue 4	National Housing Trust Fund Workload Adjustment **Held open**	16
Issue 5	California Emergency Solutions Grant Program Workload Adjustment **Approved as budgeted, 3-0**	17
Issue 6	Bond Reappropriation Requests **Approved as budgeted, 3-0**	18
Issue 7	Housing for a Healthy California **Held open**	20
0650	**Office of Planning and Research**	
Issue 1	State Clearinghouse Federal Grant Administrator **Approved as Proposed, 3-0**	22

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, April 27, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

Consultant: Mark Ibele

ITEMS FOR DISCUSSION AND VOTE

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

ISSUES PROPOSED FOR DISCUSSION AND VOTE

7730 FRANCHISE TAX BOARD

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

Budget Overview: The Governor's budget proposes expenditures of $745 million ($713 million General Fund) and 6,195 positions for FTB. This represents a continuation of a substantial increase in support for the agency, compared to the 2009-10 fiscal year, but a slight decrease from the current year funding level of $765 million. Expenditures have grown substantially from $533.1 million in 2009-10, due primarily to reinstating some of the budget reductions from earlier years as well as new programs. The budget reinstatements were made to reverse negative revenue impacts of the prior Administration's statewide cuts and furloughs, which included the state's tax collection agencies. In addition, the budget calls for augmentations for specific tax compliance programs and technology improvements related to the department's revenue collection activities. Recent budget increases have also been the result of funding for the Enterprise Data to Revenue (EDR) project, a benefits-funded project.

Issue 1: Earned Income Tax Credit – Oversight

Program Background. In SB 80 (Committee on Budget and Fiscal Review), Chapter 21, Statutes of 2015, the Legislature created the Earned Income Tax Credit (EITC), a state refundable tax credit for wage income that is intended to benefit very low-income households. Specifically, the program builds off the federal EITC and establishes a refundable credit for tax years beginning on or after January 1, 2015. The credit is applied to personal income tax liabilities associated with earned wage income (not including self-employment income). The program provides for a credit amount during a phase-in range of earned wage income according to specified percentages based on the number of qualifying children. For the tax year 2015, the phase-in and phase-out income ranges (which are adjusted annually) are shown below:

- No qualified children: Phase-in – $1 to $3,300; Phase-out – $3,301 to $6,579
- One qualified child: Phase-in – $1 to $4,950; Phase-out – $4,951 to $9,879
- One qualified child: Phase-in – $1 to $6,950; Phase-out – $6,951 to $13,869

For the 2015 taxable year, the maximum California EITC ranged from $214 for an eligible individual with one qualified child to $2,653 for an eligible individual with three qualified children. The FTB administers the EITC program. The California program dovetails with the existing federal EITC and matches 85 percent of the federal credits, up to half of the federal phase-in range, and then begins to taper off relative to these maximum wage amounts.

Program Performance. As initially estimated, the program was expected to cost $380 million annually, beginning in 2015, and benefit an estimated 825,000 families and two million individuals. When adopted, the estimated mean household benefit was $460 per year, with the median benefit expected to be in the range or $200 to $250 per year. Based on actual data to date for tax year 2015, as of December 2016, the mean credit is $519, and the median credit is $202. The most recent final data on the program for tax year 2015 is shown below.

Earned Income Tax Credit
Tax Year 2015
As of December 31, 2016

Returns with Claimed and Allowed EITC	385,546
Amount of EITC Claimed and Allowed	$200,293,222
Mean EITC Credit Claim	$519
Median EITC Credit Claim	$202
Range of EITC Credit Claims	$1 - $2,653
First Time Filers	73,290
Returns with Claimed and Adjusted/Denied EITC	37,104
Amount of Credits Adjusted or Denied	$26,109,046

Source: Franchise Tax Board.

Tax returns for the 2016 tax year are not completed, but program participation and credit usage also show undersubscription to the program, as indicated in the table provided below.

Earned Income Tax Credit
Tax Year 2016
As of April 1, 2017

Returns with Claimed and Allowed EITC	245,534
Amount of EITC Claimed and Allowed	$138,957,431
Mean EITC Credit Claim	$566
Median EITC Credit Claim	$214
Range of EITC Credit Claims	$1 - $2,706
First Time Filers	67,427
Returns with Claimed and Adjusted/Denied EITC	NA
Amount of Credits Adjusted or Denied	NA

Source: Franchise Tax Board.

The FTB is required to report to the Legislature regarding the participation in the program. As indicated above, actual participation is below original estimates, and the revenue impact of the program is also substantially below expectations. Preliminary data for the most recent tax year, also indicate that participation and usage are below expectations. The FTB is also required to provide a report to the Legislature regarding the success of the California EITC program (alone and in combination with the federal EITC) in lifting families out of deep poverty (defined as family income of less than 50 percent of the poverty threshold).[1] The report indicates that of the 385,546 tax returns that were allowed an EITC claim, 301,000 were categorized as living in deep poverty (based on adjusted federal AGI). The California EITC moved 23,000 of these families out of deep poverty; the combined impact of the California EITC and the federal EITC raised 94,000 families out of deep poverty.

Outreach Efforts. Last year, in the May Revision, the FTB requested $2 million for education and outreach efforts related to the California EITC. This amount was incorporated in the final budget. In its outreach efforts, FTB collaborated with a wide breadth of government and non-government agencies to develop a detailed communication plan to reach California taxpayers who might qualify for both the federal and state credits. Efforts included compilation and analysis of demographic information regarding the targeted population, web support activities, a direct mailer campaign to California taxpayers who did not have a state filing requirement but may qualify for the new California EITC credit, and educational outreach to taxpayers, tax professionals, legislative staff, and other groups.

Staff Comment. The FTB should provide an overview of the program, outline the findings of its report to the Legislature, and discuss the outreach efforts carried out in the current year. Despite efforts to reach the intended population, analysis suggests that a significant proportion of the population that is eligible for the program has not participated and additional outreach resources may be called for. There are a number of strategies that could be used to address this gap, including additional outreach, increased efforts by community organizations, incorporation of county offices in the outreach, and expanded free tax preparation. The subcommittee members may want to ask the FTB, as well as Department of Finance (DOF), about the effectiveness of last year’s outreach resources and whether additional resources would be warranted this year. There are also substantive policy approaches to revising the program that could be considered, including increasing the allowable income of participants or expanding it to account for self-employment income.

Staff Recommendation: Information item.

Issue 2: New Employment Credit – Oversight

Program Background. In 2013, the Legislature created a New Hiring Tax Credit (now known as the New Employment Credit (NEC)) for employers’ taxable years beginning on or after January 1, 2014, and before January 1, 2021. To obtain a credit the business must:

- Hire a qualified full-time employee on or after January 1, 2014.

[1] For 2015, the poverty threshold in annual income was $12,082 for an individual, $15,391 for two people, and $24,257 for four people.

- Pay qualified wages attributable to work performed by the qualified full-time employee in a designated geographic area.

- Receive a tentative credit reservation from the FTB (within 30 days of complying with the Employment Development Department (EDD) new hire reporting requirement) for that qualified full-time employee.

- Annually certify each qualified employee.

The credit is based on 35 percent of qualified wages, on wages between 150 percent and 350 percent of minimum wage, with the wage range increasing over time due to increases in the minimum wage rate. In order to generate an allowable credit, the qualified taxpayer must have a net increase in its total number of full-time employees working in California, when compared to its base year, both based on annual full-time equivalents. A qualified taxpayer must meet the following criteria:

- Engaged in a trade or business within a designated geographic area.

- Not engaged in any excluded businesses, including temporary help services, retail trades, those primarily in food services, alcoholic beverage places, theater companies, dinner theaters, casinos, and casino hotels unless the business is considered a small business.

- Not engaged in a sexually-oriented business.

- Hires qualified full-time employees (unemployed, veteran, EITC participant or ex-offender) who work at least an average of 35 hours per week and meet other specified wage requirements.

Over the past few years the FTB has publicized the availability of the NEC via various outreach efforts. Nevertheless, credit usage has fallen well short of estimates for the program. For tax year 2014, $3.9 million in NECs were claimed, and for tax year 2015, $1.7 million in credits were claimed. When the program was enacted, FTB estimated that $22 million in claimed credits for tax year 2014, and $69 million for claimed credits in tax year 2015.

The February 2017 FTB report to the Legislature suggests that the low rate of participation is potentially due to the complexity and multiple standards for the new program, the requirement that employers attempt to claim the credit without a reservation, and taxpayers continuing to use other credits for which they have qualified. The FTB cites a number of policy changes that would potentially address the under-subscription, comprising the following:

  - Expand the existing geographic limitations for employers.

  - Loosen eligibility requirements for employees.

- Reduce the required wage rate to less than150 percent of the minimum wage.
- Discontinue the requirement that employers reserve credits
- Expand the types of businesses that can qualify for the credit.
- Increase the amount of the credit percentage provided.

Staff Comments. The FTB should provide the committee with a synopsis of its report findings and comments on the advantages and disadvantages of the various options it provides to improve utilization. The program is too new (and underutilized) to provide a decent array of data which could be analyzed to estimate program effectiveness; however, this process of evaluation should be commenced once a basis of analysis has been compiled. The effectiveness of a tax credit program is – after all – not how many credits have been provided, but rather how many jobs have been generated as a result of the program

Staff Recommendation. Informational item.

Issue 3: California Competes Tax Credit Reviews (BCP)

Governor's Proposal. The FTB is requesting $1.7 million (General Fund) in 2017-18, and $1.6 million (General Fund) in 2018-19 and 2019-20, to administer its required activities under the California Competes Tax Credit (CCTC) program. Limited-term funding is requested to allow FTB to extend four existing limited-term positions and hire ten additional limited-term compliance staff to perform mandatory reviews of awarded tax credits.

Background. Tax credits awarded by the CCTC are available through 2017-18. Each contract lasts for five years and for each of those five years, the taxpayer must meet milestone commitments. In addition, the taxpayer must maintain the milestone commitments for an additional three years after the contact is over. FTB is required to review every business with a contact that has over $2 million in gross receipts, in order to confirm compliance with the credit agreement. CCTC indicates that the program may be extended, although that remains unknown at this point. Given this uncertainty, only limited-term funding has been requested.

Staff Comment. The activities required by the program do call for continued temporary funding for the next few years, and any additional required funding can be determined at a later date. The requested resources are warranted to ensure proper compliance with the awarded credits. The program allows for recoupment of credits if employers do not perform according to the contract, and the monitoring of performance is a key part of compliance efforts.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 4: Court Ordered Debt Collection (BCP)

Governor's Proposal. The FTB is requesting $1.1 million (Court Collection Account) to convert seven temporary collection positions to permanent, and three-year, limited-tern funding for an additional 11 positions for the Court Ordered Debt (COD) program. The resources will be used for continue the collection services and eliminate the backlog of cases. Funding for the program comes from the account to which the proceeds are deposited. The proposed resource increase is estimated to produce revenue of $3.8 million in 2017-18 and $9.4 million in 2018-19.

Background. The FTB COD program was established as a pilot program in 1994, and designed to provide a statewide presence for collecting a variety of debts owed to certain state and local entities. The program was made permanent in 2004 and expanded to include counties and courts statewide. Debts collected by the program includes court fines and fees, court-appointed counsel fees, vehicle code violation fines, civil assessments, probation fines, and victim restitution fines and orders. The program efforts support numerous county and state funds and the client base has grown from 66 to 80 clients since 2010-11. The FTB COD program bills clients the operating costs of the program, not to exceed 15 percent of the amounts collected.

Staff Comment. Staff has no concerns with the proposal.

Staff Recommendation. Approve as budgeted.

Vote:

8860 DEPARTMENT OF FINANCE

Department and Budget Overview: The Department of Finance (DOF) serves as the Governor's chief fiscal policy advisor and promotes long-term economic sustainability and responsible resource allocation. The DOF's budget for 2017-18 is $75.2 million, roughly equivalent to the current year, with a position authority of 448.

The primary functions of the Department of Finance are to:

- Prepare, explain, and administer the annual financial plan for the state.
- Establish fiscal policies for all state departments.
- Analyze proposed legislation for fiscal and policy impacts.
- Monitor and audit expenditures to ensure compliance with the law, standards, and policies.
- Analyze the fiscal impact of information technology projects.

Issue 1: State Public Works Board Expense Account (TBL)

Governor's Proposal. The DOF is proposing budget trailer bill language to streamline the process for the State Public Works Board (SPWB) expenses by establishing a revolving expense account within the Public Buildings Construction Fund (PBCF). In addition, the language would provide technical cleanup to fix outdated references to accounts that are not used.

Background. The State Building Construction Act of 1955 authorizes that all money received by the SPWB must be deposited to the credit of the PBCF. The PBCF requires three separate accounts to be maintained, including a construction account, a revenue account, and a sinking fund account. This trailer bill would eliminate the outdated reference to the three accounts and create an expense account within the fund to pay administrative fees and insurance, excluding debt service payments, for the lease-revenue bond program.

Currently, each time an invoice is received for a service provided on behalf of SPWB, that invoice generates a need to prorate and allocate the portions of that invoice relevant to each participating department in a bond series and create multiple bill invoices for each invoice received. The expense account will create administrative efficiencies by automatically depositing departmental funds within 30 days of the enactment of the annual budget, from which each invoice would be directly paid without additional actions required. It is anticipated that there will be approximately 20 invoices per year instead of the current approximate 1,000.

Staff Comment. Staff has no concerns with the proposed language.

Staff Recommendation. Adopt the proposed statutory change.

Vote:

Issue 2: Reduction in Lease Revenue Bond Authority (TBL)

Governor's Proposal. The proposal would eliminate excess authority from the County Youthful Offenders Facilities Financing Program. All eligible projects have received awards from the Board of State and Community Corrections (BSCC); therefore this authority is not needed.

Background. Existing law authorizes the SPWB to issue up to $300 million in lease-revenue bonds to finance the construction of local youthful offender rehabilitative facilities. The BSCC issued awards to counties through a competitive process. The entirety of the $300 million was allocated to counties. Subsequent to the awards, Tulare and San Diego relinquished portions of their awards, and Riverside County increased its award. The proposed language would readjust the authority to reflect the actual awards made to counties.

Staff Comment. Staff has no concerns with the proposed language.

Staff Recommendation. Adopt the proposed statutory change.

Vote:

Issue 3: California Environmental Quality Act Responsibility (TBL)

Governor's Proposal. The trailer bill language would specify that neither SPWB nor DOF would need to provide further work to comply with the California Environmental Quality Act (CEQA). The proposal would clarify existing law and the Administration indicates that it will not constitute a change in existing law.

Background. Currently, budget bill provisional language specifies that SPWB and DOF do not need to act further to comply with CEQA, since this activity is routinely conducted by the department undertaking the project. Language to this effect is routinely included in capital outlay appropriations. The trailer bill language will codify this provision so that it need not be added for every new project proposed in the budget, and to ensure consistency in the administration of the state's capital outlay program. The Administration indicates that state department pursuing the project is still required to comply with CEQA.

Staff Comment. Given that there is little, if any link to the budget, staff recommends this issue be referred to the appropriate policy committee to address any concerns the proposal may raise. The area is a sensitive one and warrants additional review. In particular, since the proposal states that it is declaratory of existing law, the code section or cases should be cited to validate this. In addition, according to CEQA Net, neither the SPWB nor DOF are listed as lead CEQA agencies on projects, so it is not clear why the redundancy would occur.

Staff Recommendation. No action on the proposed language.

Vote:

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, April 27, 2017
9:30 a.m. or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

Consultant: Mark Ibele

ITEMS FOR DISCUSSION AND VOTE

OUTCOMES

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 4, 2017
Upon adjournment of Joint Hearing of Senate Budget and Fiscal Review, Subcommittee No. 2, 3 and 4
State Capitol – Rose Ann Vuich Hearing Room (2040)

Consultant: Mark Ibele

ITEMS FOR DISCUSSION AND VOTE

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

ISSUES PROPOSED FOR DISCUSSION AND VOTE

0860 BOARD OF EQUALIZATION

Department Overview. The State Board of Equalization (BOE) is comprised of five members – four members elected to the board on a district basis, and the State Controller. The BOE administers the sales and use tax (including all state and local components), oversees the local administration of the property tax, and collects a variety of excise and special taxes (including the gasoline tax, insurance tax, and cigarette and tobacco products taxes) and various fees (including the underground storage tank fee, e-waste recycling fee, and fire prevention fee). The BOE establishes the values of state-assessed property, including inter-county pipelines, railroads, and regulated telephone, electricity, and gas utilities. The BOE also hears taxpayer appeals of BOE-administered taxes and fees and Franchise Tax Board (FTB) decisions on personal income and corporation taxes. The BOE has been given additional responsibilities pursuant to the passage of Proposition 64, approved by the voters in November 2016.

Budget Summary. The Governor's budget proposes resource support of $668.4 million ($338.5 million General Fund), and 4,800 positions for the BOE in fiscal year 2017-18. The budget proposes total level funding and a slight General Fund support increase, compared with spending estimates for the current year. Proposed staffing in the budget would increase slightly (after accounting for vacancies) from the current-year due to new or expanded programs and services. The department's budget requests relate largely new programs and services stemming from legislation or voter initiatives.

Issue 1: Centralized Revenue Opportunity System (BCP)

Governor's Proposal. The budget includes a proposal from BOE to provide funding for its continued work on the Centralized Revenue Opportunity System (CROS). For 2017-18, the request is for $30 million ($17.2 million General Fund) and 65.4 positions. The five year request increases to $50.9 million in 2018-19, $66.6 million in 2019-20, and dropping to $17.1 million in 2020-21 and $19.2 million in 2021-22. Of the request, about one-half of the cost is for personnel – largely technology and tax professionals – and one-quarter of the cost is for professional consulting services. Resources would be distributed in the following areas: business management, contract management, organizational change management, technical management, and project management.

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

The Feasibility Study Report (FSR) approved September 2011, redirected BOE resources to the CROS project in order to proceed with the procurement phase. Special Project Report 1 (SPR 1) was submit on March 2012, and based on this, staffing was authorized, as well as funding for audit, collection and registration backlogs. SPR 2 was submitted in December 2013, addressing a nine month change in the procurement schedule and extending the implementation by one year. The CROS project subsequently submitted SPR 3, which called for an additional delay of 19 months in the procurement phase. Based on SPR 3, BOE submitted a May Revision request in 2016 to begin its implementation phase. The request asked for five years of funding; the Legislature chose to fund the first year only. BOE approved the selection of the CROS contractor (Fast Enterprises) and the CROS solution (GenTax) in August 2016. SPR 4 was submitted in October 2016, which included a resource analysis, project deliverables, project schedule, project management plans and technical capabilities.

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

Staff Comments. The CROS project is a necessary undertaking for the state, given the age and status of the agency's legacy mainframe-based revenue and collection information systems. The budget proposal for continued funding of the CROS project is reasonable with respect to anticipated workload during the implementation phase. In addition, the benefits-based funding for the project is appropriate for the tax agency; a similar approach has been used successfully by the FTB. Nevertheless, as noted last year, staff has significant concerns regarding the ability of the agency to successfully undertake a project of this importance and magnitude. The governance of large and complex undertakings, like the CROS project, is a challenge for the best-managed organizations, and even more so for agencies with management issues, like the BOE. Clearly, the BOE, in most cases, functions adequately, but instances of questionable management and decision-making nevertheless raise concerns.

Previous information technology projects that have failed to meet expectations have generally fallen short, not because of technical challenges, but due to the failure of adequate oversight, management and governance. The state experienced the failure and termination of the 21st Century Project, in which the state invested approximately $300 million dollars, and it is likely that the state will realize little by way of useful product from this investment. On the other hand, more positive examples are also available. FTB devoted much deliberation, effort and resources to working through project management and oversight issues related to its Enterprise Data to Revenue (EDR) project. Although this project was not without some uncertainties and delays, the structure of responsibility was such that the agency was able to adjust to these contretemps while keeping the overall project on track. Similarly, the Financial Information System for California (FI$Cal) project has devoted considerable discussion to the governance and management issues in order to maintain the integrity of the final product.

Project governance models and management structures are crucial, not because of routine decisions or quotidian activities, but rather for instances of technical challenge and impediments to implementation. Staff notes that IT projects, by their very nature, carry with them inherent unknowns both in design and timeline. Nevertheless, the CROS history to date is not at all encouraging – the FSR was approved five years ago, in 2011; SPR 1, outlining two strategies for procurement, was submitted in March 2012; SPR 2 was then submitted in December 2013, addressing a nine month change in the procurement schedule and one year delay in implementation; and, SPR 3 was submitted in April 2016 to address an additional 19 month delay in the procurement phase. Meanwhile, the CROS project itself has experienced some leadership issues. The agency is currently recruiting for a new project director.

Budget Bill Language. The Administration has requested that the proposed budget bill language governing the CROS project be revised as follows:

> *The Department of Finance may augment the following items in the 2018–19 fiscal year by the amount of any unencumbered funds for vendor compensation payments related to the Centralized Revenue Opportunity System as of June 30, 2017, in those items: 0860-001-0004, 0860-001-0022, 0860-001-0061, 0860-001-0070, 0860-001-0080, 0860-001-0230, 0860-001-0320, 0860-001-0387, 0860-001-0439, 0860-001-0465, 0860-001-0623, 0860-001-0965, 0860-001-3015, 0860-001-3058, 0860-001-3063, 0860-001-3065, 0860-001-3067, 0860-001-3212, 0860-001-3251, 0860-001-3260, 0860-001-3270, 0860-001-3288,and 0860-001-3301, 0860-001-3304, and 0860-001-3308. Any augmentation pursuant to this provision shall be reported in writing to the Joint Legislative Budget Committee within 30 days.*

Post Submission Changes. After the budget proposal was reviewed and approved by Department of Finance (DOF), it became apparent that the proposal, in its request for position authority, did not incorporate existing vacant positions at the agency. DOF has made adjustments to the request that account for these vacancies and reflects other factors. Final adjustments and documentation regarding the budget request will be provided to Subcommittee No. 4 prior to the May Revision.

Staff Recommendation. Hold open.

Issue 2: Cigarette and Tobacco Products Licensing Program (BCP)

Governor's Proposal. The budget calls for $286,000 (special funds) in 2017-18, and approximately $200,000 in 2018-19 and ongoing, to administer recent legislation regarding the Cigarette and Tobacco Products Licensing program. The legislative changes call for annual rather than one-time, license renewal fees, and expand the definition of tobacco products to include nicotine products and vaping devices and accessories. The additional resources will address ongoing overtime in the areas of: outreach, registration, account renewal, payment processing, refunds and account close-outs, enforcement, and administrative support. The agency indicates that it will use existing resources to address additional costs imposed in the current year.

Background. In 2003, the Legislature enacted statutes establishing the Cigarette and Tobacco Products Licensing Act which established a statewide licensing program administered by the BOE to address untaxed sales and illegal distribution of these products. The act requires the BOE to administer a statewide program to license cigarette and tobacco products manufacturers, importers, distributors, wholesalers and retailers. The most recent legislation increases the per-location fee from $100 to $265, changes the fee basis from one-time to annual, and expands tobacco products to encompass a wide range of products containing, made or derived from tobacco or nicotine, as well as nicotine delivery systems.

Staff Comments. Given that the agency indicates that it can meet the current year costs of the additional activities by redirecting resources, has the ability to redirect been accounted for in this budget request? That is, is the agency in a continuing position to absorb a portion of the costs in the new program responsibilities?

Staff Recommendation. Hold open.

Issue 3: Lead-Acid Battery Fee (BCP)

Governor's Proposal. The budget calls for $1.2 million and 3.1 positions in 2016-17, $837,000 and 6.3 positions in 2017-18, $1.4 million and 8.6 positions in 2018-19 , and $1.4 million and 10 positions in 2019-20 and ongoing (all special funds) to implement and administer the Lead-Acid Battery Recycling Act (LABRA) of 2016. The program implementation will be paid from a loan to the Lead-Acid Battery Clean-Up Fund from the California Tire Recycling Management Fee. Ongoing costs of the program will be paid by the new fee imposed by the LABRA. Imposing the new program and its ongoing administration requires additional activities related to registration, return process, collections, audits, appeals, refunds, allocation and other administrative functions.

Background. The LABRA imposes a new fee of $1 on each battery until March 31, 2022 and $2 per battery beginning April 1, 2022, on consumers and manufacturers of lead-acid batteries. Revenues collected, less refunds and expenses reimbursement to the BOE, will be deposited in the Lead-Acid Battery Clean-Up Fund and used for clean-up costs associated with the batteries. Ongoing costs of the program are paid from the fee, which is collected from retail dealers. The dealer is allowed to retain 1.5 percent of the fee collected to meet their own collection costs. The new fee program will add an addition 20,000 fee-payers to BOE's existing base.

Post Submission Changes. After the budget proposal was reviewed and approved by the DOF, it became apparent that the proposal, in its request for position authority, did not incorporate existing vacant positions at the agency. DOF has made adjustments to the request that account for these vacancies and reflects other factors. Final adjustments and documentation regarding the budget request will be provided to Subcommittee No. 4 prior to the May Revision.

Staff Recommendation. Hold open.

Issue 4: Implementation of California Healthcare, Research and Prevention Tobacco Tax Act of 2016 (Proposition 56) (BCP)

Governor's Proposal. The budget calls for $6.9 million and 40.9 positions in 2017-18, $5.6 million and 37.4 positions in 2018-19, $5.3 million and 34.6 position in 2019-20, and $910,000 and 4.9 positions in 2020-21 and ongoing (all special funds), to implement and administer the California Healthcare, Research and Prevention Tobacco Tax Act (CHRP) approved in November 2016. The measure increased the tax on cigarettes by $2 per pack, indirectly imposed an equivalent tax on other tobacco products, imposed a one-time floor stock tax, and expanded the definition of tobacco products to include e-cigarettes and nicotine products and related delivery products. The positions include auditors, tax technicians, business tax specialists and representatives, attorneys, and compliance specialists.

Background. California imposes excise taxes on cigarettes and on other tobacco products, such as cigars and chewing tobacco. The state also licenses sellers, distributors, and manufacturers of these products, and BOE administers these tax and licensing programs. In 2016, the Legislature made significant changes to the tobacco licensing program, by expanding the licensing program to include electronic cigarettes (also known as e-cigarettes) raising license fees, and replacing the one-time fee for retailers with an annual fee.

In November 2016, California voters passed Proposition 56, effective April 1, 2017, increasing the state excise tax rate on cigarettes by $2 per pack (from 87 cents to $2.87), which indirectly increased the state excise tax on other tobacco products by a similar amount. The measure established a new special fund for the resulting tax revenue, and it laid out a variety of spending requirements, including a couple of provisions setting aside resources for BOE. Proposition 56 also expanded the tax base for the excise tax on other tobacco products to include e-cigarettes.

Legislative Analyst's Office Comments. Legislative Analyst's Office (LAO) indicates that the workload assumptions are reasonable. Proposition 56 contains two provisions that allocate funding to BOE – a broad allowance for administrative costs and $6 million per year to enforce certain types of tobacco laws. BOE's proposal includes $5.8 million in 2017-18, $5.0 million in 2018-19, $4.8 million in 2019-20, and $0.7 million in 2020-21 and ongoing, for enforcement of tobacco laws. These resources would be used for investigations, appeals, collections, and audits related to tobacco taxes, and would come from the new tobacco taxes.

The LAO notes the Administration's request of $5.8 million for enforcement in 2017-18 is less than the amount required by Proposition 56. This amount is one piece of a larger sum that, according to the measure, "annually shall be used for the purpose of funding law enforcement efforts." Within the law enforcement category, the measure states that a specific amount "shall be apportioned" to BOE. The Administration interprets "annually shall be used" and "shall be apportioned" to include not only current spending, but also money set aside for future spending. However, the Administration has not established a sub-account specifically for BOE, so revenue set aside for future BOE spending is not apparent. In addition, the vast majority of this money is limited-term.

Proposition 56 requires that a certain sum of money "annually shall be used for the purpose of funding law enforcement efforts" and that $7.5 million "shall be apportioned" to BOE in 2017-18 ($6 million per year thereafter). LAO interprets this requirement to mean that $7.5 million – a larger amount than the Administration has requested – must be appropriated for this purpose in 2017-18. LAO recommends permanent funding of these enforcement activities and limited-term authority for other administrative positions.

Post Submission Changes. After the budget proposal was reviewed and approved by the DOF, it became apparent that the proposal, in its request for position authority, did not incorporate existing vacant positions at the agency. DOF has made adjustments to the request that account for these vacancies and reflects other factors. Final adjustments and documentation regarding the budget request will be provided to Subcommittee No. 4 prior to the May Revision.

Staff Comment. BOE has taken a reasonable approach to estimating the tobacco licensing and tax administration workloads for these proposals. Nevertheless, there are substantial uncertainties regarding the impact of the measure, including the amount of tax evasion given the significant increase in the tax, the lack of data regarding the e-cigarette industry and the likely number of registrants. LAO also notes that the workload estimates assume no reduction in the taxpayer or licensee population due to the new taxes imposed by Proposition 56 and indicates that some decline would be reasonable response.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Holly Mitchell, Chair

JOINT HEARING Agenda

Senate Budget Subcommittee No. 2 on Resources, Environmental Protection, Energy and Transportation, No. 3 on Health and Human Services, and No. 4 on State Administration and General Government

Wieckowski, Pan and Roth, Chairs

Thursday, May 4, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 4203

Consultants: Renita Polk, Joe Stephenshaw, Scott Ogus and Mark Ibele

Cannabis Regulatory Implementation

PROPOSED FOR DISCUSSION AND VOTE

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ITEMS PROPOSED FOR DISCUSSION AND VOTE

0860 State Board of Equalization (BOE)
1111 Department of Consumer affairs (DCA) – Bureau of Marijuana Control
4265 Department of Public Health (DPH)
8570 California Department of Food and Agriculture (CDFA)

Issue 1: Implementation of Cannabis Regulation (BCPs)

Budget. The Governor's budget includes a total of $51.4 million (Marijuana Control Fund) and 190 positions for cannabis implementation across four departments in the 2017-18 fiscal year. The budget also includes a General Fund loan to the Marijuana Control Fund for $62.7 million.

- The Governor's budget includes $5.4 million for BOE in 2017-18 to administer the new excise taxes. Specifically, the proposal includes:
    - In 2016-17: 1.9 positions and $1.1 million
    - In 2017-18: 22 positions and $5.4 million
    - In 2018-19: 21.3 positions and $2.7 million
    - In 2019-20: 17.4 positions and $2.1 million
    - In 2020-21 and ongoing: 16.9 positions and $2 million
- **Comments on BOE Proposal.** Subsequent to the submission of the budget proposal, BOE and the Department of Finance have worked to reconcile the resources required with existing BOE staffing. Consequently, the request will be adjusted to reflect this downward adjustment in required positions, as well as required resource. Notwithstanding this additional change, the BOE proposal is reasonable based on the revisions, and may be slightly understaffed given the significant undertaking with respect to a new universe of tax payers. BOE must, in its activities, pay particular attention to the statewide nature of the policy and ensure that outreach efforts, tax administration and collection of the tax are uniform across board member districts.
- The Governor's budget contains a total of $22.5 million for DCA in 2017-18. Specifically, the proposal includes:
    - In 2017-18: 82 positions and $12 million for licensing and enforcement; 38 positions and $5.4 million to address workload increase in DCA's Division of Investigation (DOI) and administrative staff to support the bureau; and $5.1 million for the

implementation of an information technology (IT) solution that would provide licensing and enforcement functions.

- In 2018-19: 68 positions and $21 million for licensing and enforcement; $6.2 million to address workload increase in DOI and administrative staff to support the bureau; and $3.6 million in 2018-19 and ongoing for IT implementation.

- In 2019-20: 17 positions and $21.8 million in 2019-20 and ongoing for implementation of the bureau's licensing and enforcement activities; and $5 million in 2019-20 and ongoing to address the anticipated increase in investigative workload for the DOI and administrative staff to support the bureau.

- **Comments on DCA proposal.** The licensing and enforcement request includes funding for a total of 205 positions (120 positions in 2017-18), the establishment of five field offices, testing laboratory services, equipment, vehicles, and new facilities. This request also includes ongoing funding for positions established in 2016-17. It is likely that the Legislature's decisions about aligning the Medical Cannabis Regulation and Safety Act (MCRSA) and the Adult Use of Marijuana Act (AUMA) will affect resource needs and the requests above will need to be adjusted. In addition, there is significant uncertainty regarding resource needs, and regulatory decisions will likely affect these needs.

- The Governor's budget proposes a total of $1 million for DPH in 2017-18. Specifically, the proposal includes:

    - In 2017-18: $1.4 million for an IT application for licensing medical cannabis manufacturers. The proposal also includes the redirection of three positions and $410,000 for licensing medical cannabis testing laboratories to the Bureau of Marijuana Control.

    - In 2018-19: $494,000 to complete the IT project.

    - In 2019-20 and ongoing: $238,000 for maintenance and operation of the IT application.

- **Comments on DPH proposal.** While DPH plans to implement its IT application for licensing of medical cannabis manufacturers by the statutory deadline of January 1, 2018, the application must be able to interact with other state entities' IT applications related to the regulation of cannabis products. The Legislature should continue to monitor the department's progress establishing this interoperability. In addition, although responsibility for licensing medical cannabis testing laboratories was transferred to the Bureau of Marijuana Control, this proposal requests to transfer to the bureau only three of the eleven positions approved in the 2016 Budget Act to support this workload. According to DPH, its ongoing licensing workload for medical cannabis manufacturers is more extensive than originally expected and the remaining positions will instead be redirected for this purpose. Because regulation of medical cannabis manufacturers is a new workload for DPH, a measure of flexibility with allocation of staff resources is reasonable. However, the Legislature should monitor whether the bureau has received the appropriate level of resources to implement and sustain its new testing laboratory licensing program.

- The Governor's budget proposes a total of $22.4 million for CDFA in 2017-18. Specifically, the proposals include:

  - In 2017-18: $16.9 million and 13 positions for implementation of the Track and Trace IT project; 3.5 positions to enforce measurement standards; three year limited-term funding of $5.5 million and 34.3 positions for licensing and enforcement activities.

  - In 2018-19: $10.5 million for the Track and Trace IT project; an additional four positions to enforce measurement standards.

- **Comments on CDFA proposal.** In addition to licensing and regulating cannabis cultivation, CDFA's implementation of the Track and Trace system is an essential part of the regulatory structure as a whole. The system will track cannabis and cannabis products throughout the supply chain and will serve as a primary mechanism to ensure compliance as products move throughout the supply chain. As such, the Legislature should continue to closely monitor the department's progress in implementing this system.

Background. The statutorily authorized use of medical cannabis was approved in California in 1996 when voters approved Proposition 215, the Compassionate Use Act (CUA). The CUA provides certain Californians the right to obtain and use cannabis for medical purposes, as recommended by a physician; and, prohibits criminal prosecution or sanction against physicians who make medical cannabis recommendations.[1] In 2003, Senate Bill 420 (Vasconcellos), Chapter 875, Statutes of 2003, established the Medical Cannabis Program under the California Department of Public Health, and created a medical cannabis identification card and registry database to verify qualified patients and primary caregivers.

Since 2003, advocates, patients, and local governments recognized some deficiencies in the oversight of medical cannabis and called for additional safety regulations. In June 2015, Governor Brown signed the MCRSA, comprised of Assembly Bill 243 (Wood), Chapter 688, Statutes of 2015; Assembly Bill 266 (Bonta), Chapter 689, Statutes of 2015; and Senate Bill 643 (McGuire), Chapter 719, Statutes of 2015. Together, these bills established the oversight and regulatory framework for the cultivation, manufacture, transportation, storage, and distribution of medical cannabis in California. SB 837 (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2016, was a trailer bill that furthered the intent of the MCRSA legislation.

With California having the largest economy in the U.S., many advocates called for the legalization of recreational use of cannabis, predicting an increase of hundreds of millions of dollars in state revenue. In November 2016 voters approved Proposition 64, the AUMA. AUMA legalized nonmedical, adult use of cannabis in California. Similarly to MCRSA, the act creates a

[1] Health and Safety Code §11362.5

regulatory framework for the cultivation, manufacture, transportation, storage and distribution of cannabis for nonmedical use. Below is a table listing the responsibilities of licensing and other state entities under AUMA and MCRSA.

Cannabis Regulation
Responsibilities by Department

Department	Tasks Assigned by MCRSA	Tasks Assigned by AUMA
Department of Consumer Affairs	License dispensaries, distributors, testing laboratories, and transporters.	License dispensaries, distributors, and microbusinesses.
Department of Fish and Wildlife	Expand its pilot project to address the environmental impacts of cannabis cultivation.	Expand pilot project to a statewide level and make project permanent.
State Water Resources Control Board	Authorized to address waste discharge resulting from cannabis cultivation.	Authorized to address waste discharge resulting from cannabis cultivation.
Department of Food and Agriculture	License indoor and outdoor cultivation sites. Ensure water diversion and discharge from cultivation does not affect instream flows for fish spawning, migration, or rearing. Establish a medical cannabis cultivation program, with specified criteria. Establish program that identifies a permitted medical cannabis plant by a unique identifier. Develop a separate "track-and-trace" system to report movement of commercial products through distribution.	License indoor and outdoor cultivation sites. Ensure water diversion and discharge from cultivation does not affect instream flows for fish spawning, migration, or rearing. Establish a cannabis cultivation program. Implement a unique identification program for retail cannabis and cannabis products. Expand "track-and-trace" system to include the same level of information for nonmedical products.
Department of Public Health	License cannabis manufacturers. Develop regulations for producing and labeling of cannabis products.	License cannabis manufacturers and testing sites.
Department of Pesticide Regulation	Develop cultivation regulations for pesticide use.	Develop cultivation regulations for pesticide use.

Legislative Analyst's Office (LAO). The LAO makes the following recommendations to the Legislature when looking at these proposals.

- Make policy decisions on aligning medical and nonmedical cannabis regulation before making decisions on funding and positions. Doing so could better enable the Legislature to provide funding and staffing levels consistent with the ultimate regulatory structure.

- Limit funding provided for out years. Specifically:

  - Approve IT funding requests for 2017-18 but reject proposed funding in out years.

  - Approve a portion of funding requested by DCA in 2017-18 on a two year limited term basis, making 20 percent of its licensing and support staff funding limited term. This would be consistent with the share of its enforcement staff that DCA proposes to fund on a limited-term basis.

  - Reject requests for future increases in DCA's licensing and enforcement requests. It is too early to tell what the ongoing resource needs will be.

- Once the Legislature determines its preferred level of funding for 2017-18, tailor the General Fund loan to meet those needs.

- Enact legislation to require the Administration to submit a report each year on the implementation of MCRSA and AUMA, summarizing department activities and outcomes.

- Adopt language to require departments implementing new cannabis-related IT projects to provide legislative staff with quarterly briefings on the status of these projects.

Issues to Consider. Under MCRSA, **t**he Bureau of Marijuana Control, along with other licensing entities, would be responsible for 17 different types of medical cannabis business licenses, including: cultivators, nurseries, processors, testing labs, dispensaries, and distributors. With the passage of AUMA, licensing authorities have been charged with issuing 19 other license types for recreational use. Licensing authorities must begin issuing licenses by January 1, 2018, and will need to have regulations in place prior to issuing licenses. The bureau, CDFA, and DPH issued draft regulations on April 28, 2017, and will be holding public hearings to discuss the proposed regulations in May and June. However, these regulations only relate to medicinal cannabis. Even though some of the regulatory framework for medical cannabis can be applied to nonmedical cannabis, there are significant differences that require a different regulatory approach. As such, the Administration's proposed trailer bill attempts to reconcile the majority of these differences to create a unified regulatory structure. Even with the reconciliation of the regulatory structures, January 1 is an ambitious timeline for departments to finalize regulations and set up IT systems to administer such a large and complex program.

In addition, merging these two frameworks into one may alleviate confusion, and allow more efficient regulation by state agencies. However, there may be merit in keeping distinct lines of delineation between medical and adult use businesses. As the sale and distribution of cannabis is illegal under federal law, federal prosecutors may choose to take action against cannabis operations, thus affecting the cannabis industry in California. There is some belief that, if this were to happen, federal enforcement may target adult use businesses. If there is no distinction between these two structures, then the medical cannabis industry may be affected as well.

Given the issues mentioned above, and the lack of recent precedent for establishing an oversight and regulatory scheme of this magnitude,[2] the subcommittees may wish to consider the following:

- As licensing entities must begin issuing licenses on January 1, 2018, will they be accepting applications for licenses before that date? If so, are the licensing entities currently equipped to handle intake of those applications?

- The bureau, CDFA, and CDPH are all charged with various licensing duties and may have different IT systems to handle licenses. How are these departments collaborating to ensure that their systems work with the others?

- What is the plan for hiring staff, specifically at CDFA and the bureau, where a large number of positions have been requested?

- What is the plan for accepting cash payments? Have extra security measures, specifically for the BOE and bureau, been considered?

- What will happen if state agencies are unable to meet the January 1, 2018 deadline?

- While it is important to provide adequate resources for the development and implementation of a cannabis regulatory and enforcement structure, there is a large amount of uncertainty in how this system will work. The subcommittees may wish to require the department to come back in future years and provide information on implementation and outcomes, as suggested by the LAO, to help determine future funding levels.

- The subcommittees may also wish to consider how to ensure departments can hire for positions that will be ongoing in nature – but will have limited-term funding. The goal being to ensure that there is adequate oversight and resources.

Staff Recommendation. Hold open.

[2] The last bureau to be created under DCA was the Professional Fiduciaries Bureau, established in 2007, which only licenses approximately 600 individuals.

Issue 2: Cannabis Regulation Trailer Bill Language (TBL)

In April 2017, the Administration released a draft of the cannabis regulation trailer bill language (TBL).

Background. The Administration proposes to unite components of the regulatory structures for medicinal and nonmedicinal cannabis, while preserving the integrity and separation of the two industries by maintaining the two as separate categories of license types with the same regulatory requirements for each.

There are many similarities in the regulatory structures under MCRSA and AUMA; however, there are also differences. Some of these differences are significant policy distinctions, such as MCRSA's requirement that distributors must be independent within the supply chain. While other differences are not as significant and may have been the result of timing, such as the Legislature passing the MCRSA TBL, SB 837 (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2016, after the drafting of AUMA had been completed. For example, the Department of Consumer Affairs is responsible for licensing testing laboratories for medical cannabis, while the Department of Public Health is responsible for licensing testing laboratories for recreational use. More specifics on the laws governing the implementation of legal cannabis use are below.

Licensing and fees. Licensing authorities must establish a scale of application, licensing, and renewal fees. The licensing and renewal fees are calculated to cover the costs of regulatory activities, and are set on a scaled basis depending on the size of the business. All fees are deposited into an account specific to that licensing authority, which will be established within the Cannabis Control Fund. There are a total of 17 different types of licenses for medical cannabis businesses, while AUMA lists 19 different license types.

Local control. Cities and counties may regulate all cannabis businesses and require them to obtain local licenses. Cities and counties may ban cannabis-related businesses, but not cannabis transportation through their jurisdictions. Under AUMA, recreational cannabis businesses are not required to have a local license, but must abide by local ordinances in order to obtain a state license. Local authorities must send notice to the Bureau of Marijuana Control, or relevant licensing authority, when they revoke a cannabis license.

Penalties and Violations. State law authorizes a civil penalty of up to twice the amount of the license fee for each violation relating to the use of medical cannabis, and a civil penalty of up to three times the amount of the license fee for violations relating to commercial cannabis. The department, state, local authority, or court may also order the destruction of the cannabis associated with the violation. Statute establishes different locations for where the penalties will be deposited, depending on whether the Attorney General, district attorney or county counsel, or a city attorney or city prosecutor brings forth the action.

Taxes. AUMA instituted a new state tax on the cultivation of cannabis that enters the commercial market, as well as a new state retail excise tax. Both of these taxes would affect both medical and nonmedical cannabis. AUMA eliminated sales tax on medical cannabis, but recreational cannabis would be subject to existing state and local sales tax. Revenues from these new taxes would be deposited into a new special fund, the California Cannabis Tax Fund. The fund would first be used to reimburse state agencies for cannabis related regulatory costs, and remaining funds would be distributed as follows:

- $10 million annually until 2028-29 to evaluate effects of recreational cannabis use.
- $3 million annually until 2022-23 to develop methods to determine whether an individual is driving impaired.
- $10 million in 2018-19, with a $10 million increase annually until 2022-23, and $50 million annually afterward, for a grant program to provide services to communities most affected by past drug policies.
- $2 million annually to study hazards and values of medicinal cannabis.
- After the above allocations, remaining funds would be apportioned, as such: 60 percent for youth programs, 20 percent to mediate environmental damage from cannabis cultivation, and 20 percent for programs to reduce impaired driving and a grant program to reduce negative public health impacts.

Below is a summary of the solutions offered by the Administration's proposed TBL to address key differences between AUMA and MCRSA.

Dual state and local licensing. Under MCRSA, a local permit, license, or other authorization is a prerequisite for obtaining a state license. Under this law, the applicant is responsible for providing proof of compliance with these local requirements to state licensing authorities. Under Proposition 64, adult-use cannabis businesses must be in compliance with any local ordinance or regulation in order to obtain a license, but the burden is on the state licensing authorities to determine whether or not businesses are in fact in compliance.

- Proposed solution: With 58 counties and 482 cities, it is unrealistic to expect the licensing entities to verify that each applicant is in compliance with any local law or regulation. The proposed solution does the following:

    - Since, the state licensing authorities cannot require applicants to show proof of a local permit, new language will require the bureau to work with local jurisdictions to collect all the ordinances that govern cannabis in the state, including those that have bans. Also, local jurisdictions shall be responsible for providing the contact for their jurisdiction, so that state licensing entities know who to call when questions arise about an applicant.

    - Authorizes an applicant to voluntarily submit a copy of the permit, license, or local authorization to the state licensing entities for jurisdictions that have taken action to regulate cannabis and have completed a programmatic environmental impact report (EIR) in order to issue local permits.

    - In instances where a local jurisdiction allows cannabis business to operate, but does not issue permits, then the applicant will be responsible for submitting the

EIR for certification to the state licensing entity. This will be similar to how a land developer has to work on their own EIR before a project moves forward.

- As an incentive for locals to take on more of the environmental compliance work, a narrow CEQA streamlining is proposed for local jurisdictions that moves forward to regulate. The proposed solution maintains local autonomy of zoning and planning decisions while providing state regulators with local compliance information in a timely manner.

Vertical integration. MCRSA places restrictions on the number and type of licenses cannabis business may acquire. There are 17 license classifications and six licensure categories (cultivation, manufacturing, testing, dispensary, distributor, and transporter). Under MRCSA, licensees can hold up to two separate license categories, with the exception of testing and distribution. The restrictions seek to limit the ability of one entity to control multiple steps in the cultivation, distribution, and retail chain. AUMA does not include prohibitions against holding multiple licenses. The only exception is that a testing licensee cannot hold a license or ownership interest in any other category.

- Proposed solution: The Administration proposes to maintain AUMA's vertically integrated licensing structure for both adult use and medicinal cannabis licensees. Overly restrictive vertical integration stifles new business models and does not enhance public and consumer safety. AUMA has restrictions to protect against the over concentration of licenses in areas as well as monopolies. It also requires that testing licensees to be independent of all licensees in other categories.

Distribution. Under MCRSA, all medicinal cannabis and medicinal cannabis products are required to go through a third-party distributor. The distributor is responsible for arranging testing of the flower or cannabis product prior to it going to market. A distributor can hold a transportation license, but is precluded from holding any other license type. Under AUMA, a distribution license regulates only transportation activities and allows a distributor to hold any other license except for a testing license. Both third-party and in-house distributors owned by licensed cultivators, manufacturers, and retailers are allowed. The responsibility for testing cannabis or cannabis product falls on the licensee taking the product to market.

- Proposed solution: The Administration proposes to maintain the AUMA's open distribution model. Allowing for a business to hold multiple licenses including a distribution license will make it easier for businesses to enter the market, encourage innovation, and strengthen compliance with state law. To ensure the integrity of the testing is maintained, all distributors must arrange for an independent licensed testing laboratory to select a random sample, transport it to a laboratory, and test the product.

Ownership. The definition of an applicant varies in MCRSA and AUMA, depending on the level of ownership. MCRSA defines applicant as any person having decision making authority or an ownership or financial interest. Under MCRSA, all applicants and those having a five percent interest or more in a publicly-traded company are required to pass a background check. AUMA only requires a background check for licensees having at least a 20 percent ownership and having direct management authority.

- Proposed solution: The Administration proposes two separate definitions for applicant and owner. For ease of administration, only one designee will be required as the applicant. Owners must pass a background check under both systems. The Administration proposes to adopt the AUMA definition of owner of having at least 20 percent ownership, or any person with the power to impact management decisions. In addition, with the exception of publicly traded companies, licensees must disclose the identity of all investors to the licensing authorities.

Cultivation limits. MCRSA includes a limit on the scale of cultivation and the number of medium size (Type 3) licenses that can be issued. Most cultivation licenses authorize a maximum of one acre of cultivation. The Type 10A multiple-cultivation license allows a maximum of four acres of cultivation, although the four acre limit sunsets on January 1, 2026. AUMA added a new cultivation license type not included in MCRSA, the Type 5, which allows large size cultivation of over one acre or greater than 22,000 square feet indoors. This license type cannot be issued until January 1, 2023. AUMA does not limit the number of medium size (Type 3) licenses that can be issued.

- Proposed solution: In furtherance of the intent of Proposition 64 to prevent illegal production and avoid illegal diversion to other states, the Administration proposes to limit the number of Type 3 licenses consistent with MCRSA.

Microbusinesses. AUMA establishes a new license type called microbusiness which was not included in the MCRSA. A microbusiness is authorized to engage in activities in four market segments: cultivation, manufacturing using non-volatile solvents, distribution, and retail. Unlike other license types, a microbusiness would only require a license from the Bureau.

- Proposed solution: In order to protect the public health and safety and compliance with state environmental laws, the Department of Food and Agriculture and the Department of Public Health must also review microbusiness licensees. The Administration proposes a process whereby licensing authorities shall establish a process to ensure that a microbusiness applicant and licensee can demonstrate compliance with all the requirements under the law for the activity or activities they conduct.

Environmental protections. Senate Bill 837 (Committee on Budget and Fiscal Review), Chapter 32, Statutes of 2016, was legislation that clarified the roles of the appropriate state environmental entities, all of which must coordinate with CDFA before a cultivation license is issued. For example, SB 837 requires that all CDFA licenses include a pending application, registration, or other water right documentation that has been filed with the State Water Resources Control Board. SB 837 clarifies that the State Water Board has enforcement authority if water is diverted or illegally used for cannabis cultivation.

- Proposed solution: Due to the timing of the passage of the above legislation, the drafters of the AUMA were unable to conform to the changes made in SB 837. The

Administration proposes to amend the AUMA to include the same environmental protection requirements as MCRSA.

Appeals panel. AUMA establishes a Marijuana Control Appeals Panel, consisting of three members appointed by the Governor and subject to confirmation by the Senate. Any applicant or licensee can appeal to the panel to review a penalty, a license issuance, denial, or other adverse action by any of the licensing authorities. This panel was not contemplated in MCRSA.

- Proposed solution: The Administration proposes to extend the review of the panel to all licensing decisions relating to cannabis. The panel will streamline the appeals process and bring needed expertise and due process to the review of any licensing decision. The language allows a party to appeal a panel decision directly to the Court of Appeals, which is similar to how the Alcoholic Beverage Control Appeals Board works.

Appellation. Appellation of origin is a legally-defined and protected geographic indication usually used for wine and certain food. Appellation of origin is typically determined by the federal government. Because the federal government will not establish appellations, MCRSA authorizes CDFA to establish appellations of origin for cannabis. The AUMA also addresses appellation of origin, but instead requires the bureau to establish standards by January 1, 2018.

- Proposed solution: In order to provide sufficient time and expertise to establish and set standards for appellations of origin, the initiative should be amended to transfer the responsibility to establish appellation of origin from the bureau to CDFA and extend the deadline to accomplish this to January 1, 2020.

State issued medicinal ID cards. SB 420 established a voluntary registry identification card system, maintained by Department of Health Services, for patients that have a recommendation from their doctor to use medicinal cannabis. The card was intended to provide some protection to the cardholder from arrest and prosecution for possession, transportation, and cultivation of marijuana for medicinal purposes. Approximately 80 percent of cannabis patients do not currently use medical cannabis identification cards, but instead use their physician recommendation to purchase medical cannabis. The identification card in its current form cannot be used to confirm the identity of any individual as it contains no identifying information other than a photo and the name of the county from which it was obtained. The photo and county name is also the only information maintained by the state.

- Proposed solution: The Administration proposes to delete the requirement for state issued medicinal ID cards and provides the county with the authority to issue local cards.

LAO. The LAO, in general, agrees with the concept of aligning MCRSA and AUMA. However, the LAO states that the Legislature will want to closely evaluate the specifics of the choices made by the Administration to ensure that it has provided clear rationales for these changes and that they are consistent with legislative priorities for the regulation of cannabis. The Legislature will also want to consider whether proposed changes to AUMA might require voter approval, as well as keep in mind that cannabis remains illegal under federal law. More specifics on the LAO assessment can be found in the handout entitled "The 2017-18 Budget: Overview of Governor's Cannabis-Related Trailer Bill Legislation," available on the LAO's website.

Staff Recommendation. Hold open.

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 11, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PART A

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION AND VOTE

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

ITEMS PROPOSED FOR VOTE-ONLY

0690 OFFICE OF EMERGENCY SERVICES (OES)

Issue 1: Child Victims of Human Trafficking Fund - SFL

Budget. OES requests $268,000 (Child Victims of Human Trafficking Fund) local assistance authority in fiscal year 2017-18, to continue the allocation of contributions collected pursuant to Assembly Bill 764 (Swanson), Chapter 465, Statutes of 2011, and to exhaust the fund.

Background. AB 764 authorizes taxpayers to designate on their tax returns that a specified amount in excess of their tax liability be transferred to the Child Victims of Human Trafficking Fund established in the State Treasury. All monies contributed to the fund pursuant to these provisions, upon appropriation by the Legislature, will be allocated to OES. OES then administers the funds to community-based organizations which serve minor victims of human trafficking. In FYs 2015-16 and 2016-17, OES allocated these funds to two projects to provide mandated services to minor victims of human trafficking.

Issue 2: Nuclear Planning Assessment CPI Adjustment - SFL

Budget. OES requests an adjustment to the Nuclear Planning Assessment Special Account appropriations of $9,000 for state operations and $51,000 for local assistance.

Background. The Nuclear Planning Assessment Special Account authorizes OES to bill the utilities operating nuclear power plants, with a capacity of 50 megawatts or greater, for the costs to perform the mandated off-site preparedness activities of the local jurisdictions and state agencies. OES manages the Nuclear Planning Assessment Special Account and collects funds annually from the operating utilities and provides the funds to the local jurisdictions in proximity to the nuclear power plants and to the California Department of Public Health. The Diablo Canyon Power Plant operates in San Luis Obispo County and is the sole remaining participant for the Nuclear Planning Assessment Special Account.

Government Code Section 8610.5(e)(1) provides that the amounts available for disbursement for state and local costs shall be adjusted and compounded each fiscal year by the percentage increase in the California Consumer Price Index (CPI) of the previous fiscal year. Government Code provides that, for the Diablo Canyon site, the amounts available for disbursement shall be adjusted and compounded each fiscal year by the larger of the percentage change in the prevailing wage for San Luis Obispo County employees, not to exceed five percent, or the percentage increase in the California CPI from the previous fiscal year.

0845 CALIFORNIA DEPARTMENT OF INSURANCE

Overview. The California Department of Insurance (CDI) was created in 1868 as part of a national system of state-based insurance regulation. The state's publicly-elected insurance commissioner regulates the sixth largest insurance economy in the world, collecting more than $259 billion in premium annually. CDE licenses approximately 1,300 insurance companies and more than 400,000 insurance agents, brokers, adjusters, and bail agents.

Annually, the department receives and investigates around 200,000 complaints, performs examinations to ensure the financial solvency of companies, and receives approximately 30,000 suspected fraudulent claim referrals annually.

Budget. The budget includes $269.7 million ($263 million Insurance Fund, $6.4 million General Fund, $18,000 Federal Trust Fund, and $250,000 in reimbursements) and 1,256.8 positions to support the department and its programs.

Issue 1: Enhanced Fraud Investigation and Prevention (Warner Chilcott Settlement) – SFL

Budget. CDI is requesting $1,864,000 (General Fund) in Fiscal Year (FY) 2017-18 and $728,000 in FY 2018-19 through FY 2020-21. These funds will provide resources to implement a fraud data analytics tool and support two positions to analyze the data generated from the data analytics tool.

Background. On December 18, 2015, CDI and whistle blowers reached a $23,250,000 settlement with pharmaceutical company Warner Chilcott to resolve a lawsuit alleging drug marketing fraud in violation of state law. The settlement resolved allegations contained in a pay-for-play qui tam health insurance lawsuit filed by three former Warner Chilcott employees. As required by the state's insurance whistle blower law, the Warner Chilcott settlement payment was divided between the whistle blowers and California. The state's share was $11,852,000, which was paid to the General Fund for enhanced fraud investigation and prevention efforts; upon appropriation by the Legislature. As a result, CDI submitted a FY 2016-17 BCP seeking General Fund resources for enhanced fraud investigation and prevention efforts and the Legislature approved an appropriation of $6,460,000 for a five-year period, leaving an available balance of $5,392,000. As part of that BCP, CDI requested funding of $450,000 for the planning phase of a Software-as-a-Service (SaaS) solution for enhanced fraud investigation and prevention efforts. CDI is now requesting the necessary resources to implement the SaaS and, in FY 2018-19 through FY 2020- 21, for maintenance and operations.

Implementation. The CDI is currently in the planning phase that includes market research via a Request for Information and a Proof-of-Concept that has demonstrated the capability of the available SaaS products and the amount of configuration that will be necessary to meet the business needs. In addition to researching the technical solution, CDI is planning and implementing organizational change management strategies to ensure that the SaaS software users receive the new software tool positively, facilitating the acceptance and use of the new tool. The implementation will be phased, starting with the intake and assignment of functional workflows, and the detectives and case documentation functions will be added once all functionality has been configured.

Staff Comment. The California Department of Technology (CDT) conditionally approved CDI's Stage 1 Business Analysis on April 1, 2016. CDT approved the Stage 2 Alternative Analysis on March 8, 2017. Stage 3 Solution Development is being completed and is anticipated to be approved by May 2017 and once Stage 4 Project Readiness and Approval is formally approved by CDT, the department will procure the solution, complete organizational change management, implement the solution, and train the users on the software system.

0890 SECRETARY OF STATE

Issue 1: Safe at Home Program Address Confidentiality – TBL

Budget. The budget provides trailer bill language (TBL) that would make implementation of the changes made by AB 2263 (Baker), Chapter 881, Statutes of 2016, to the Safe At Home (SAH) program subject to an appropriation.

Staff Comment. The subcommittee considered this item at its March 23, 2017, hearing. Assembly Bill 2263 (Baker), Chapter 881, Statutes of 2016, standardized the confidentiality protections for SAH Program participants, and requires the SOS to provide SAH enrollees with information about how to protect their privacy on real property records. When AB 2263 went through the legislative process it was determined to have no cost as the SOS believed that the additional workload could be absorbed. However, according to SOS, the workload cannot currently be absorbed and the proposed TBL would address this issue. The proposed changes potentially have the effect of making the actions required by the SOS permissive.

2240 CALIFORNIA DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1: National Housing Trust Fund Workload Adjustment

Budget. The budget proposes three positions and $10.4 million in federal funds ($423,000 State Operations and $10 million Local Assistance) to administer the National Housing Trust Fund (NHTF) Program for this year and ongoing. Additionally, this proposal includes trailer bill language to clarify that HCD is authorized to expend up to 10 percent of the federal award on administrative costs.

Staff Comment. This request is generally reasonable based on workload data and the likelihood of future rounds of federal funding for this program. The Assembly made non-significant changes to the proposed trailer bill language to clarify allowable uses of funds. This item was first heard in Subcommittee 4 on April 27th.

Staff Recommendation. Approve three positions and $10.4 million in federal funds. Adopt the Assembly amendments to the trailer bill language.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 1: Building Standards Commission – Model Water-Efficient Landscaping Ordinance (AB 2515) - BCP

Budget. The DGS, California Building Standards Commission (CBSC), requests an augmentation in expenditure authority of $208,000 (Building Standards Administration Special Revolving Fund) and one permanent position to meet the ongoing workload associated with Assembly Bill 2515 (Weber), Chapter 576, Statutes of 2016.

Staff Comment. The subcommittee considered this item at its March 30, 2017, hearing. It is unclear whether DWR will choose to update the MWELO guidelines. If the guidelines are not updated, this position will not be necessary.

Issue 2: Building Standards Commission - Exterior Elevated Elements (SB 465) - BCP

Budget. The Department of General Services, California Building Standards Commission (CBSC) requests an augmentation of $208,000 (Service Revolving Fund) and one permanent position to meet the legislative mandates enacted by Senate Bill 465 (Hill), Chapter 372, Statutes of 2016.

Staff Comment. The subcommittee considered this item at its March 30, 2017, hearing. The workload associated with this request does not seem sufficient to justify a permanent position.

Issue 3: Stale Dated Warrants – TBL

Budget. The budget provides trailer bill language (TBL) that authorizes departments to pay expired warrants from any funds that are legally available to the department for that purpose. The TBL also allows departments to submit a request to include a claim for reimbursement of a warrant in a claims bill if it is unable to issue a replacement warrant from its current appropriation or other available funds.

Background. The Government Claims Program (GCP) processes claims for money or damages against the state. In 2016, the GCP was moved from the Victim Compensation and Government Claims Board to DGS. As part of that transfer, responsibility for stale dated warrants was delegated to departments. Section 905.2(B) of the Government Code was amended to provide that payments for these warrants, if allowed, shall be paid from the issuing entity's current appropriation. Since then, departments have been receiving these claims and working with the State Controller's Office to ensure that the checks are valid and that they have never been cashed. However, at least one warrant has been presented that cannot be paid from the issuing entity's appropriation. This was a check written by the Department of Motor Vehicles (DMV) in

2001 that was paid from a special deposit fund that has since reverted to the General Fund. Because the DMV does not have any General Fund, and the original check was from a fund source that has since reverted, it cannot be paid with DMV's existing appropriation. As a result, there is no legal mechanism to re-issue this check.

This technical change is proposed to allow for stale dated warrants that cannot be paid from existing departmental appropriations to be included in the annual equity claims bill. The GCP at is required to present claims needing a legislative appropriation annually; the TBL proposes including these types of warrants in the DGS claims bill.

Staff Comment. The TBL is a technical change to allow for the payment of stale warrants. These warrants constitute about 600 claims out of a total workload of around 6600 claims. Most stale warrants of all types are for relatively small dollar amounts. Additionally, by allowing for these warrants to be included in a claims bill, the Legislature will get an opportunity to review the payment.

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Issue 1: State Active Duty Compensation Increase - SFL

Budget. The CMD requests $1,237,000 ($541,000 General Fund, $651,000 Federal Trust Fund, $23,000 reimbursement authority, and $22,000 Mental Health Services Fund) to align the pay of its state active duty employees to the pay of service members of similar grade in the United States Army, United States Air Force, and United States Navy.

Background. Compensation for service members of the United States Army, United States Air Force, and United States Navy is set forth annually by the federal government in the National Defense Authorization Act (NDAA). The NDAA is usually signed into law in late December. Military and Veterans Code sections 320 and 321 provide that the CMD must pay its state active duty employees at the same rate as service members of similar grade in the federal armed forces. Due to the timing of the NDAA, CMD had to wait until the spring to request funding to match the service member compensation codified in the NDAA.

Issue 2: Capital Outlay Proposals

Budget. The Governor's January budget includes two capital outlay proposals, totaling $146.8 million ($150,000 General Fund, $150,000 federal funds, and $146.5 million lease revenue bond funds). The CMD also proposes five capital outlay proposals in spring finance letters, totaling $41.1 million ($6.8 million General Fund, $6.8 million federal funds, $2.6 million Armory Fund, and $24.7 lease revenue bonds). The proposals include:

- **Advanced Plans and Studies.** CMD seeks $300,000 ($150,000 General Fund and $150,000 federal matching funds) for architect-engineering services to develop conceptual designs and validated cost estimates for future capital projects. The subcommittee considered this item at its March 9, 2017 hearing.

- **Consolidated Headquarters Complex.** CMD requests $141,884,000 lease revenue bond funds for the design-build phase of the continuing consolidated headquarters complex project in Sacramento. The subcommittee considered this item at its March 9, 2017 hearing.

- **Santa Cruz Armory Renovation.** A re-appropriation of $4 million ($2 million General Fund and $2 million federal funds) for the performance criteria and design-build phases of the Santa Cruz armory renovation. The armory, which was built in 1955, sits on 1.3 acres. The renovation would allow 50 additional soldiers to train, and will include HVAC replacement and upgrades to electrical, energy, plumbing, roofing, fencing, and code-compliant doors. The department anticipates this renovation will alleviate pressure on Seaside and Gilroy armories. Total project costs are estimated to be $4 million ($302,000 for performance and $3.7 million for the design-build phase).

- **Escondido Armory Renovation.** A re-appropriation of $4.1 million ($2 million General fund, $2 million matching federal funds) for the performance criteria and design-build phase for the Escondido Armory renovation. The armory, which was built in 1961, does not have the capacity to serve all the units currently assigned. Renovations would include upgrades to the HVAC, electrical, plumbing, security fencing; and will repurpose 1,450 square feet of space, originally intended as an indoor rifle range, for administrative and classroom space. With the renovation, the existing 133 soldiers and an additional 25 soldiers will be accommodated. Total project costs are estimated to be $4.1 million ($326,000 for performance and $3.8 million for the design-build phase).

- **Eureka Armory Renovation.** A re-appropriation of $5.6 million ($2.8 General Fund, $2.8 million matching federal funds) for the performance criteria and design-build phase for the Eureka Armory renovation. The armory, which was built in 1956, sits on 4.4 acres. It is the only facility within a 100 mile radius and is deemed, by the department, to be a "critical asset" for the Northwest California region. Because the department is unable to expand the armory (the surrounding areas hold the field maintenance shop and secure parking lot for military vehicles and equipment), interior design renovations could be repurposed and used for administrative, storage, and vault space. It is estimated that an additional 17 soldiers can train at the site, following the HVAC, electrical, plumbing, security fencing, among other renovations. Total project costs are estimated to be $5.7 million ($390,000 for performance and $5.3 million for the design-build phase).

- **Discovery ChalleNGe Academy Dining Facility.** A re-appropriation of $2.6 million (Armory Fund) to construct a joint-use dining facility at the Army National Guard Base in Lathrop, California. The project will provide a 9,800 square foot dining facility that will serve 200 cadets enrolled in the new National Guard Youth ChalleNGe Program, the Army National Guard units stationed on the base, and soldiers stationed at the nearby Stockton Airfield. Total project costs are estimated to be $2.6 million ($295,000 for performance criteria and $2.3 million for the design-build phase).

- **Southern Region Emergency Operations Center.** $24.7 million lease-revenue bond funds for the construction phase of the continuing Southern Region Emergency Operations Center (REOC) project at the Joint Forces Training Base in Los Alamitos. The new 30,000 square foot, joint-use Southern REOC will house the Governor's Office of Emergency Services and serve as the California National Guard Command and Control Headquarters. The facility will allow for coordinated response efforts between federal agencies, state agencies, and local partners in the critical Southern California region. Total project costs are estimated to be $26.6 million ($570,000 for preliminary plans; $1,284,000 for workings drawings; and $24,705,000 for construction).

Background. CMD's statewide facilities include 97 active armories, four aviation centers, 24 field maintenance shops, two combined support maintenance shops, and two maneuver area training equipment sites. The total real property assets of the Military Department encompass an area of 7.8 million square feet. These facilities are used to house and train the California National Guard and provide emergency public safety support. The Military Department also operates three major training facilities consisting of troop lodging, administration, warehouse, maintenance, firing ranges, and maneuver training areas.

Issue 3: Design-Build Authority – TBL

Budget. The budget provides trailer bill language that would authorize CMD to procure design-build contracts for specified public works projects by awarding the contract using either the low bid or best value procurement methodology.

Background. Design-build is a project delivery system in which the design and construction services are contracted by a single entity.

The proposed TBL is below.

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

SECTION 1. Section 10187.5 of the Public Contract Code is amended to read:

10187.5. For purposes of this article, the following definitions and the definitions in subdivision (a) of Section 13332.19 of the Government Code shall apply:

(a) "Best value" means a value determined by evaluation of objective criteria that relate to price, features, functions, life-cycle costs, experience, and past performance. A best value determination may involve the selection of the lowest cost proposal meeting the interests of the department and meeting the objectives of the project, selection of the best proposal for a stipulated sum established by the procuring agency, or a tradeoff between price and other specified factors.

(b) "Construction subcontract" means each subcontract awarded by the design-build entity to a subcontractor that will perform work or labor or render service to the design-build entity in or about the construction of the work or improvement, or a subcontractor licensed by the State of California that, under subcontract to the design-build entity, specially fabricates and installs a portion of the work or improvement according to detailed drawings contained in the plans and specifications produced by the design-build team.

(c) (1) "Department" means the Department of General ~~Services~~ Services, the Military Department, and the Department of Corrections and Rehabilitation.

(2) For the purposes of projects at the Salton Sea, "department" means the Department of Water Resources.

(d) "Design-build" means a project delivery process in which both the design and construction of a project are procured from a single entity.

(e) "Design-build entity" means a corporation, limited liability company, partnership, joint venture, or other legal entity that is able to provide appropriately licensed contracting, architectural, and engineering services as needed pursuant to a design-build contract.

(f) "Design-build team" means the design-build entity itself and the individuals and other entities identified by the design-build entity as members of its team. Members shall include the general contractor and, if utilized in the design of the project, all electrical, mechanical, and plumbing contractors.

(g) (1) "Director" means, with respect to procurements undertaken by the Department of General Services, the Director of General ~~Services~~ Services; with respect to procurements undertaken by the Military Department, the Adjutant General; or, with respect to procurements undertaken by the Department of Corrections and Rehabilitation, the secretary of that department.

(2) For purposes of projects at the Salton Sea, "director" means the Director of Water Resources.

8955 DEPARTMENT OF VETERANS AFFAIRS

Issue 1: Capital Outlay Proposals – Yountville Veterans Home Upgrades – SFL

Budget. CalVet proposes three capital outlay proposals in spring finance letters, totaling $40.1 million ($23.9 million federal funds, $5.5 million Veterans Home Bond fund, and $10.6 lease-revenue bonds). The proposals include:

- **Yountville Veterans Home – Steam Distribution System Renovation.** $14.2 million ($6.2 lease-revenue bonds funds and $7.9 federal funds) for the working drawings and construction phases for renovation of the steam distribution system. This project will renovate the antiquated underground steam distribution system and replace the badly deteriorated underground lines. In addition, the hazardous asbestos-containing insulating material will be replaced with insulation that meets current industry standards. As part of this request, CalVet also requests a reversion of the unencumbered balance of working drawings and construction funds for this project, which were re-appropriated in 2016-17 at a cost of $6.9 million ($2.8 lease revenue bond funds and $4.1 million federal funds). Project costs have been updated to reflect current conditions in the construction services market. The proposed increase in project costs will allow the project to proceed to the construction phase in October 2019.

- **Yountville Veterans Home – Chilled Water Distribution System Renovation.** $11 million ($4.4 million lease-revenue bond funds and $6.6 federal funds) for the construction phase of renovation of the chilled water distribution system. As part of this request, CalVet also requests a reversion of the unencumbered balance of the construction funds for this project, which was re-appropriated in 2016-2017 at a cost of $5.4 million ($1.7 lease-revenue bond funds and $3.7 million federal funds). Project costs have been updated to reflect current conditions in the construction services market. The proposed increase in project costs will allow the project to proceed to the construction phase in April 2018.

- **Yountville Veterans Home – Central Power Plant Renovation.** $14.9 million ($5.5 million Veterans' Homes Bond Fund and $9.4 federal funds) for the working drawings and construction phases of the renovation of the central power plant. The project will renovate the central power plant, built in 1932, that has exceeded its expected useful life and is experiencing an increasing failure rate along with increase in maintenance costs. The plant is the focal point for the chilled water and steam used in the home. Critical systems including the boiler, antiquated electrical distribution system, and failing de-aerator system will be upgraded. All lines, pumps and valves in the plant that are failing and/or have exceeded their useful lives will be replaced as necessary. Project costs have been updated to reflect current conditions in the construction services market. The proposed increase in project costs will allow the project to proceed to the construction phase in April 2018. Project completion is anticipated by August 2019.

Background. These projects were originally appropriated in 2011, but had difficulty proceeding due to contracting issues and design delays related to the complexity of the projects. In February 2017, the Department of General Services provided updated cost analyses for these projects, which identified budget deficiencies resulting from increased costs and the current conditions in the construction services market. This request incorporates the updated cost estimates.

PROPOSED FOR VOTE AND DISCUSSION

0690 OFFICE OF EMERGENCY SERVICES

Overview. The principal objective of the Office of Emergency Services (OES) is to protect lives and property, build capabilities, and support our communities for a resilient California. The OES director serves as both the Governor's Homeland Security Advisor and Emergency Management Director, with responsibility to implement and facilitate the state's homeland security and counter-terrorism strategy. The OES serves the public through effective collaboration in preparing for, protecting against, responding to, recovering from, and mitigating the impacts of all hazards and threats.

Budget. The budget includes $1.4 billion ($173.4 million General Fund, $998.7 million Federal Trust Fund, $232 million special funds and $4.5 million reimbursements) and 905.4 positions to support the office and its programs.

Issue 1: Public Assistance – BCP and BBL

Budget. OES requests $3.5 million ongoing (General Fund) state operations and reduction of $3.5 million federal trust fund authority to realign the funding with workload in the Public Assistance Program which provides assistance during disaster recovery.

Staff Comment. The subcommittee considered this item during its March 23, 2017, hearing. After that hearing, the Legislative Analyst's Office (LAO), OES, and the Department of Finance (DOF) met to develop potential budget bill language to address concerns with the proposal. Together, they propose the following language.

1. Of the amount appropriated in Schedule (1) of this item, $9,800,000 shall only be available for the Recovery Public Assistance Program.

2. Funds appropriated in this item may be reduced by the Director of Finance, after giving notice to the Chairperson of the Joint Legislative Budget Committee, by the amount of federal funds made available for the purposes of this item in excess of the federal funds scheduled in Item 0690-001-0890.

3. The Office of Emergency Services, in consultation with the Department of Finance, shall provide a report to the Joint Legislative Budget Committee and both budget committees of the Legislature by January 10, 2018, with the following Public Assistance Recovery program information for the prior fiscal year. The report shall identify the amount of state expenditures by the department, identified by disaster, including the date of the disaster. For each disaster identified, the notification shall identify expenditures as state or federal funds and if the disaster is state-only or federal. If the disaster is federal and some or all of the costs were not reimbursable,

the notification shall also identify the amount of costs that were not reimbursable and a description of why these costs were not reimbursable. The report shall initially identify the total number of projects by disaster by state only and federal match, for the five prior fiscal years, with identification of projects opened and closed out during each fiscal year. In future years, Cal OES will provide same report for the prior fiscal year.

0890 SECRETARY OF STATE

Overview. The Secretary of State (SOS) is the chief elections officer and administers and enforces election laws. The SOS also administers and enforces laws related to corporations, limited liability companies, partnerships, limited partnerships, unincorporated associations, and bonds and perfecting security agreements. The secretary is the filing officer for lobbying and campaign documents under the Political Reform Act, and operates the Safe At Home Program.

Budget. The budget includes $101.2 million ($11.4 million Federal Trust Fund, $49.3 million Secretary of State Business Fees Fund, $36.5 million General Fund, and $4 million other special funds) and 571.3 positions.

Issue 1: Vote Centers (SB 450) – SFL

Budget. The SOS requests three positions and a three-year limited-term funding increase of $463,000 (Special Deposit Fund) from the proceeds from a settlement agreement with Election Systems and Software, Inc. This expenditure authority is requested for staff needed to implement the provisions set forth in SB 450 (Allen), Chapter 832, Statutes of 2016.

Specifically, the three requested positions are:

- One Program Director
- One Senior Information Systems Analyst (SISA)
- One Associate Governmental Program Analyst (AGPA)

Background. The SOS received proceeds from a settlement agreement with Election Systems and Software, Inc. (ES&S) in the amount of $3,250,000. The settlement was agreed upon after the SOS filed a lawsuit alleging that ES&S had sold ballot-marking machines that contained hardware changes that had not been authorized by the SOS. The settlement expressly requires the funds to be used "for the purposes of voting system review, approval, security measures and election administration." The requested funding increase will come from the proceeds of the settlement, to implement SB 450.

SB 450 creates a new election model. Every registered voter will be delivered a vote-by-mail (VBM) ballot before election day and will be able to either vote in-person at a vote center or mail his/her VBM ballot in or drop it off at a vote center or ballot drop-off location. Polling places as we currently know them will be replaced by vote centers, where voters will have the freedom to cast a ballot at any vote center in their county beginning 10 days before the election. Voters will also have the option of returning their ballots at a drop-off location starting 28 days before election day. The new voting options will begin on or after January 1, 2018, for 14 specified counties that may conduct any election as an all-mailed ballot election, as long as all designated requirements under SB 450 are met. On or after January 1, 2020, Los Angeles County has the option to conduct special elections as an all-mailed ballot election and the remaining 43 counties will be eligible to conduct any election using this model.

In order to implement the provisions of SB 450, the SOS will be required to review and perform certification of accessible vote-by-mail ballot systems, electronic poll books, and ballot on demand systems, as well as new voting systems. This will also require the SOS to conduct a significant amount of work to update current guidelines and processes, as well as create new guidelines and processes. The SOS will also have to provide ongoing guidance in the administration of elections conducted under the provisions of SB 450, and will need to work closely with the county elections officials to assist with the development of standards and best practices. The SOS will be required to establish a task force to review all-mailed ballot elections pursuant to the provisions of SB 450 and to provide comments and recommendations to the Legislature within six months of each all-mailed ballot election or vote center election. This will all need to be done while ensuring that the remaining 44 counties run their elections as usual (until January 1, 2020), requiring the SOS to oversee two differently administered elections simultaneously. The SOS will need to provide ongoing support and advice to counties regarding the administration of elections conducted pursuant to SB 450 in order to ensure the uniform application of election laws statewide.

LAO. The LAO recently released a report on elections administration in California. In that report the LAO recommends the Legislature develop a new financial relationship between the counties and state to fund elections. Counties administer most elections in California and bear the cost of administering state and federal elections. Despite these mandates being suspended, counties continue the activities associated with the suspended laws—costing counties roughly $30 million in general election years. In addition, the Secretary of State estimates the total costs to replace counties' voting equipment to be around $400 million. The LAO also recommends the subcommittee consider four key questions when considering this proposal:

1. **Why are estimated SOS costs higher than estimated when the Legislature was considering SB 450?** The requested annual is 65 percent higher than the estimated costs that SOS provided the Legislature when it was considering SB 450. The Secretary of State indicates that the increase is due to (1) bill changes toward the end of session and (2) discussions with county elections officials since the enactment of the legislation.

2. **Should this funding end five months before the 2020 general election?** Under SB 450, most counties first have the opportunity to implement the new voting model in the 2020 election cycle—a presidential election year. Potentially more than 15 million registered voters in the state will be using the vote center model for the first time when they cast their ballots in the June 2020 primary or November 2020 general elections. Under the administration's proposal, the SOS's funding for overseeing the rollout of this new voting model would end June 30, 2020. Although many problems with the new voting model likely will be identified and resolved following the 2018 elections and the 2020 primary election, it seems potentially unwise to defund the entity responsible for overseeing the rollout of the new voting model before the system has been in place for a majority of counties in a presidential general election. In addition to not disrupting the oversight Secretary of State provides leading up the November 2020 election, extending the appropriation through 2020-21 could allow the Secretary of State to assess the successes and shortcomings of the new voting model. The Legislature could formally require the

Secretary of State to report its findings and recommend possible improvements to SB 450 following the state's experience with the new voting model.

3. **How should the state use the remaining 2009 settlement funds?** The Administration's request appears to be an appropriate use of the settlement funds as it (1) funds the Secretary of State's elections administration—one of the possible uses of the money under the terms of settlement agreement—and (2) uses one-time funds to pay for limited-term activities. That being said, California needs to invest more money into its elections administration—for example, most voting equipment across the state needs to be replaced. Even if the Legislature were to extend the requested appropriation through 2020-21, there would be more than $1 million of the settlement funds remaining at the end of the period. It is not clear if the administration has plans for how to use these remaining funds. The Legislature could explore possible uses for this money, including combining it with other funds to help pay the state's share of purchasing new voting equipment.

4. **Could SOS need ongoing funding for SB 450-related activities?** A number of counties have indicated that they plan on implementing the new voting model allowed under SB 450. To the extent that other counties do not implement the new voting model, the SOS will need to provide continued oversight of two very different voting models. It is possible that SOS will need some level of ongoing funding beyond 2020-21 to support these activities. Money from the General Fund—rather than onetime settlement money—likely will need to be the funding source for any ongoing oversight activities in the future.

Staff Comment. The enactment of SB 450 does not address the SOS's need for adequate staffing to meet the new responsibilities created under SB 450. Adequate funding is necessary in order for the SOS to comply with its new statutorily required duties without significantly diminishing the conduct of other statutorily required critical election programs. The costs of the request are significantly higher than when the Legislature was considering the bill. According to SOS, the cost is greater because, after discussions with county election officials, it was decided that it was necessary to elevate one of the positions initially requested to a project management position. A program director will be necessary to oversee development, implementation, and oversight of elections under this model. Staff also echoes the LAO's concerns with funding being eliminated prior to the 2020 election. The department has indicated that it will revisit the request to determine if additional funding is needed after three years.

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Overview. The CMD oversees and manages the California Army National Guard, the California Air National Guard, the California State Military Reserve, and the California Cadet Corps. CMD has federal, state, and community functions. Soldiers and airmen are deployed by the Department of Defense in support of military operations overseas, activated to protect lives and property after state disasters, and provide various community services.

Budget. The budget includes $164.6 million ($49.6 million General Fund, $108.6 million federal funds, $4.6 million reimbursements, and $1.8 million special funds) to support the department and its various programs. In addition to these funds, the department receives other federal funds, which are not deposited in the State Treasury, totaling $617 million for the Army – National Guard, Air – National Guard, and the Adjutant General.

Issue 1: Special Fund for Federally Funded Workers' Compensation Claims – SFL and TBL

Budget. The CMD requests that a special fund be established for the one-time deposit of $4.5 million in federal funds, ongoing authority to receive federal monies into the special fund for workers' compensation premiums that are charged to federal cooperative agreements, and ongoing expenditure authority from the special fund to pay workers' compensation claims filed by employees who are funded through federal cooperative agreements. Trailer bill language is proposed to establish this fund.

Background. The California Military Department (CMD) receives federal funds through cooperative agreements with the National Guard Bureau (NGB) for Air and Army National Guard facilities, security, fire protection and environmental programs. The CMD has approximately 647 federally-reimbursed employees that are paid through a Master Cooperative Agreement (MCA). The National Guard Bureau (NGB) reimburses the CMD a percentage (50-100 percent) of the cost of employees based on type of job classification and mission supported.

These federally-reimbursed employees historically were covered for workers' compensation by a policy administered by the State Compensation Insurance Fund (SCIF). The federal government was billed monthly for the premiums charged by SCIF based on the type of job classification and number of employees. The premiums charged by SCIF have increased over the past three years from $3.9 million to $5.3 million with actual claims paid out dropping from $1 million to $133,000. The United States Property and Fiscal Office for California has notified the CMD that this workers' compensation policy administered by SCIF is no longer a reasonable cost and that the increase in premiums threatens the ability for NGB to continue funding California's programs.

NGB has provided a model for the CMD to follow in establishing a process to self-insure those federally-reimbursed employees for workers' compensation costs. The model would require California to self-insure state employees and have a workers' compensation fund that holds federal funds indefinitely to pay for the federal share of claims. Premiums would be charged to NGB through the MCAs in order to keep the fund at a level that is acceptable to both the USPFO and the State Comptroller to minimize the risk of catastrophic injuries. NGB has recommended that California collect through billings up to $4.5 million as an initial deposit to the special fund. By establishing this special fund, the CMD will be able to collect and retain federal funds in order to pay for those workers' compensation claims filed by federally-funded employees, which also eliminates delays in reimbursement for such claims.

Proposed TBL is below.

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

SECTION 1. Section 329 is added to the Military and Veterans Code, to read:

329. The Military Department Workers' Compensation Fund is hereby created within the State Treasury. Notwithstanding Section 13340 of the Government Code, all moneys in the fund are continuously appropriated to the Military Department for purposes of subdivision (a).

(a) The moneys in the fund shall be expended for workers' compensation claims that are wholly or partially reimbursed by the federal government for personnel within the Military Department.

(b) The fund may receive and deposit any moneys received from the federal government for the sole purpose of paying workers' compensation claims of current employees or service members.

(c) Moneys in the fund may only be expended by the Military Department for workers' compensation claims.

8955 DEPARTMENT OF VETERANS AFFAIRS

Overview. The California Department of Veterans Affairs (CalVet) serves nearly two million California veterans and their families, helping present claims for entitled state and federal benefits or direct low-cost loans to acquire farms and homes; and providing the veterans, who are aged or have disabilities, with residential and medical care in a home-like environment at the Veterans Homes.

The department facilities include eight veterans homes on 776 acres of land and 2.4 million gross square feet of building space; three state cemeteries (Igo, Seaside in Monterey County, and in Yountville) with 24,000 gravesites on 91 acres; and two office buildings.

Budget. The budget provides $454.1 million ($377.6 million General Fund, $2.6 million federal funds, and $67.3 million special funds) and 3,196 positions to support the department and its programs.

Issue 1: Reduce Funding for Veterans Services Division Support

Budget. The budget requests a reduction of $1.701 million (General Fund) ongoing for the California Department of Veterans Affairs, Veteran Services Division. The reduction reverses the 2016-17 Spring Finance Letter that funded 16 existing, but unfunded, positions, and reclassified four positions that assist in processing claims for federal veteran benefits and increase oversight of county veterans service officers. The funding supports positions in the district offices in Los Angeles, Oakland, and San Diego.

Background. The Veterans Services Division (VSD) within CalVet is tasked with connecting California veterans and their families with earned benefits and services. To perform this mission, the VSD provides advocacy, education, and service assistance to veterans as they attempt to access their state and federal benefits.

The CalVet manages three district offices throughout the state, which are co-located within the United States Department of Veterans Affairs (USDVA) Regional Offices in Los Angeles, Oakland, and San Diego. The district offices assist veterans with claims. When a veteran or family member chooses to provide the CalVet with power of attorney (POA) over a claim, one of the three CalVet district offices will represent the veteran or family member in the submission and appellate process for a USDVA benefit claim. The CalVet maintains POA for about 40 percent of USDVA claims in California, which amounted to approximately 59,000 claims in fiscal year 2014-15 filed by County Veteran Service Offices (CVSO) and the CalVet. The CalVet's role as the POA representative for the veteran claimants is to ensure the veterans and their families receive competent claims representation. In addition to these basic functions, the CalVet district office staff provides a wide variety of support to California's veterans, their families, CVSOs, USDVA, and veteran service organizations.

The Budget Act of 2013 included a $3 million General Fund allocation and 36 limited-term positions for three years to the CalVet to initiate the Joint Claims Initiative. The Joint Claims

Initiative is a partnership between the USDVA and the CalVet, which formed a 12-person "Strike Team" in each of the three district offices, designed to reduce the backlog of pending initial entitlement claims. Strike teams have helped reduce the first initial entitlement claims backlog at USDVA from about 70,000 to 7,000. The Budget Act of 2015 made permanent the 36 limited-term positions due to the lengthy claims process. Funding for these positions was on a limited basis, thus continued funding for 16 of the 36 positions, as well as funding to reclassify four existing positions, was requested in a spring finance letter and approved last year.

Staff Comment. The subcommittee considered this item at its March 9, 2017, hearing. Last year's request to fund these positions on an ongoing basis emphasized the importance of these positions and noted that, "without these positions only 11 staff would be servicing the 1.8 million veterans in California". The loss of funding for these positions will result in delays in veterans receiving their federal benefits. These positions have resulted in more federal dollars coming into the state and are critical for connecting our veterans with other federal and state programs and benefits.

Issue 2: Veterans Homes Admissions – TBL

Budget. The budget proposes TBL that would revise provisions relating to Veterans Homes admissions.

Background. CalVet provides qualified veterans with long-term residential care at one of eight Veterans Homes of California (VHC). Veterans' homes are located in Barstow, Chula Vista, Fresno, Lancaster, Redding, Ventura, West Los Angeles, and Yountville. All eight homes have the combined resources to house and care for close to 3,000 veterans. The homes are a system of live-in, residential care facilities offering a comprehensive plan of medical, dental, pharmacy, rehabilitation services, and social activities within a community environment.

For the current budget year, projected General Fund expenditures for the operation of the VHCs are $306.8 million. This amount does not include the cost of headquarters operations which ranges between $30 and $40 million annually. $121.8 million of the projected costs is offset by revenues, depicted in the table below. In total, this amounts to about $71,000 per bed per year.

Cost of Operating the VHC (in Millions)

	2016-17	2017-18
Total Cost of VHCs	$312.4	$306.8
Estimated Revenue		
Federal Per Diem	$68	$70
Member Fees	$23.9	$24.3
Aid and Attendance	$3.3	$3.4
Medicare	$8.2	$9.1
Medi-Cal	$12.8	$14.2
Other	$0.7	$0.8
Total Revenues	$116.9	$121.8
Total General Fund Cost	$195.5	$184.9

VHCs offer up to four levels of care: domiciliary (independent living), residential, intermediate nursing, and skilled nursing. Some VHCs also offer memory care – skilled nursing beds for residents with memory loss. Wait lists exist for all levels of care but the waitlists for skilled nursing and memory care are the largest. As of October 11, 2016, the wait list for skilled nursing was 46 percent of the total capacity for skilled nursing facilities across the VHCs, and the wait list for memory care exceeded the capacity across the VHCs.

Current admissions guidelines for VHCs in state law are broad. Generally, residents of California who are aged or have a disability, and discharged from active duty without a dishonorable discharge are eligible. Once deemed eligible, veterans area admitted to the homes on a first-come, first-served basis. Further departmental guidelines generally restrict admission to veterans who are 55 or older – or, at any age, veterans who are homeless or have a disability. Non-veteran spouses may also be admitted to VHCs. State law does prioritize distinguished, wartime veterans for admission, and departmental guidelines prioritize veterans with various hardships.

Little Hoover Commission Report. In March 2017 the Little Hoover Commission released a report entitled, "A New Approach to California's Veterans Homes." The report examined current funding mechanisms for the homes and the mission and scope of care provided among the state's veterans homes given the changing nature and needs of the state's veteran population. Some of these recommendations, related to VHC admissions, are included in the TBL. The eight recommendations for redefining the role of the VHCs in the 21st century, and stabilizing funding for the VHCs are listed below.

- The Legislature should amend the Military and Veterans Code to clarify the homes admissions policies and ensure access for the neediest veterans.

- The Legislature should amend the Military and Veterans Code to eliminate domiciliary care from the state's veterans home program.

- To determine whether Calvet should repurpose or shutter one or any of the veterans homes, CalVet should establish a process to systematically evaluate and review each veterans home as it approaches its 20-year mark, and periodically thereafter, and make recommendations to policymakers regarding the future of the home.

- As CalVet repurposes its veterans homes program savings should be redirected to home- and community-based veterans services.

- CalVet should conduct an assessment to consider the needs of California's overall veteran population.

- To streamline and modernize the state's veterans home program, the Governor and Legislature should amend the Military and Veterans Code to:

    - Define the scope of benefits included for veterans home residents.
    - Empower CalVet to establish daily costs of care per resident, for each level of care.
    - Clarify that veterans home residents are charged fees based on the cost of care and may pay for those fees from various sources, including the U.S. Department of Veterans Affairs per diem and other reimbursements, health insurance or private income.
    - Require veterans home residents to maintain adequate health insurance throughout their residence in a veterans home.

- CalVet should amend regulations to specify consequences for residents who do not maintain adequate insurance coverage or otherwise pay their share of their costs.

- To enhance fiscal transparency, CalVet should make available, online in an accessible format, its financial reports to the Legislature, which should be augmented to include:

    - The amount of state funds budgeted to each home and the amount of revenue collected, and if necessary, the remaining amount of expected revenue, over a period of several years.
    - The costs of care per resident, by level of care for each veterans home.
    - The costs of facility maintenance, as well as projections for future maintenance costs, for each veterans home.

Trailer Bill. Major changes to admissions guidelines proposed by the TBL are summarized below.

- Clarifies that CalVet has the authority to adopt regulations related to the operations of the VHCs, and allows for the adoption of emergency regulations under specific circumstances.

- Allows for the prioritization of veterans with a service-connected disability rating of 70 percent or greater from the U.S. Department of Veterans Affairs (USDVA) over other veterans for admission to the VHCs.

- Allows the department secretary to establish needs-based criteria for VHC admission.

- Gives CalVet clear authority to investigate applicants' suitability for admission and accurately determine applicants' and members' income and assets.

- Authorizes department to clarify in regulations the expenses the residents can expect to be covered through monthly fees and those for which they may incur additional charges.

- Authorizes the department to establish and charge fees for outpatient services rendered at a VHC.

- Clarifies that members are required to maintain insurance coverage, and allows the department to create a clear structure for costs that are and are not covered by the state and to offset the cost of care by billing insurance.

- Several technical changes to conform statute to current VHC structure and federal law and regulations are also proposed.

The proposed changes are both technical and substantive in nature. According to CalVet, the proposed changes are intended to be foundational and, over the long term, would better align the types of care offered in the homes with veterans' needs and serve the most disabled veterans who gave our county the most, as well as reduce the homes reliance on the General Fund. CalVet estimates that the proposed changes relating to the prioritization of veterans with specific disability ratings could save result in tens of millions of dollars in savings – due to enhanced per diem payments from the USDVA for their care. Each additional 70 percent service connected veteran placed in intermediate care or a skilled nursing facility would generate about $115,000 in additional revenue compared to a resident without this service-connected disability.

Legislative Analyst's Office (LAO). In January 2017, the LAO released a report entitled, "Understanding the Veterans Services Landscape in California." The report reviewed federally and state-funded services for veterans related to mental and behavioral health, transitional housing, long-term care, and employment assistance. While the report did not comment on the proposed TBL (it had not been released yet) it did provide several recommendations about the VHCs, some of which are included in the TBL. Specifically, the LAO suggested prioritizing the wait-list for VHCs leading to increased federal reimbursements for care. The LAO also suggested that the Legislature consult with CalVet regarding any additional staffing needs and other budget requirements the new admissions rules could create.

Staff Comments. One of CalVet's primary goals is to address and improve the operational framework for its VHC program by standardizing practices, improving regulations, and updating and clarifying the Military and Veterans Code. The proposed TBL attempts to help accomplish that goal. There is significant overlap between the TBL, the Little Hoover recommendations, and recommendations by the LAO. The subcommittee may wish to consider how this proposal will affect those veterans who do not meet the prioritization criteria and how potential savings could be utilized, specifically whether the savings should remain in the CalVet budget.

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

OUTCOMES

Thursday, May 11, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultant: Renita Polk

PART A

PROPOSED FOR VOTE-ONLY

DISCUSSION AND VOTE ITEMS

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 11, 2017
9:30 a.m or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

Consultant: Mark Ibele

ITEMS FOR VOTE-ONLY

OVERSIGHT: FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Department of FI$Cal
Department of Technology
State Controller's Office

Legislative Analyst's Office

ITEMS FOR DISCUSSION AND VOTE

ISSUES PROPOSED FOR VOTE-ONLY

0950 STATE TREASURER'S OFFICE

Issue 1: Data and Government Transparency (BCP and BBL)

Governor's Proposal. The budget proposes $799,000 (reimbursements) to fund five permanent positions for data and government transparency efforts of the State Treasurer's Office (STO). The resources for these positions will be provided by the various boards, commissions and authorities associated with the STO. The funding will provide support for five technology positions – three senior programmer analysts, one systems software specialist III, and one staff information systems analyst. These positions are currently in place on a limited-term basis which expires at the end of the current year.

Background. The overall project is an effort to increase the public access to programs, data and information provided by STO and the associated boards, commissions and authorities through various web-based programs, including: Debtwatch debt data website; California Debt and Investment Advisory Commission (CDIAC) Issuance Documents project, California Business Incentives Gateway (CBIG); Treasurer's Awards Transparency project; BuyCaliforniaBonds website upgrade project; and various other programs. This issue was heard in Subcommittee No. 4 on March 2 and held open in order to develop language that would address the agency's concern regarding current staffing and limited-term funding. The proposed budget bill language states:

> *Notwithstanding Government Code Section 19080.3, the existing Data and Government Transparency Unit appointments set to expire on June 30, 2017 may remain limited-term appointments until the funding approved by the Legislature for their positions expires on June 30, 2019.*

Staff Comments. While the data and government transparency activities do not rise to the level of essentiality, funding on a temporary basis would at least be consistent with previous subcommittee actions; permanent funding seems inappropriate at this time. The department has raised issues regarding the difficulty of retaining existing trained staff for the program, given the restrictions on limited-term positions, and this issue will be addressed through budget bill language. The language would allow for the continuation of existing staff.

Staff Recommendation. Approve request on a two-year, limited-term basis, and proposed budget bill language.

Vote:

0971 CALIFORNIA ALTERNATIVE ENERGY AND ADVANCED TRANSPORTATION FINANCING AUTHORITY

Issue 1: Administration of California Hub for Energy Efficiency Financing Pilot Programs (BCP)

Governor's Proposal. The California Alternative Energy and Advanced Transportation Financing Authority (CAEATFA) has requested an adjustment to its spending authority and a budget augmentation for additional staff, pursuant to its administration of California Hub for Energy Efficiency Financing (CHEEF) pilot programs. The budget request would rely on ratepayer funds (non-General Fund) and includes: reimbursement and expenditure authority in the amount of $3.7 million in 2017-18, $3.5 million in 2018-19 and $3.0 million in 2019-20; extended authority for nine existing positions through 2019-20; an additional three staff positions; and, an upgrade of two existing positions. The request re-appropriates $1.8 million from previous years and includes $8.4 million in additional ratepayer funds pending formal approval by California Public Utilities Commission (PUC).

Background. The CHEEF pilot programs are designed to encourage private lenders to develop financial products for energy efficiency projects. The pilots offer various forms of credit enhancements to provide additional security to participating financial institutions, attract private capital to energy efficiency finance, and expand consumer access to enhanced loan terms. CAEATFA was selected as the administrator of the CHEEF pilot programs which were approved for a two-year period by the Legislature and the PUC, and have been previously subject to review in Subcommittee No. 2 of the Senate Committee on Budget and Fiscal Review. The pilots were originally to be implemented through 2016-17; however, the PUC approved a decision which clarified that the 24-month term for the pilot programs should align with the enrollment of the first loan in that particular finance pilot. This change, in combination with a longer than anticipated implementation schedule, unanticipated complexity, infrastructure development, stakeholder involvement, and staffing changes, requires extending the schedule for the pilots. Consistent with the budget request, the pilots will run through 2019-20. This issue was heard by Subcommittee No. 4 on March 2 and held open pending receipt of additional workload documentation.

Staff Comments. The CHEEF pilot programs have been previously approved by the Legislature; the additional $8.4 million in ratepayer funds would be consistent with prior actions and are required to be formally approved by the PUC through its standard governance process. In addition, the upgrade to existing staffing is a reasonable step given the technical and specialized nature of the programs and issues related to personnel retention. The initial documentation relating the necessity of an additional three positions was not adequate to warrant their approval. The department subsequently provided additional data and documentation regarding this request.

Staff Recommendation. Approve as budgeted.

Vote:

0956 CALIFORNIA DEBT AND INVESTMENT ADVISORY COMMISSION

Issue 1: Personal Services Augmentation (BCP)

Governor's Proposal. The California Debt and Investment Advisory Commission (CDIAC) has requested an increase of $200,000 (special funds) in its expenditure authority for personal services (wages, salaries and benefits) to offset the growth of personal services expenditures that has occurred at the expense of other mandated activities.

Background. CDIAC provides information, education and technical assistance regarding debt issuance and public funds investing to state and local public agencies and other public finance professionals. CDIAC was created in 1981 for the purpose of serving as the state's clearinghouse for public debt issuance information and assisting state and local agencies with the issuance, monitoring, and management of public financings. The scope of responsibilities of CDIAC was later expanded to include assistance activities related to public investing.

Staff Comments. CDIAC has made a reasonable case for the augmentation in expenditure authority to offset the growth in personal services that has occurred as staff vacancies have been filled. As a percentage of the overall budget authority, these expenses have grown from about 50 percent in 2012-13 to a projected 63 percent in 2017-18. This has left a declining share of the overall budget authority for other discretionary purposes, including operational expenses to improve services.

Staff Recommendation. Approve as budgeted.

Vote:

0840 STATE CONTROLLER'S OFFICE

Issue 1: FI$Cal Implementation of Control Functions (BCP)

Governor's Proposal. The budget includes a request from the SCO for $1.5 million (General Fund) and 13 positions to transition the state's Accounting Book of Record (ABR) from the SCO legacy system to the Financial Information System for California (FI$Cal) system and provide support to the FI$Cal departments.

Background. The activities associated with establishing and maintaining the ABR are of significant importance to the state and deeply integrated with departments. The conversion to FI$Cal from the legacy system will allow the SCO and departments to operate on the same basis – modified accrual basis of accounting – as opposed to the different systems used at the current time. As part of this process, the SCO will have access to encumbrances and accrual and other non-cash 'obligations.' The process will facilitate and streamline the documentation necessary for the production of the Budgetary Legal Basis Annual Report (BLBAR) and the Comprehensive Annual Financial Report (CAFR).

The responsibilities associated with this component of the FI$Cal project are essential elements of implementing and maintaining financial management and control functions in the new system. The functions associated with this effort include mapping business processes to FI$Cal, training staff in FI$Cal processes, cash management, journal transaction posting, budget and appropriation control, bond management recording, loan recording, statewide financial reporting for annual BLBAR and CAFR reports, and producing the monthly statement of receipts and disbursements.

Staff Comment. This issue was heard in Subcommittee No. 4 on March 23rd. Staff has no significant concerns with the proposal; however, the overall timeline associated with the SCO implementation of FI$Cal remains a concern.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 2: Vendor Management File (BCP)

Governor's Proposal. The budget includes an SCO request for $1.2 million ($674,000 General Fund) in 2017-18, $1.1 million ($655, 000 General Fund) in 2018-19, and $488,000 ($278,000 General Fund) in 2019-20 and ongoing. The resources will support 12 positions, seven limited-term for the initial two years, and five permanent. The resources and positions will be used to implement the Vendor Management File (VMF), a component of FI$Cal.

Background. Prior to FI$Cal, state agencies, boards, commissions and other state entities independently maintained their own vendor files. The implementation of the VMF began in July 2014, with the first FI$Cal 'wave' (now termed release). Releases will continue through 2018, based on the current schedule. The VMF is an important part of FI$Cal, and used by departments for procurement of state assets and resources, by the SCO for mandated reporting contractor payments, as well as for a variety of other activities. While the SCO has managed the VMF using existing resources of five positions, it expects the future workload to exceed existing capabilities, especially as additional waves of departments come on line. Total departments will expand from the current 63 to 151. In terms of expected workload, this is expected to grow over the next couple of years due to development, implementation and maintenance of new functionality for vendors and departments. In terms of VMF requests, these are expected to total 23,043 in 2016-17, 26,131 in 2017-18, and 31,044 in 2018-19, before dropping to a stable 14,600 in 2019-20 and beyond. The limited-term funding will be sufficient to provide resources during the initial phase, with five positions for ongoing workload.

Staff Comment: This issue was heard in Subcommittee No. 4 on March 23rd. Staff has no significant concerns with the proposal; however, the timeline associated with the SCO implementation of FI$Cal remains a concern.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 3: Property Tax Postponement Program (SFL)

Spring Finance Letter Request. The State Controller's Office (SCO) requests $358,000 three-year limited-term funding from the Senior Citizens and Disabled Citizens Property Tax Postponement Fund (PTP Fund) to support three positions in 2017-18 through 2019-20 for the administration of the Property Tax Postponement (PTP) Program. The SCO requests that funding for three of the limited-term positions due to expire at the end of the 2016-17 fiscal year be extended for an additional three years beginning in 2017-18.

Background. The California Constitution authorizes and establishes the PTP Program, administered by the SCO. The PTP Program provides low-income seniors, and persons who are blind or have a disability, the opportunity to stay in their homes, by making property tax payments on their behalf. It prevents these individuals from defaulting on their property taxes and ultimately ending up homeless or in an alternative living situation due to the property being sold by the county in a tax-defaulted land sale. Additionally, the program impacts counties' revenues. It not only provides revenue, but also reduces their workload with respect to collections and defaults resulting in tax-defaulted land sales. Currently, the SCO has 6.7 authorized two-year limited-term positions that will expire at the end of 2016-17.

Staff Comment. Staff has no concerns with this proposal

Staff Recommendation: Adopt Spring Finance Letter.

Vote:

9100 TAX RELIEF

Issue 1: Local Government Census Work (BCP)

Governor's Proposal. The Governor has proposed $7 million in grant authority to local governments that are to be used for participation in the Census Bureau's Local Update of Census Addresses (LUCA) program. The one-time program will be administered by the Department of Finance and will provide financial incentives for local governments to review and update the master address lists used to conduct the decennial census.

Background. Local governments are in a suitable position to provide information regarding housing, living quarters and other factors that can help inform the census undertaking. To provide assistance in this regard, the Legislature in 2007-08 appropriated $3 million for grants to local governments to assist in the census undertaking, with grant amounts ranging from $1,000 to $75,000. Possibly because of the potentially low grant amount, the participation rate among 535 counties and cities was only 42 percent, drawing down $1.8 million of the amount of funds available. The state also provided $2 million to the Complete Count Committee for the 2010 Census, which encouraged full participation in the census. (The Complete Count Committee also received $10 million in private funding.)

Under the proposed program, grants would range from $7,500 to $125,000, thus encouraging greater participation. Greater participation in the program for this census round is important, since the Census Bureau will no longer be conducting 100 percent canvassing, but rather rely on the US Postal Service, state and local governments, and third-party vendors to update the 2010 Census address list. The census results can have an impact on the calculation of federal funding; the undercount in 2000 cost the state an estimated $1.5 billion in federal funds over ten years for eight programs that rely on census data. The census is also used for congressional apportionment purposes.

Staff Comment: This issue was initially discussed by Subcommittee No. 4 on March 30th. The proposal for increased resources to assure an accurate census count for the state is fiscally prudent, and will assure that California federal representation accurate reflects its population. It is not clear to staff how the exact figure of $7 million was arrived at and whether the amount reflects need, efficiency or simply an outside parameter. In addition, LAO raises a reasonable option regarding assessors. The department should consider language and program design that would incorporate the county assessors as an option, where appropriate.

Staff Recommendation: Approve as budgeted.

Vote:

BUDGET OVERSIGHT

FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Miriam Ingenito
Director, Department of FI$Cal

George Lolas
Chief Operating Officer, State Controller's Office

Amy Tong
Director, Department of Technology

Background. One of the most vital projects for the state is FI$Cal, the statewide project being undertaken to integrate and re-engineer the statewide business processes related to budgeting, accounting, procurement and cash management. The goal of the project is to provide a unified and consistent financial system the will be used by virtually all state entities. System integration for the project is being provided by Accenture LLP; independent project oversight (IPO) by the California Department of Technology (CDT); and, independent verification and validation (IV&V) by the Public Consulting Group. Last year, the Legislature approved a permanent administrative structure for FI$Cal, establishing it as a stand-alone department.

FI$Cal is an ambitious and complex project, and in reflection of this, the project 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 6, approved last year. Under the changes in SPR 6, the project transitioned from implementing 'waves' to more independent 'releases', allowing departments that are not prepared to implement on the scheduled date to come on line at a later time. The amended approach established new programs to assist departments in transitioning to the project, revised the implementation schedule for remaining releases, and allowed more time for knowledge transfer to the state. These changes resulted in increased costs for the project and a two-year delay in the overall timeline for the project. The two-year time extension pushed out project completion from July 2017 to July 2019. The costs also expanded significantly to $910 million, representing an increase of $237 million from those in SPR 5 dated January 2014.

Costs and position authority for the major partners in the FI$Cal project (other than the project itself) have been and are expected to continue to be, substantial. Among the four partners, there are 110 positions in the current year, with 57 of these (51 percent) authorized to the SCO, 24 (22 percent) to the Department of General Services, 20 (18 percent) to the Department of Finance, and 9 (8 percent) to the State Treasurer's Office. The amount budgeted (or expected to be authorized) among the partners, is shown below:

FI$Cal Partner Resources
2010-11 through 2018-19
(Millions of Dollars)

Partner	FI$Cal Budget*
State Controller's Office	$65.3
State Treasurer's Office	$9.1
Department of Finance	$25.8
Department of General Services	$28.0

*Includes personal services, OE&E, baseline adjustments and other.

The auditor's Letter Report of January 2017 indicates that the project continues to experience some delays, despite the two-year time extension provided in SPR 6. While the delays represent a continuing concern, it is unclear whether these are the responsibility of FI$Cal or the participating departments, or both. It should be noted that many of the delays are due to failures on the part of departments to adequately staff the conversion to the new system. Specifically, the most recent letter report from the auditor identifies as a significant driver of the most recent SPR, the unanticipated need to provide continuing support from FI$Cal to departments in year-end reconciliation and budget close-out. More recently, in some cases, it appears that delays or time extensions have been necessitated by departments unwilling or unable to make a decision on how to proceed at a certain decision point.

The auditor 'remains concerned' regarding the number and size of the departments that have yet to implement FI$Cal, as well as the compressed time frame proposed for implementation. Given the challenges that were presented with smaller, fewer and less complex departments, the auditor notes potential issues with the project's ability to implement the next releases (scheduled for July 2017 and July 2018), which consist of major state departments.

The Senate Committee on Budget and Fiscal Review conducted an oversight hearing on the project in February of this year. At that hearing, significant concerns were raised regarding the delays in the implementation of the project, and whether additional time and or resources should be considered in order to ensure success. This oversight hearing is scheduled to provide Subcommittee No. 4 with updated information from the key players in the project. Last year, in conjunction with FI$Cal budget proposals, the LAO weighed in on the overall status of the project, noting that the FI$Cal Project involves the development of an extremely ambitious and complex IT system and significant work remains before the system is fully implemented. LAO thinks a future SPR is likely that would further extend the project schedule and increase costs.

Staff Comment. In addition to the February hearing held in February, Subcommittee No. 4 has also heard from the SCO and CDT regarding their roles in the project and their assessment of the current timeline. The representations to this subcommittee have not necessarily appeared totally consistent, and the subcommittee members may benefit from additional clarification of this important project. In addition, since the Senate hearings, the Department of FI$Cal has indicated it has made some adjustments regarding the implementation of certain project components in order to help will ensure its success.

Staff Recommendation. Informational item.

ISSUES FOR DISCUSSION AND VOTE

0860 Board of Equalization

Issue 1: Sales and Use Tax Manufacturing Exemption (TBL)

Proposal. The proposal would address certain components in the existing tax program that provides an exemption from the state sales and use tax for specified manufacturers. The proposed trailer bill language would extend by five years from 2022 to 2027, the sales and use tax exemption on manufacturing equipment. It would also expand the exemption to include property used in electricity generation, production, storage, or distribution of electric power, commencing January 1, 2018. Finally, the language change the definition of "useful life," (currently defined as one or more years), to include property under certain warrantees or maintenance contracts of one or more years, or typically replaced by businesses at intervals or one or more years.

Background. The exemption from the sales and use tax for specified manufacturers was created in 2013 as part of the Governor's economic development initiative. Use of the exemption has fallen short of the estimated amounts based on Board of Equalization (BOE) data. As part of the original legislation, the BOE was required to identify options – including those identified in the proposed language – for increasing exemptions to meet estimated amounts, as part of its report to the Joint Legislative Budget Committee regarding the total dollar amount of exemptions granted. According to BOE, the proposed would have the following fiscal impacts: the expansion to include electricity generation, storage, transmission, and distribution results in revenue losses of $41 million in 2018-19, and $84.5 million in 2019-20; the inclusion of the agricultural industry results in revenue losses of $2 million in 2017-18, and $4 million in 2018-19; and information is unavailable to estimate the revenue effect of changes to the definition of useful life.

Staff Comment. The Department of Finance indicates that it plans to address the components of the 2013 legislation (manufacturing equipment exemption, New Employment Credit, and the California Competes Tax Credit) next year. Given that the three programs have been in place since late 2013 and early 2014, only very limited data on the programs has been available to date. These tax programs also have a significant impact on the state's overall fiscal condition and – as with any 'spending' program (whether direct or through the tax code) – they should be considered in the context of the state's overall financial health.

Staff Recommendation. Hold open.

Vote:

Issue 2: County of Los Angeles Measure H - Homelessness (TBL)

Proposal. According to the proponents, the proposed language would clarify that a local sales tax measure adopted by the County of Los Angeles can be collected in jurisdictions that have reached their two percent cap on local sales taxes. The county-wide measure (Measure H) was drafted to comply with the two percent statutory limit on local sales taxes, by taking into account the seven cities within the County which have reached the two percent cap. Under Measure H, transactions in those cities which have reached the 2 percent sales tax cap are not subject to the ¼ percent additional sales tax. The Board of Equalization (BOE) has requested that the County obtain statutory clarification to implement Measure H.

Background. The County of Los Angeles in 2015 developed strategies to reduce homelessness. In February 2016, the Board of Supervisors approved a set of strategies that were designed to: prevent homelessness, subsidize housing, increase income, provide case management and services, create a coordinated system, and increase affordable/homeless housing. The board allocated $100 million in one-time funding to support the initial implementation of the approved strategies, while expressing its intent to pursue an ongoing revenue source to sustain and expand the strategies. In December 2016, the board placed Measure H, a 10-year special ¼ percent sales tax to prevent and combat homelessness, on the March 7, 2017 countywide ballot, which was approved by approximately 70 percent of the voters.

Measure H is estimated to generate $355 million annually and enable 45,000 homeless families and individuals to move from homelessness into permanent housing in the next five years, while enabling an additional 30,000 families and individuals to avoid becoming homeless. Measure H will primarily fund outreach, interim housing, rental subsidies, and supportive services, and will leverage efforts to increase the supply of permanent supportive housing, including the State of California’s No Place Like Home initiative and other local measures.

Staff Comment. The language submitted provides the clarification needed by the BOE, and is specific to Measure H, with no impact on any other sales tax which any city or county has enacted or may seek to enact in the future. However, staff is not aware than this particular method of exempting jurisdictions (who participated in the election that authorized Measure H) from the tax if its collection would result in exceeding the two percent cap has ever been previously enacted. In cases that the imposition of a tax would result in exceeding the cap, local jurisdictions generally request the Legislature for statutory authority to increase the cap headroom.

Staff Recommendation. Hold open.

Vote:

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 11, 2017
9:30 a.m or upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

OUTCOMES

Consultant: Mark Ibele

ITEMS FOR VOTE-ONLY

Except as noted, all Vote-Only issues below Approved as Budgeted, 2-0 (Glazer not voting)

OVERSIGHT: FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA (FI$CAL)

Department of FI$Cal
Department of Technology
State Controller's Office

Legislative Analyst's Office

ITEMS FOR DISCUSSION AND VOTE

Public Comment

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 18, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: James Hacker and Renita Polk

PART A

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION AND VOTE

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

ITEMS PROPOSED FOR VOTE-ONLY

0690 OFFICE OF EMERGENCY SERVICES (OES)

Issue 1: Nonprofit Security Grant Program – May Revision BCP

Governor's Proposal. The Governor's May Revision includes a $500,000 appropriation (Anti-Terrorism Fund) for the Nonprofit Security Grant Program (NSGP).

Background. The U.S. Department of Homeland Security's Federal Emergency Management Agency (FEMA) administers the NSGP. The program provides support for target hardening and other physical security enhancements to nonprofit organizations that are at high risk of terrorist attack and located within one of the specific Urban Area Security Initiative (UASI)-eligible urban areas. The program seeks to integrate the preparedness activities of nonprofit organizations that are at high risk of a terrorist attack with broader state and local preparedness efforts. The NSGP also serves to promote coordination and collaboration in emergency preparedness activities among public and private community representatives, as well as state and local government agencies.

The 2015-16 budget act provided $2 million to supplement and enhance the federally-funded NSGP. OES established the NSGP with the $2 million appropriation. NSGP grant funding is awarded on a competitive basis. Scoring criteria was established and grants were awarded for the top-scoring applications until all allocated funding was awarded. Scoring criteria was based on threat, vulnerability, and consequence faced by a specific facility/location. Allowable costs are focused on target hardening activities.

Staff Comment. The subcommittee will hear an advocate proposal that requests $1.5 million for the Nonprofit Security Grant program in addition to the $500,000 requested in the Governor's May Revision proposal.

Staff Recommendation. Approve Governor's May Revision proposal for a $500,000 appropriation for the NSGP.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 1: Bureau for Private Postsecondary Education – Private Postsecondary Education Act (SB 1192)

Governor's Proposal. The Bureau for Private Postsecondary Education requests $1,008,000 in fiscal year 2017-18, and $928,000 annually thereafter, to fund ten positions to implement the provisions of Senate Bill 1192 (Hill), Chapter 593, Statutes of 2016. The bureau also requests a one-time increase of $1 million in 2017-18 to fund relocation costs and $250,000 in 2017-18 and annually thereafter for increased rent costs.

This proposal requests funding and position authority as follows:

- $180,000 in 2017-18, and $164,000 annually thereafter, to fund two Staff Services Analysts (SSA) to regulate out-of-state institutions offering distance education to California students.

- $629,000 in 2017-18, and $581,000 annually thereafter, to fund one Office Technician (OT), two Associate Governmental Program Analysts (AGPA), one Associate Information Systems Analyst (AISA), one Research Program Specialist (RPS) I, and one Career Executive Assignment A (CEA A) to establish and maintain the Office of Student Assistant Relief (OSAR).

- $199,000 in 2017-18, and $183,000 in 2018-19, to fund one SSA and one AGPA to receive and process claims anticipated to be submitted by Corinthian students upon the Student Assistance Relief Fund (STRF).

- $1 million one-time in 2017-18 for relocation costs, and $250,000 in 2017-18 and annually thereafter, for increased rent costs.

Staff Comment. The subcommittee considered this proposal at its March 9, 2017 hearing.

Staff Recommendation. Modify proposal to approve the ten positions for three years.

Issue 2: Board of Registered Nursing – Military Education and Experience

Governor's Proposal. The Board of Registered Nursing is requesting three Nursing Education Consultant (NEC) positions, and $389,000 in fiscal year 2017-18, and $365,000 ongoing, to ensure all approved nursing programs have a method(s) to evaluate military education, experience, and training that may qualify to meet nursing education requirements; and evaluate military education, experience and training at the time of application to qualify to take the National Council Licensure Exam - Registered Nurse (NCLEX-RN) and obtain licensure in California.

Staff Comment. The subcommittee considered this proposal at its March 9, 2017 hearing.

Staff Recommendation. Modify proposal to provide $130,000 in fiscal year 2017-18 ($122,000 ongoing), and one permanent position.

Issue 3: Consumer Affairs Administration – BreEZe System and Credit Card Funding

Governor's Proposal. DCA's Consumer and Client Services Division (CCSD), is requesting appropriation authority of $16,762,000 in fiscal year 2017-18, $19,450,000 in 2018-19, and $4,619,000 ongoing, for the continued support of BreEZe Maintenance & Operations (M&O). The total costs are based on system support costs and projected workload pertaining to the BreEZe M&O activities for 2017-18 and 2018-19 and 43 positions to support the system.

This request also includes $3,033,000 in 2017-18 and ongoing for all boards and bureaus to fund credit card processing fees on behalf of users of credit card payments through the BreEZe system.

Staff Comment. The subcommittee considered this proposal at its March 9, 2017 hearing.

Staff Recommendation. Approve as requested, but reduce DCA's Accenture contract by $1 million in 2018-19.

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1: Community Development Block Grant Program

Governor's Proposal. The Governor's January budget requested one position and $157,000 (General Fund) ongoing, to meet the federal match requirement for California's Community Development Block Grant (CDBG) program and streamline the CDBG program in response to reduced federal funding levels. This proposal includes trailer bill language.

This item was first heard in Budget Subcommittee No. 4 on April 27th.

Background. CDBG has proposed trailer bill language to streamline the program to address some of these issues. Specifically, HCD proposes changes including reducing the set-aside for economic development projects (which are often undersubscribed), speeding the redistribution of unused funds, and clarifying the uses of program income (income generated and returned to local governments after initial project award), as well as reducing the number of activities eligible for funding. The requested position is intended to implement the changes resulting from this trailer bill and to meet the required state match for federal CDBG funds.

Staff Comments. HCD's proposal to streamline the CDBG program is not without merit. However, the proposed trailer bill language was drafted without significant input from local governments and other involved stakeholders, and would likely negatively impact rural and low-income communities that rely on the program. The department should work with those impacted stakeholders to determine ways to streamline the program without negatively impacting those communities. In the meantime, the department should continue to operate the program as it has for the last several years.

Staff Recommendation: Approve the requested permanent position. Reject the proposed trailer bill language and adopt placeholder trailer bill language for CDBG to work with impacted stakeholders to develop a workable approach to streamlining the program.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 1: Electric Vehicle Charging Infrastructure – BCP and BBL

Governor's Proposal. The DGS Office of Sustainability requests an ongoing augmentation of $6.7 million ($3.4 million from the Service Revolving Fund and $3.3 million General Fund) and three permanent positions to begin the installation of electric vehicle service equipment (EVSE) in state facilities. Funding will be used to assess, design, and install electric vehicle charging infrastructure to address the Governor's Executive Order B-16-12, Executive Order B-18-12, and the California Global Warming Solutions Act of 2006.

The budget also proposes budget bill language (BBL) that requires DGS to certify that it has maximized non-state sources of funding prior to expending state funds.

Staff Comment. The subcommittee considered this item at its March 30, 2017, hearing.

Staff Recommendation. Approve budget bill language and funding for 2017-18, but reject funding for the out years.

Issue 2: State Office Infrastructure Plan (TBL)

Governor's Proposal. The budget includes a proposal to eliminate the $300 million deposit to the State Building Infrastructure Fund (SPIF) that was planned for 2017-18, through trailer bill language. The funding was to be used to partially fund new state buildings, consisting of the O Street Building, Resources Building and Capitol Annex. As a result of the reduction and other factors, the Administration has also notified the Joint Legislative Budget Committee (JLBC) regarding the building projects, which could have an impact on the financing plans.

Background. The 2016-17 budget established the SPIF and provided $1.3 billion from the General Fund to the SPIF over two years. The $1.3 billion is intended to provide pay-as-you-go funding to replace three state buildings the Food and Agriculture Annex (O Street Building), Natural Resources Building, and State Capitol Annex. The fund is continuously appropriated for the renovation and construction of state buildings. The statutory language governing the fund allows the Administration to establish and move forward with projects funded by the SPIF without having to receive legislative approval through the traditional state budget process, as is typically required for capital outlay projects. Instead, the language requires the Administration to provide certain notifications and quarterly reports to the Legislature related to SPIF-funded projects. Since the passage of the 2016-17 budget, the Administration has been moving forward with the O Street Building and the new Natural Resources Building, including providing a notification of its intent to spend a total of $14.9 million from the fund on the development of the cost, scope, and delivery method for these buildings in a notice to the JLBC in February 2017.

Staff Comment. The Administration state project plans continue to be somewhat in flux, but given the slight tightening of state finances, the proposed cancellation of the $300 million deposit to the SPIF is fiscally prudent.

Staff Recommendation. Adopt proposed trailer bill language.

Vote:

8940 CALIFORNIA MILITARY DEPARTMENT (CMD)

Issue 1: Special Fund for Federally Funded Workers' Compensation Claims – TBL

Governor's Proposal. The CMD requests that a special fund be established for the one-time deposit of $4.5 million in federal funds, ongoing authority to receive federal monies into the special fund for workers' compensation premiums that are charged to federal cooperative agreements, and ongoing expenditure authority from the special fund to pay workers' compensation claims filed by employees who are funded through federal cooperative agreements. Trailer bill language is proposed to establish this fund.

Staff Comment. The committee considered this item at its May 11, 2017 hearing.

Staff Recommendation. Approve as requested and adopt proposed TBL.

PROPOSED FOR DISCUSSION AND VOTE

VARIOUS DEPARTMENTS – ADVOCATE PROPOSALS

Issue 1: OES Comprehensive Services for Trafficking Victims

Proposal. The subcommittee received a proposal requesting $15 million (General Fund) in ongoing funding to support victims of human trafficking and conduct the first comprehensive study on the prevalence of human trafficking in California. The funds would be distributed by OES through a grant program to service providers.

Background. According to the National Human Trafficking Resource Center (NHTRC), California ranks at the top of the NHTRC hotline calls. In 2015, 3,609 calls were received from California, with a total of 979 human trafficking cases reported. California is particularly vulnerable to human trafficking because of factors such as large runaway and homeless youth populations, proximity to international borders, the number of ports and airports, a significant immigrant population, and a large economy including industries that attract forced labor. Service providers in California currently report wait lists for trafficking victim services and law enforcement partners struggle to find shelter for victims they have identified.

In 2014, the Legislature approved a $10 million one-time funding request for organizations providing comprehensive direct services to victims of trafficking. The next year, in 2015, the Legislature again approved a request for $10 million in one-time funding for the same purpose. OES solicited funding proposals from service providers for an allocation of funds over a 24-month grant period, which ends December 31, 2017.

This request consists of six components:

1. Case management resources. Survivors who have been long-term victims of abuse and trauma, often since childhood, are in need of comprehensive case management services in order to access specific recovery programs. Existing systems often struggle with addressing the specialized needs of trafficking victims. Having specialized case managers to help with life skills, transportation, employment, education, access to medical and mental health services and other basic necessities is essential to any trafficking survivor's recovery. This consistent trusted advocate is important to ensure stability during a survivors' journey to stability in a new life.

2. Legal resources. Trafficking victims have some of the most complex legal needs, spanning all court systems, including claims for immigration, criminal, and civil relief. Trafficking victims' legal needs are often more complex than other victim groups because too often they have been arrested and criminally charged with crimes their trafficker forced them to commit. Specialized attorneys are needed to interface with all the complex legal system trafficking survivors must face.

3. Shelter resources. Trafficking victims are often vulnerable to exploitation because they do not have traditional safety nets of support and often have no place to go. Service

provider experience shows that victims may return to their trafficker if they are not provided with appropriate housing. Providers report that law enforcement partners often arrest trafficking victims to get them shelter and other services as there are no other local options for them. "Safe, long-term shelter is particularly scarce for male and underage sex trafficking victims," as many programs restrict beds to female victims of trafficking.

4. Training and technical consultation resources. Training and technical consult for existing programs and other first responders such as medical & mental health providers is critical to ensure appropriate services for trafficking victims when referred to these essential services. Additionally, increased awareness and education will ensure early identification and prevention of trafficking in California by giving the tools and knowledge to those individuals in California best situated to identify and prevent potential cases of human trafficking.

5. Prevalence study. While California is estimated to have the highest rates of trafficking in the United States, there is no comprehensive, robust statewide research on the annual number of victims, the nature of the trafficking (sexual exploitation vs. labor exploitation), demographic breakdowns of victims, or concentrations of victims in particular geographic areas within California. This study will involve data mining of reported cases, accessing intake records from victim service providers, and selected locations for primary data collection. Collecting robust data will assist both law enforcement and service providers in understanding the scope and severity of human trafficking in California.

6. Evaluation of service providers. While there are dozens of service providers offering assistance to trafficking victims in California, the effectiveness and quality of these services has not been rigorously studied. An evaluative study is crucial to ensure that California's funds are being well-spent in the most targeted and strategic way possible, in order to provide the greatest number of victims with the highest quality of care.

Issue 2: OES Nonprofit Security Grant Program – Request for Additional Funding

Proposal. The subcommittee received a proposal requesting a $1.5 million appropriation to expand the Nonprofit Security Grant program (NSGP) in OES.

For background information on the NSGP please see page 3 of this agenda.

Issue 3: California Humanities

Proposal. The subcommittee received a proposal requesting a $500,000 appropriation for the nonprofit organization California Humanities.

Background. The California Humanities was founded in 1975 as a granting and programmatic organization that promotes the humanities as relevant, meaningful ways to connect Californians in order to become a better California. The organization produces, funds, creates, and supports accessible humanities-based projects and programs across the state.

Issue 4: Armenian-American Museum Funding

Proposal. The subcommittee received a proposal requesting a $1 million appropriation for the next three fiscal years to fund the Armenian-American Museum.

Background. The Governor's May Revision included $1 million in funding for the Armenian-American Museum. This request would increase that to a total of $2 million for 2017-18, and provide $1 million in 2018-19 and 2019-20.

0651 OFFICE OF PLANNING AND RESEARCH

Issue 1: Precision Medicine

Governor's Proposal. The Governor's Office of Planning and Research (OPR) requests for funding of $10 million in General Fund in Fiscal Year (FY) 2017-18 for continued administration and investment in the California Initiative to Advance Precision Medicine (CIAPM).

Background. In April 2015, the OPR launched the California Initiative to Advance Precision Medicine, with an appropriation of $3 million in FY 2014-15. The University of California, San Francisco (UCSF), was selected as the lead partner to OPR, in collaboration with UC Health, which represents UC's academic medical centers and health professional schools.

The initial $3 million appropriation was used to support two precision medicine demonstration projects (awarded through a competitive, peer-reviewed process similar to the National Institutes of Health), an initial phase of an asset inventory database, one administrative position, and professional convenings related to grant making and policy development. In FY 2016-17, an additional $10 million was appropriated to OPR to build on the initiative through additional grant making, which resulted in six new demonstration projects receiving awards following a second statewide competitive, peer-reviewed process, and funding of other related activities, including contract and grant oversight, economic analysis of precision medicine, and next phase of asset inventory. Follow-on funding for previously awarded projects is also allowed under this appropriation.

LAO Comments. The LAO has not provided comments on this proposal. However, the proposal is very similar to a request made last year. The LAO provided the following comments on that proposal:

What Is the State's Role in Funding Research? California's academic and research institutions conduct a wide variety of research with the potential to improve Californians' health and wellbeing. Most of the state's research institutions, including UC, receive a majority of their direct funding for research from federal, private, and other non-state sources. The state currently does not have a framework for prioritizing the allocation of General Fund monies across various research topics. Without such a framework, it is difficult to evaluate the Governor's proposal. Factors that may be reasonable to consider include:

- Are federal resources for the research inadequate?
- Are economic incentives insufficient to spur privately funded research?
- Could the research yield benefits that are particularly important for California?

Based on these criteria, we find it difficult to justify allocating state funding for precision medicine research over other research areas.

We also note that, in addition to previous federal allocations, Congress recently appropriated $190 million in federal funds for precision medicine research in 2017 (H.R. 244).

Staff Comments. Precision medicine aims to use advanced computing tools to aggregate, integrate, and analyze large amounts of data from research, clinical, personal, environmental, and population health settings to better understand diseases and develop and deliver more precise diagnostics, therapeutics, and prevention measures.

While precision medicine has a great deal of promise, staff shares some of the LAO's concerns. Specifically, staff notes that OPR has not fully explained why the state is the appropriate funding source for this activity, nor does the proposal seem consistent with previously-passed trailer bill language directing OPR to manage the program in a competitive manner. However, this request is consistent with previous legislative decisions.

Staff Recommendation: Hold open.

Issue 2: State Board of Education Accountability System Support

Governor's Proposal. The Governor's May Revision requests $280,000 in non-Proposition 98 General Fund for Fiscal Year (FY) 2018-19, and $572,000 annually for FY 2019-20, 2020-21, and 2021-22 to support three limited-term positions for the State Board of Education's implementation of the Local Control Funding Formula (LCFF) as authorized by Assembly Bill 97 (Committee on Budget), Section 115 of Chapter 47, Statutes of 2013, as amended by Section 56, Chapter 357, Statutes of 2013.

Background. On July 1, 2013, the Governor signed Assembly Bill (AB) 97 (Chapter 47, Statutes of 2013) to enact the Local Control Funding Formula (LCFF). The LCFF is designed to enhance the allocation of resources, integrating the budgets with locally approved goals, services, and actions for local educational agencies (LEAs) to improve student outcomes.

The 2013 Budget Act provided $2 million non-Proposition 98 General Fund to the OPR to support the Board's implementation of the LCFF by funding two full-time limited term positions and contracted services through FY 2015-16. The 2016 Budget Act appropriated additional limited-term funding to extend these two full-time limited-term positions, and to add a third position through December 30, 2018. This proposal would allow the Board to maintain these three positions through FY 2021-22.

Staff Comments. This funding will continue to support limited-term positions for the SBE to continue workload related to developing and supporting components of the LCAP, the California School Dashboard and the accountability system for K-12 education. The tools provided through the SBE in collaboration with the CDE, county offices of education, and the CCEE are critical in providing the guidance and support structure to ensure schools and districts are meeting the needs of students.

Staff Recommendation: Approve as budgeted.

0690 OFFICE OF EMERGENCY SERVICES (OES)

Issue 1: Reduction in California Disaster Assistance Act Funding and State Operations Center Funding – May Revision

Governor's Proposal. The Governor's May Revision includes a decrease of $18.8 million (General Fund) in California Disaster Assistance Act (CDAA) to reflect updated CDAA projections.

The Governor's May Revision also includes a decrease of $3.5 million (General Fund) to reflect the removal of funding for the State Operations Center (SOC) drought response activities.

Background. The Governor's January budget proposed $56.7 million (General Fund) for the CDAA to support activities primarily related to drought. Executive Order B-40-17 lifted the Governor's previous drought declaration in all but four counties. This action eliminated the need for OES to provide response support for the drought in the SOC.

Updated CDAA projections reflect the elimination of $22.2 million requested for drinking water and a reduction of $28 million for tree mortality. Details on the proposed changes compared to the January budget is below.

California Disaster Assistance Act (CDAA) Funding (in millions)

	Governor's Budget	May Revision	Difference
CDAA Base Budget	39.1	39.1	0
Proposed Changes to CDAA			
Tree Mortality	30	2	-28
Emergency Drinking Water [1]	22.2	0	-22.2
2016-17 Storms		20.5	20.5
Other	1	11.9	10.9
Subtotal of Proposed Changes	53.2	34.4	-18.8
Total Proposed CDAA Funding	92.3	73.5	-18.8

[1]The May Revision also includes an increase of $6.5 million in emergency drinking water assistance provided outside the CDAA program.

Legislative Analyst's Office (LAO). Consistent with the recommendation on the CDAA funding proposed in January, the LAO recommends that the Legislature direct OES to make requests for changes to CDAA funding through budget proposals rather than as adjustments to the department's base funding amount.

Staff Comment. OES will shift the focus of CDAA efforts to provide disaster assistance associated with three severe winter 2016-17 storms, as well as closing out older disasters in the neediest counties.

Issue 2: Emergency Water Tank Program Continuation – May Revision

Governor's Proposal. The Governor's May Revision includes $6.5 million (General Fund) local assistance funding for OES to continue the emergency water tank program for eligible local governments and non-profit organizations.

The proposed allocation of the $6.5 million funding request will be distributed to the impacted counties, and/or nonprofits within the counties, based on the percentage of existing water tanks as outlined below.

County	Water Tanks	Percent	Dollars
Fresno	55	6%	363,000
Kern	43	4%	283,000
Kings	29	3%	191,000
Madera	136	14%	897,000
Mariposa	59	6%	389,000
Merced	50	5%	330,000
Stanislaus	29	3%	191,000
Tulare	471	48%	3,104,000
Tuolumne	114	12%	752,000
Total	986		6,500,000

Background. OES currently uses California Disaster Assistance Act (CDAA) funding for the 2014 California drought to finance the provision of emergency water supplies to households without water for drinking and/or sanitation purposes. To date, eligible applicants have used CDAA funding to purchase and install household and community water tanks, periodic water refill of tanks, bottled water, provision of portable toilets, showers and laundry services, tank storage and sanitation, and administrative costs associated with operating the program. As a part of the emergency response to the state's historic drought disaster, California has provided more than $27.8 million in special emergency funding to support local government's unprecedented efforts in delivering more than 66,344,584 gallons of water to 1,157 emergency water tanks at homes where no other water source was available.

On April 7, 2017, the Governor issued Executive Order B-40-17 ending the drought state of emergency in most of California. As part of the Governor's order, emergency response funds allocated through the CDAA for the emergency water tank program will end on June 30, 2017. Some local government jurisdictions have identified households that continue to depend solely on the emergency water supply through their emergency water tank. This proposal will provide those jurisdictions with households that have not yet secured an alternative potable water source by the June 30, 2017, deadline with temporary funds for the delivery of potable water until June 30, 2018.

Staff Comment. This funding will give local government additional time to work on permanent solutions for the impacted households. OES will be responsible for distributing funds to the local jurisdictions through a grant process. Funding will permanently end on June 30, 2018.

0850 CALIFORNIA LOTTERY COMMISSION

Issue 1: Payments to Lottery Winners – May Revision TBL

Governor's Proposal. The Governor's May Revision includes trailer bill language (TBL) that provides authority for the California Lottery to use its Office Revolving Fund (ORF) to pay prizes of $1,000 or less.

Background. The vast majority of purchases made by a state department are processed by the State Controller's Office (SCO) after the SCO receives a claim schedule and supporting information from the department to support the given purchase. Current law authorizes departments to use an ORF to pay for certain items directly without first submitting a claim for payment to the SCO. Departments provide all of the supporting documentation pertaining to ORF purchases to the SCO after the fact, and the SCO verifies that the purchases were valid and subsequently replenishes the department's ORF.

While winners of lottery prizes of $599 or less may cash in their winning tickets immediately at lottery retail locations, all winners of $600 or more must claim their prizes directly from the lottery. Currently, winners mail their winning tickets and claim forms to Lottery headquarters in Sacramento or submit their claims in person at one of the lottery's nine district offices (which in turn forward the claims to HQ for processing). After validating winning tickets and determining appropriate federal tax withholding rates, the Lottery forwards claims to SCO for payment.

The lottery is seeking statutory authority to use its ORF to pay prizes to winners of $600 through $1,000, rather than by state warrant. These prizes would be paid from agency checks drawn upon the lottery's ORF (prizes of less than $600 would remain to be claimable for cash at all lottery retail locations and prizes above $1,000 would continue to be processed at headquarters, with payment being issued by the SCO). Approval of this language would allow prizewinners of $1000 or less to retrieve their winnings in a matter of minutes or hours, instead of the current wait time of eight to ten weeks.

Staff Comment. Before this process can be enacted the Lottery Commission must adopt regulations allowing the ORF to be used to pay these prizewinners. Currently, SCO pays the prizes via state warrant after deducting offsets, if any, against the prize winner for taxes due, child support, or other debts. Under this proposal, any claimant flagged as having an offset would be required to submit their claim to headquarters for processing and ultimately receive a check from the SCO rather than be issued a check from the Lottery's ORF.

1111 DEPARTMENT OF CONSUMER AFFAIRS (DCA)

Issue 1: Consumer Affairs Administration – Organizational Change Management (SOLID)

Governor's Proposal. DCA is requesting $1,327,000 in 2017-18, and $1,207,000 in 2018-19 and ongoing to fund ten permanent positions associated with conducting periodic business process reviews of the 40 boards, bureaus, committees, programs, and commission under the department. Funding for this proposal will come from the special funds that support the department's 40 entities. The costs are proposed to be distributed across all of these special funds in proportion to each entity's share of authorized positions.

Background. The Strategic Organization, Leadership, and Individual Development (SOLID) unit handles all training and strategic planning services for the boards, and is dedicated to the continual improvement and organizational development of the department and its Boards. Additionally, SOLID provides meeting facilitation, organizational change management (OCM) consultation services, and teambuilding workshops to assist board members and staff in dealing with unique issues facing a Board. SOLID offers its services to all Boards under the department.

Staff Comment. The subcommittee considered this proposal at its March 9, 2017 hearing. Since that hearing DCA has indicated that the 18 boards and bureaus that would have been a part of Release 3 for BreEZe will be assessed by the OCM unit within SOLID. The assessments will help prepare these remaining boards and bureaus for movement to a new information technology system. The subcommittee may want to ask the following questions of DCA.

Questions.

1. How does this proposal relate to the implementation of BreEZe?

2. Will DCA ensure that the Release 3 boards and bureaus are a priority for these assessments? If so, how?

2240 DEPARTMENT OF HOUSING AND COMMUNITY DEVELOPMENT

Issue 1: No Place Like Home Program

Governor's Proposal. The Governor's May Revision requests a General Fund loan of $1,576,000 to address an administrative funding shortfall during completion of a legally required bond validation process. The General Fund loan will be repaid from bond proceeds upon issuance of the bonds. This request includes $500,000 for the State Treasurer's Office and $25,000 for the California Health Facilities Financing Authority for activities related to the bond validation and issuance process.

Background. Chapter 43, Statutes of 2016, and Chapter 322, Statutes of 2016, established the No Place Like Home (NPLH) program, which develops permanent supportive housing for individuals who are in need of mental health services and are experiencing homelessness or are at risk of chronic homelessness. The program is financed with up to $2 billion in bond proceeds secured from Proposition 63 Mental Health Services Act revenue.

The Administration is working to validate bonds secured by Mental Health Services Act revenue for these purposes. ln order to begin program development activities before bonds are issued, the enacting legislation authorized a General Fund loan of up to $2 million to develop the program and issue the bonds. The department has indicated that an additional General Fund loan is necessary to continue program implementation in 2017-18 until bonds are issued.

The department expects to complete program design in August 2017, at which time the validation action will commence. A decision from the court is anticipated no later than the spring of 2018, and a Notice of Funding Availability (NOFA) is expected to be released in the summer of 2018 following successful court validation.

Staff Comments. The department initially intended to perform bond validation in parallel with the development of the No Place Like Home Program. However, to mitigate risks in court validation, the Administration has worked to develop the program before beginning the validation process. HCD has developed a program framework, gathered feedback in stakeholder workshops, drafted program guidelines, and established the NPLH Advisory Committee. Additionally, the State Treasurer's office and the Attorney General's office have entered into contracts with outside bond counsel and drafted a services contract for implementing agencies.

This has resulted in a delay in the bond validation process, for which the department did not adequately plan. This loan will allow the department to complete perform necessary administrative functions while completing the bond validation process to provide necessary program funding.

Staff Recommendation: Approve as budgeted.

7760 DEPARTMENT OF GENERAL SERVICES (DGS)

Issue 1: Stale Dated Warrants – May Revision TBL

Governor's Proposal. The Governor's May Revision provides trailer bill language (TBL) that authorizes departments to pay expired warrants from any funds that are legally available to the department for that purpose. The TBL also allows departments to submit a request to include a claim for reimbursement of a warrant in a claims bill if it is unable to issue a replacement warrant from its current appropriation or other available funds.

Staff Comment. This TBL is a technical change to clean up previously approved language. The proposed language corrects an incorrect reference to the Department of General Services with the Public Employment Relations Board.

Issue 2: R Street Parking Structure Acquisition – May Revision BCP and TBL

Governor's Proposal. DGS requests $1,660,000 (Service Revolving Fund) for the acquisition phase of the Sacramento Region R Street Parking Structure project. This request will authorize DGS, in partnership with the Capitol Area Development Authority (CADA), to acquire two parcels of land, located between Q, R, 8th, and 9th Streets, to allow for the construction of a new parking structure.

Trailer Bill Language. The request also includes TBL to: (1) authorize DGS to enter into an agreement with CADA to construct the parking garage at a cost not to exceed $30 million, (2) authorize DGS to enter into lease agreements necessary for the financing of the facility, (3) authorize the use of the California Infrastructure and Economic Development Bank Infrastructure Program to allow CADA to secure project financing, and (4) allow demolition of existing improvements. The TBL would authorize the department to charge state employees and the public for use of the structure, and would require the department to deposit parking revenues into the Motor Vehicle Parking Facilities Money Account. Funds in that account, upon appropriation by the Legislature, would be available to the department to make specified lease payments.

Background. The 2016-17 budget appropriated $1 billion to be used for the long-deferred renovation or replacement of state office buildings in the Sacramento. As the state begins to replace and renovate state buildings, the transportation needs of state employees must also be considered. While the state encourages employees to use public transportation, DGS also recognizes the need for adequate parking.

Currently, more than 3,000 state employees are on the DGS Office of Fleet and Asset Management (OFAM) wait list for a parking spot in a Sacramento area state parking structure. This is independent of parking lists managed by individual departments. In addition to the state employees on a wait list, the new office building on P Street will be located on Block 204, which currently provides 269 surface parking spaces. Once the Natural Resources Headquarters

Building on P Street is under construction in 2018, employees who park in this lot will be displaced. The new parking structure would provide approximately 800 parking spaces, would be approximately the same height as the existing state parking facility directly to the north and would provide an opportunity for additional electric vehicle charging stations.

Legislative Analyst's Office (LAO). The LAO recommends rejecting this proposal without prejudice. The LAO recognizes that there may be a legitimate need for additional parking in the downtown area. However, this proposal should be considered as a January budget proposal rather than in the May Revision for a few reasons. First, this is a major new proposal that involves complex issues such as construction, financing, and operating agreements. Absent a compelling reason otherwise, this type of major proposal is more appropriately proposed in January in order to provide the Legislature time to adequately review and consider it. Second, there are a number of outstanding questions about this proposal, such as (1) whether the project will generate sufficient revenue to pay for the costs of its financing and operations, (2) how DGS would cover any such difference between revenues and costs, (3) whether the Service Revolving Fund is the appropriate source of funding for the property acquisition, and (4) whether the proposed approach is the best alternative to fund and manage this project. Finally, it is unclear why this project was not reflected in the Administration's recent planning documents, such as the 2017 California Five-Year Infrastructure Plan and the Sacramento Long-Range Planning Study. To facilitate legislative planning, those planning documents should provide the Legislature with information on projects—such as this one—that it should expect to see in the future.

8260 CALIFORNIA ARTS COUNCIL

Issue 1: Restoration of 2016-17 Funding

The subcommittee heard an informational item concerning the California Arts Council on April 27, 2017.

Proposal. The subcommittee received a proposal requesting an ongoing appropriation of $6.8 million to the California Art Council's budget to return the council to its 2016-17 funding level.

Background. In the 2016-17 budget the California Arts Council received $6.8 million in one-time funding to support arts programs in underserved communities and a reentry grant program. Support for these programs was not included in the Governor's 2017-18 proposed budget.

Issue 2: Arts Council Director – May Revision TBL

Governor's Proposal. The May Revision includes language that would authorize the Governor to appoint the director of the Arts Council.

Background. Currently, the eleven members of the Arts Council select a director, and delegate specific responsibilities to the director. In the past the director was appointed by the Governor, but this changed in 2010. AB 2610 (Niello), Chapter 100, Statutes of 2010, amended the authority of the Governor to appoint the Arts Council Director and delegated this responsibility to the Arts Council. This TBL would put the authority to appoint the Director back to the Governor.

The analysis of AB 2610 in 2010 states the following as the reason for the change in 2010:

"Most state arts councils in the U.S. select their Directors; only three - California, Virginia and Georgia - have Directors who are appointed solely by the Governor, not in concert with their Council Members. Members of California's Arts Council would like to have the ability to select the Arts Council Director, a protocol that is working successfully across the nation. Nine of California's 11 Council Members are appointed by the Governor, one by the Senate, and one by the Assembly, so a connection between the Governor, the Legislature and the Council is assured. Having the Council select the Director strengthens the council/staff working relationship."

Legislative Analyst's Office. The LAO has no specific policy concerns with this language but questions the relationship between the language and the budget. Accordingly, the LAO is not clear as to why this policy change should be made through the budget process rather than the policy process.

8940 California Military Department

Issue 1: Work for Warriors

Proposal. The proposal provides $670,000 (General Fund) to support the Work for Warriors (WFW) Program.

Background. Unemployment and underemployment are among the most critical issues facing our service members, including National Guard members, and their families. Personnel returning from deployments face a particularly high unemployment rate. The WFW uses a direct placement model, which walks service members through each step of the hiring process, includes resume preparation, and interviews. To date, WFW has assisted in placing over 5,700 service members and veterans, an average of just over three per day. The program is also remarkably cost effective, with a cost per placement ratio of under $1,200, representing a significant savings to the government when factoring in unemployment compensation costs. Currently, the program has 17 team members who help match military personnel, veterans and military family members into employment commensurate with their education and experience.

From 2012 to 2015 the program was funded by a grant from the Speaker of the Assembly. In 2015-16 the program was funded with a $670,000 Workforce Innovation and Opportunity grant from the Employment Development Department. Currently, the program is funded with $670,000 (General Fund). Although the department has successfully applied and received funding in the last three years, it remains uncertain whether additional funding for the staffing will be available.

Staff Comment. The WFW program has a direct, measurable, positive impact on the California economy. Assisting veterans and spouses to find meaningful long-term careers provides savings to the state that far exceeds the $670,000 annual cost to the state to maintain the program.

Issue 2: Revision of Provisional Loan Language – May Revision

Proposal. The Governor’s May Revision includes provisional language to specify that the short-term cash flow loan provided to CMD in 2016-17 shall be repaid upon order of the Director of Finance. It is also requested that Provision 4 of Item 8940-001-0002 be amended to provide that any loan provided to CMD pursuant to the provisions of Item 8940-001-0001 shall be repaid upon order of the Director of Finance.

Background. In order to carry out its missions the CMD receives both state and federal funding through a master cooperative agreement (MCA). Areas that are supported in the CMD's MCA include: personnel costs, construction, minor construction, maintenance, repair or operation of facilities, and other mission operational support. Appropriation funding may also support other programs authorized by Congress or the Department of Defense. Expenditures incurred through the MCA are initially paid from the CMD's General Fund and then reimbursed by the NGB. Many of the expenditures incurred under the MCA span more than one fiscal year and require that the CMD reserve cash to be available to pay for services. Prior to October 1, 2015, both the Army National Guard and Air National Guard were able to advance funds for MCA expenditures. However, after October 1, 2015, the Army National Guard and the Air National Guard no longer had the ability to advance the state of California for those federal costs within the MCA due to the implementation of new accounting systems that are not able to obligate and disburse funds prior to the receipt of services.

The CMD experiences temporary cash flow shortages due to the delay in reimbursements from the federal government. As part of the master cooperative agreements with the federal government, the CMD must pay all of its costs up front and then seek reimbursement for the federal government's share of the cost, which generally takes 60 to 120 days. Based on historic cash flow patterns, it is unlikely that any loan authorized pursuant to the provisions of Item 8940-001-0001 could be paid off by the existing December 31 repayment date.

The text of the proposed language is below.

Item 8940-401 be added:
"8940-401 – Notwithstanding Provision 4(b) of Item 8940-001-0001, Budget Act of 2016 (Ch. 23, Stats. 2016), the loan to the General Fund will be repaid upon order of the Director of Finance."

Provision 4 of Item 8940-001-0001 be amended as follows:
"4. Notwithstanding any other provision of law, the Director of Finance may authorize a loan from the General Fund to the Military Department for cashflow purposes in an amount not to exceed $30,000,000 subject to the following conditions:

(a) The loan is to meet cash needs resulting from a delay in reimbursements.

(b) The loan is for a short term and shall be repaid ~~by December 31 of the fiscal year following that in which the loan was authorized~~ <u>upon order of the Director of Finance.</u>

(c) Interest charges may be waived pursuant to subdivision (e) of Section 16314 of the Government Code.

(d) The Director of Finance shall not approve the loan unless the approval is made in writing and filed with the Chairperson of the Joint Legislative Budget Committee and the chairpersons of the committees in each house of the Legislature that consider appropriations not later than 30 days prior to the effective date of the approval, or not later than whatever lesser time prior to that date the chairperson of the joint committee, or his or her designee, may determine."

Staff Comment. Because many of the encumbrances within the MCA will not be expended until the fiscal year following that in which the loan was authorized, the repayment date of October 31 is unrealistic. It has taken the CMD until April 2017 to repay the loan that was due to be repaid on October 31, 2016. The CMD has been in a cash shortage since February and has not been able to request a new loan to meet its current obligations. As of February 2017, the CMD has been holding vendor payments to ensure that the department will meet its upcoming payroll obligations and expects to continue to delay vendor payments to meet payroll for the remainder of the fiscal year. The CMD foresees holding vendor payments as its mitigation strategy when experiencing a cash flow crisis if the amended provisional loan language is not approved.

8955 DEPARTMENT OF VETERANS AFFAIRS (CALVET)

Issue 1: Veterans Homes Greater Los Angeles and Ventura County Bed Conversion – May Revision BCP

Governor's Proposal. CalVet requests an augmentation of 12.1 positions in 2017-18, and 20.5 positions and $868,000 (General Fund) annually thereafter, for the Veterans Home of California - Greater Los Angeles and Ventura County to convert 84 transitional housing program beds back to the skilled nursing facility level of care. This proposal also includes the redirection of 46.5 existing positions and $4.7 million (General Fund) in the CalVet budget for the Adult Day Health Care programs, also known as Community Based Adult Services (CBAS), in Lancaster and Ventura.

Background. The budget currently contains funding and positions for both the transitional housing program at the West Los Angeles location and adult day health care (ADHC) programs at the Ventura and Lancaster locations. The United States Department of Veterans Affairs (USDVA) has indicated it will no longer participate in the transitional housing program or require the state to operate the adult day health care programs.

Currently, the USDVA provides wraparound psychiatric and social services and meals for participants in the transitional housing program, while CalVet offers living accommodations and reimburses the USDVA for food costs. Since the opening of the transitional housing program the USDVA opened a number of on-campus beds for homeless veterans, worked with community partners for additional placement and services, qualified more veterans for Veterans Affairs Supportive Housing (VASH) vouchers, and expects to build hundreds (possibly several thousand) more supportive housing units. For these reason CalVet believes that the need for the transitional housing program has decreased significantly. In December 2016, the USDVA notified the CalVet that it would no longer refer veterans to the VHC-WLA transitional housing program and that the last residents in the program will be transitioned out to the community by June 30, 2017.

The VHC-Lancaster and VHC-Ventura were originally designed and constructed with space for an ADHC program. The ADHC is a federal day program of health services, therapeutic activities, and social services for frail elders or adults with chronic, disabling medical, cognitive or mental health conditions who are at risk for institutional placement. The funding for the ADHCs was provided in the 2010-11 GLAVC multi-year Budget Change Proposal for activation in fiscal year 2014-15. The openings of the ADHCs were delayed to prioritize recruitment and licensing efforts towards other new facilities offering skilled nursing facilities (SNF) and memory care which have had significant waitlists throughout the system. The CalVet and USDVA believe that the need for ADHC services in the Lancaster and Ventura communities no longer exists, as local organizations in both regions provide more than adequate community based adult services for veterans and many also contract with the USDVA. Thus, the USDVA recently waived the CalVet's original grant requirement mandating ADHCs in the facilities.

The CalVet is proposing to offset the cost of the transition from THP to SNF in the VHC-WLA with a redirection of the resources originally intended for ADHC in VHC-Lancaster and VHC-Ventura.

Legislative Analyst's Office (LAO). The LAO has identified several issues for legislative consideration that are listed below.

- In the recent LAO report regarding veterans services the high demand for skilled nursing care at state veterans homes was noted. The LAO is unclear if the proposal reflects CalVet's interest in addressing the wait list for skilled nursing beds or if the proposal is in response to the USDVA decision to no longer refer veterans to the West Los Angeles transitional housing program and provide wraparound support services.

- The LAO also is unclear on how many transitional housing beds are currently occupied and how CalVet will ensure the veterans are adequately served following the closure of the transitional housing program.

- The closure of the West Los Angeles THP eliminates 84 beds for homeless veterans seeking stable housing. The Legislature could ask CalVet about the potential alternative services available to veterans in need of assistance securing housing.

- It is unclear if modifications to the THP rooms and facilities or if new equipment is required to relicense the THP beds as SNF beds.

- It is unclear how long it will take to hire the necessary staff to fill the additional SNF beds and at what rate the SNF beds will be filled.

- While the state has funded the CBAS Program at the Lancaster and Ventura veterans homes since 2010-11, the program was never operational. Funds allocated for the program have reverted to the General Fund annually, resulting in General Fund savings. Redirecting funds allocated for the CBAS program towards bed conversion would eliminate the General Fund savings that have materialized previously.

The subcommittee may wish to ask the questions listed below.

Questions.

1. Beds in skilled nursing units will likely require more resources and funding than those in the transitional housing program. How will this proposed change affect the budget of the veterans homes? Will the conversion require additional equipment or modifications to rooms?

2. How will this proposal affect those veterans that are currently enrolled in the transitional housing program? Are there alternatives available to those residents?

3. Why was this proposal not brought forth in January or April when there would have been more time to analyze and address potential concerns of the Legislature?

4. What is driving this proposal to convert the existing transitional housing beds to the skilled nursing facility level of care?

5. How long before the beds are staffed and operational?

Senate Budget and Fiscal Review—Holly Mitchell, Chair

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 18, 2017
9:30 a.m. or upon adjournment of session
State Capitol - Room 2040

Consultants: James Hacker and Renita Polk

PART A

PROPOSED FOR VOTE-ONLY

PROPOSED FOR DISCUSSION AND VOTE

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 18, 2017
9:30 a.m. or Upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

Consultant: Mark Ibele

ITEMS FOR VOTE-ONLY

ITEMS FOR DISCUSSION AND VOTE

Public Comment

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

ISSUES PROPOSED FOR VOTE-ONLY

C.S. 12.00 STATE APPROPRIATIONS LIMIT

Issue 1: Revised State Appropriations Limit (May Revision)

Governor's Proposal. The Administration requests that the budget bill be amended to reflect the updated change in the State Appropriations Limit (SAL). The revised limit of $103.4 billion is the result of applying the growth factor of 4.22 percent. The revised 2017-18 limit is $399 million above the $103.0 billion estimate in January.

Staff Comment: Staff has no concerns with this technical change.

Staff Recommendation: Approve the revised State Appropriations Limit.

Vote:

0110/0120 STATE LEGISLATURE

Issue 1: Constitutional Adjustment (May Revision)

Governor's Proposal. The Legislature's budget for 2017-18 was proposed in January to be $128.8 million for the Senate and $169.7 million for the Assembly. Under the terms of Proposition 140, the growth in the Legislature's budget is constitutionally limited to the growth in the state's appropriation limit (SAL). The year-to-year SAL increase is calculated to be 4.22 percent in the Governor's May Revision. Applying this to the legislative budget would result in funding of $134.2 million for the Senate and $176.8 million for the Assembly.

Staff Comment. The Senate's budget was held constant from 2008-09 to 2009-10, reduced by a negative SAL of -1.77 percent in 2010-11, received no increase in the subsequent two years (2011-12 and 2012-13), then received increases of 5.8 percent in 2013-14, 0.48 percent in 2014-15, 4.55 in 2015-16 and 5.96 in 2016-17. Senate increases were forgone because of the state's budget constraints during the previous recession. The combined spending by the Senate and the Assembly is still well below the State Appropriations Limit. Funds from the Senate and Assembly appropriations are also used to fund the Legislative Analyst's Office in the amount of $9.1 million.

Staff Recommendation. Staff recommends that the Legislature's (Senate and Assembly) budget be adjusted as provided in the State Constitution, resulting in a total increase for the Legislature of $12.6 million, and that the Legislative Analyst's Office receive its SAL-adjusted share of $9.1 million from the Senate and the Assembly.

Vote:

9100 TAX RELIEF

Issue 1: Staffing for Local Government Census Work (BBL)

Governor's Proposal. The Governor proposed $7 million in grant authority to local governments that are to be used for participation in the Census Bureau's Local Update of Census Addresses (LUCA) program. The funding was approved at the Subcommittee No. 4's hearing on May 11, 2017. In the May Revision, the Administration has proposed budget bill language to specify that the funding may be used for hiring a census outreach coordinator as well as for local grants. The additional budget bill language states:

> *These funds shall be available for encumbrance or expenditure until June 30, 2020. Additionally, the amount appropriated in Schedule (3) may also be used by the Department of Finance for costs related to the hiring of a Census Outreach Coordinator for the 2017-18 through 2019-20 Fiscal Years.*

Background. The one-time program will be administered by the Department of Finance and will provide financial incentives for local governments to review and update the master address lists used to conduct the decennial census.

Staff Comment: Staff has no concerns with the language.

Staff Recommendation: Approve budget bill language.

Vote:

0840 STATE CONTROLLER'S OFFICE

Issue 1: Personnel Reclassification Costs (May Revision)

Governor's Proposal. The May Revision includes a request from the State Controller's Office (SCO) for $600,000 ($342,000 General Fund) for costs associated with reclassifying 38 accounting administrator positions to financial accountants. The funding is for two years, after which increased costs will be absorbed by efficiencies associated with lower turnover and more highly specialized personnel.

Background. The financial accountant series was established by the Department of Human Resources (CalHR) in 2015. The SCO petitioned CalHR for authority to use this series in 2016, which was approved.

Staff Comment. Staff has no concerns with the proposal.

Staff Recommendation. Approve the May Revision Request.

Vote:

Issue 2: Unclaimed Property Securities Accounting (BCP)

Governor's Proposal. The State Controller's Office (SCO) requests $2.9 million (Unclaimed Property Fund) in 2017-18, and ongoing, and 23.1 permanent (continuing) positions to manage and maintain the security portfolio, pay security claims, and sell securities within the allotted timeframe. The resources will be used for managing the stock and mutual fund corporate action workload; ensure compliance with the UPL by selling securities in a timely fashion; reconcile and post dividends, interest, proceeds and any other income; process security claims in a timely manner to reduce litigation; manage and maintain the securities portfolio; and, reconcile the portfolio and integrate internal controls. Most of the positions will be assigned to securities issue analysis, reconciliation, and research and property recordation. The remaining positions are for accounting and support activities.

Background. The California UPL was enacted to assure that property is returned to its rightful owners or their heirs. This law gives the state an opportunity to return the property and provides California citizens with a single source, the SCO, to check for unclaimed property that may be reported by holders from around the nation. By law, holders of unclaimed property (such as banks) must report and remit unclaimed property to the SCO after a specified period of time.

Under the program, holders are required to proceed through a series of steps before remitting property to the SCO. A holder notice report submitted by the holder is used by the SCO to send out pre-escheat notices to rightful owners or their heirs, advising owners to contact holders directly to retrieve the reported property, giving the owners the opportunity to reestablish contact with the holders, or have their property sent directly to them. After filing a holder notice report, holders are required to provide the SCO with a holder remit report containing the information on any remaining properties that were not reclaimed by the rightful owners or their heirs. At the time the holder remit report is filed, holders are required to remit the property to the SCO.

The current proposal converts the temporary positions continued in the 2014-15 budget into permanent ones, with a focus on working down the existing backlog of property, addressing current workload, and providing managerial oversight. The division also received an augmentation in 2016-17 for the purposes of streamlining procedures, increasing outreach and detecting and preventing fraud.

Legislative Analyst's Office Comment. This issue was heard in Subcommittee No. 4 on March 23rd. The LAO notes that without a change in the program, additional workload will continue and require additional funds. LAO indicates that the workload of managing securities prior to sale is substantial, and notes that the process could be accelerated (reducing the workload) if state law were changed to allow property to be sold and converted to cash more quickly. Currently, the SCO must wait at least 18 months after receiving the report from the holder before converting any property into cash.

Staff Comment. The continued commitment of resources makes sense given the continued level of activity associated with unclaimed property. The vacancy rate of 23 percent is somewhat high, and could be reduced by converting the limited-term positions (where most of the vacancies are) to permanent. However, the division has expanded rapidly over the last few years, from 15.1 authorized positions in 2011-12 to 35.5 positions in 2015-16 (mostly limited-term). This has resulted in security sales proceeds increasing from $64.6 million to $85.9 million, but other portfolio measures have expanded significantly as well, indicating an increasing workload. Staff views the 18 month waiting period before selling securities is a reasonable policy, given the gravity of the escheat process.

Nevertheless, LAO comments regarding increasing workload are well-founded and the department should explore other means of achieving efficiencies. The department should prepare options for legislative consideration in anticipation of the 2018-19 budget, and provide a supplemental report in this regard by December 1, 2017.

Staff Recommendation: Approve as budgeted and supplemental report language.

Vote:

0950 STATE TREASURER'S OFFICE

Issue 1: Debt Management System Funding Reallocation (May Revision)

Governor's Proposal. The May Revision includes a request from the State Treasurer's Office to reallocate funding for its Debt Management System II among fiscal years, with no change in overall funding levels. The change would shift to 2017-18, project costs of $42,000 from 2016-17 and $300,000 from 2018-19. There is no General Fund impact from the proposal.

Background. The STO's Debt Management System is an upgrade to its existing debt tracking system, and is funded through bond funds.

Staff Comment. Staff has no concerns with the proposal.

Staff Recommendation. Approve the May Revision Request.

Vote:

0860 BOARD OF EQUALIZATION

Board of Equalization Vacancy Redirection. The Governor's budget includes five BCPs requesting $43.4 million and 134.6 positions in fiscal year 2017-18 for the Board of Equalization (BOE). The 134.6 positions consist of a continuation of 19 limited-term positions, 71.6 new positions, and 44 temporary help positions. These resources were a response to recently enacted legislation, voter referendums, and BOE's ongoing information technology project.

In recognition of its significant vacancy rate, BOE worked with the Department of Finance to identify Governor's budget positions that can be absorbed by utilizing existing vacancies. As a result of this effort BOE proposes a revised request of $33.6 million and 64.8 positions. The 64.8 positions consist of a continuation of 19 limited-term positions, 1.8 new positions, and 44 temporary help positions. This represents a reduction of $9.5 million and 67.9 positions from the 2017-18 Governor's budget request.

BOE will redirect 67.9 vacant positions and delete two positions from the original request. The net result will only require the addition of 1.8 new positions. These redirections will result in corresponding reductions in operating expenses. In developing this proposal, BOE considered positions for redirection utilizing the April 2017 vacancy report that were: 1) left vacant for more than seven months; 2) were not in active recruitment; 3) were not held open due to a leave of absence. Effort was made to towards avoiding the redirection of vacant revenue-generating positions towards filling non-revenue generating BCP positions. The revised proposal will allow the BOE to fulfill its statutory duties while also reducing its vacancy rate. The Department of Finance has reviewed the BOE's request and is in agreement with the proposed changes.

Issue 1: Centralized Revenue Opportunity System (BCP)

Governor's Proposal. The budget includes a proposal from BOE to provide funding for its continued work on the Centralized Revenue Opportunity System (CROS). For 2017-18, the request is for $30 million ($17.2 million General Fund) and 65.4 positions. The five year request increases to $50.9 million in 2018-19, $66.6 million in 2019-20, and dropping to $17.1 million in 2020-21 and $19.2 million in 2021-22. Of the request, about one-half of the cost is for personnel – largely technology and tax professionals – and one-quarter of the cost is for professional consulting services. Resources would be distributed in the following areas: business management, contract management, organizational change management, technical management, and project management.

Revised Request. The revised proposal for the CROS request constitutes $28.6 million and 55.4 positions (19.0 limited term positions and 36.4 temporary help) and a redirection of $1.2 million and 10.0 vacant positions. The revised five year request increases to $49.6 million in 2018-19, $65.3 million in 2019-20, and dropping to $15.8 million in 2020-21 and $17.9 million in 2021-22.

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

The Feasibility Study Report (FSR) approved September 2011, redirected BOE resources to the CROS project in order to proceed with the procurement phase. Special Project Report 1 (SPR 1) was submit on March 2012, and based on this, staffing was authorized, as well as funding for audit, collection and registration backlogs. SPR 2 was submitted in December 2013, addressing a nine month change in the procurement schedule and extending the implementation by one year. The CROS project subsequently submitted SPR 3, which called for an additional delay of 19 months in the procurement phase. Based on SPR 3, BOE submitted a May Revision request in 2016 to begin its implementation phase. The request asked for five years of funding; the Legislature chose to fund the first year only. BOE approved the selection of the CROS contractor (Fast Enterprises) and the CROS solution (GenTax) in August 2016. SPR 4 was submitted in October 2016, which included a resource analysis, project deliverables, project schedule, project management plans and technical capabilities.

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

Staff Comments. The CROS project is a necessary undertaking for the state, given the age and status of the agency's legacy mainframe-based revenue and collection information systems. The budget proposal for continued funding of the CROS project is reasonable with respect to anticipated workload during the implementation phase. In addition, the benefits-based funding for the project is appropriate for the tax agency; a similar approach has been used successfully by the FTB. Nevertheless, as noted last year, staff has significant concerns regarding the ability of the agency to successfully undertake a project of this importance and magnitude. The governance of large and complex undertakings, like the CROS project, is a challenge for the best-managed organizations, and even more so for agencies with management issues, like the BOE. Clearly, the BOE, in most cases, functions adequately, but instances of questionable management and decision-making nevertheless raise concerns.

Previous information technology projects that have failed to meet expectations have generally fallen short, not because of technical challenges, but due to the failure of adequate oversight, management and governance. The state experienced the failure and termination of the 21st Century Project, in which the state invested approximately $300 million dollars, and it is likely that the state will realize little by way of useful product from this investment. On the other hand, more positive examples are also available. FTB devoted much deliberation, effort and resources to working through project management and oversight issues related to its Enterprise Data to Revenue (EDR) project. Although this project was not without some uncertainties and delays, the structure of responsibility was such that the agency was able to adjust to these contretemps while keeping the overall project on track. Similarly, the Financial Information System for California (FI$Cal) project has devoted considerable discussion to the governance and management issues in order to maintain the integrity of the final product.

Project governance models and management structures are crucial, not because of routine decisions or quotidian activities, but rather for instances of technical challenge and impediments to implementation. Staff notes that IT projects, by their very nature, carry with them inherent unknowns both in design and timeline. Nevertheless, the CROS history to date is not at all encouraging – the FSR was approved five years ago, in 2011; SPR 1, outlining two strategies for procurement, was submitted in March 2012; SPR 2 was then submitted in December 2013, addressing a nine month change in the procurement schedule and one year delay in implementation; and, SPR 3 was submitted in April 2016 to address an additional 19 month delay in the procurement phase. Meanwhile, the CROS project itself has experienced some leadership issues. The agency is currently recruiting for a new project director.

Budget Bill Language. The Administration has requested that the proposed budget bill language governing the CROS project be revised as follows:

> *The Department of Finance may augment the following items in the 2018–19 fiscal year by the amount of any unencumbered funds for vendor compensation payments related to the Centralized Revenue Opportunity System as of June 30, 2017, in those items: 0860-001-0004, 0860-001-0022, 0860-001-0061, 0860-001-0070, 0860-001-0080, 0860-001-0230, 0860-001-0320, 0860-001-0387, 0860-001-0439, 0860-001-0465, 0860-001-0623, 0860-001-0965, 0860-001-3015, 0860-001-3058, 0860-001-3063, 0860-001-3065, 0860-001-3067, 0860-001-3212, 0860-001-3251, 0860-001-3260, 0860-001-3270, 0860-001-3288,and 0860-001-3301, 0860-001-3304, and 0860-001-3308. Any*

augmentation pursuant to this provision shall be reported in writing to the Joint Legislative Budget Committee within 30 days.

Staff Recommendation. Reject Governor's January proposal. Approve revised request for 2017-18 only, and adopt proposed budget bill language.

Vote:

Issue 2: Cigarette and Tobacco Products Licensing Program (BCP)

Governor's Proposal. The budget calls for $286,000 (special funds) in 2017-18, and approximately $200,000 in 2018-19 and ongoing, to administer recent legislation regarding the Cigarette and Tobacco Products Licensing program. The legislative changes call for annual rather than one-time, license renewal fees, and expand the definition of tobacco products to include nicotine products and vaping devices and accessories. The additional resources will address ongoing overtime in the areas of: outreach, registration, account renewal, payment processing, refunds and account close-outs, enforcement, and administrative support. The agency indicates that it will use existing resources to address additional costs imposed in the current year. There were no post-submission changes to this proposal.

Background. In 2003, the Legislature enacted statutes establishing the Cigarette and Tobacco Products Licensing Act which established a statewide licensing program administered by the BOE to address untaxed sales and illegal distribution of these products. The act requires the BOE to administer a statewide program to license cigarette and tobacco products manufacturers, importers, distributors, wholesalers and retailers. The most recent legislation increases the per-location fee from $100 to $265, changes the fee basis from one-time to annual, and expands tobacco products to encompass a wide range of products containing, made or derived from tobacco or nicotine, as well as nicotine delivery systems.

Staff Comments. This proposal was heard at the Subcommittee No. 4 hearing on May 4th. Based on information provided, staff has no further concerns with the proposal.

Staff Recommendation. Approve as budgeted.

Vote:

Issue 3: Lead-Acid Battery Fee (BCP)

Governor's Proposal. The budget calls for $1.2 million and 3.1 positions in 2016-17, $837,000 and 6.3 positions in 2017-18, $1.4 million and 8.6 positions in 2018-19, and $1.4 million and 10 positions in 2019-20 and ongoing (all special funds) to implement and administer the Lead-Acid Battery Recycling Act (LABRA) of 2016. The program implementation will be paid from a loan to the Lead-Acid Battery Clean-Up Fund from the California Tire Recycling Management Fee. Ongoing costs of the program will be paid by the new fee imposed by the LABRA. Imposing the new program and its ongoing administration requires additional activities related to registration, return process, collections, audits, appeals, refunds, allocation and other administrative functions.

Revised Request. The revised proposal for the Lead-Acid Battery Program consists of $233,000 and 1.8 positions and redirection of $541,000 and 4.5 vacant positions. The revised five year request is for $921,000 in 2018-19, $952,000 in 2019-20, $950,000 in 2020-21 and $950,000 in 2021-22.

Background. The LABRA imposes a new fee of $1 on each battery until March 31, 2022, and $2 per battery beginning April 1, 2022, on consumers and manufacturers of lead-acid batteries. Revenues collected, less refunds and expenses reimbursement to the BOE, will be deposited in the Lead-Acid Battery Clean-Up Fund and used for clean-up costs associated with the batteries. Ongoing costs of the program are paid from the fee, which is collected from retail dealers. The dealer is allowed to retain 1.5 percent of the fee collected to meet their own collection costs. The new fee program will add an addition 20,000 fee-payers to BOE's existing base.

Staff Recommendation. Reject Governor's January proposal. Approve revised request based on BOE and DOF recalibration.

Vote:

Issue 4: California Tobacco Tax Act Implementation– Proposition 56 (BCP)

Governor's Proposal. The budget calls for $6.9 million and 40.9 positions in 2017-18, $5.6 million and 37.4 positions in 2018-19, $5.3 million and 34.6 position in 2019-20, and $910,000 and 4.9 positions in 2020-21 and ongoing (all special funds), to implement and administer the California Healthcare, Research and Prevention Tobacco Tax Act (CHRP) approved in November 2016. The measure increased the tax on cigarettes by $2 per pack, indirectly imposed an equivalent tax on other tobacco products, imposed a one-time floor stock tax, and expanded the definition of tobacco products to include e-cigarettes and nicotine products and related delivery products. The positions include auditors, tax technicians, business tax specialists and representatives, attorneys, and compliance specialists.

Revised Request. The revised proposal for this issue consists of $2.0 million and 3.7 positions, and redirection of $4.2 million and 37.3 vacant positions. The revised five year request is for $1.8 million in 2018-19, $1.8 million in 2019-20, $102,000 in 2020-21 and $102,000 in 2021-22.

Background. California imposes excise taxes on cigarettes and on other tobacco products, such as cigars and chewing tobacco. The state also licenses sellers, distributors, and manufacturers of these products, and BOE administers these tax and licensing programs. In 2016, the Legislature made significant changes to the tobacco licensing program, by expanding the licensing program to include electronic cigarettes (also known as e-cigarettes) raising license fees, and replacing the one-time fee for retailers with an annual fee.

In November 2016, California voters passed Proposition 56, effective April 1, 2017, increasing the state excise tax rate on cigarettes by $2 per pack (from 87 cents to $2.87), which indirectly increased the state excise tax on other tobacco products by a similar amount. The measure established a new special fund for the resulting tax revenue, and it laid out a variety of spending requirements, including a couple of provisions setting aside resources for BOE. Proposition 56 also expanded the tax base for the excise tax on other tobacco products to include e-cigarettes.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) indicates that the workload assumptions are reasonable. Proposition 56 contains two provisions that allocate funding to BOE – a broad allowance for administrative costs and $6 million per year to enforce certain types of tobacco laws. BOE's proposal includes $5.8 million in 2017-18, $5.0 million in 2018-19, $4.8 million in 2019-20, and $0.7 million in 2020-21 and ongoing, for enforcement of tobacco laws. These resources would be used for investigations, appeals, collections, and audits related to tobacco taxes, and would come from the new tobacco taxes.

The LAO notes the Administration's request of $5.8 million for enforcement in 2017-18 is less than the amount required by Proposition 56. This amount is one piece of a larger sum that, according to the measure, "annually shall be used for the purpose of funding law enforcement efforts." Within the law enforcement category, the measure states that a specific amount "shall be apportioned" to BOE. The Administration interprets "annually shall be used" and "shall be apportioned" to include not only current spending, but also money set aside for future spending. However, the Administration has not established a sub-account specifically for BOE, so revenue set aside for future BOE spending is not apparent. In addition, the vast majority of this money is limited-term.

Proposition 56 requires that a certain sum of money "annually shall be used for the purpose of funding law enforcement efforts" and that $7.5 million "shall be apportioned" to BOE in 2017-18 ($6 million per year thereafter). LAO interprets this requirement to mean that $7.5 million – a larger amount than the Administration has requested – must be appropriated for this purpose in 2017-18. LAO recommends permanent funding of these enforcement activities and limited-term authority for other administrative positions.

Staff Comment. BOE has taken a reasonable approach to estimating the tobacco licensing and tax administration workloads for these proposals. Nevertheless, there are substantial uncertainties regarding the impact of the measure, including the amount of tax evasion given the significant increase in the tax, the lack of data regarding the e-cigarette industry and the likely number of registrants. LAO also notes that the workload estimates assume no reduction in the taxpayer or licensee population due to the new taxes imposed by Proposition 56 and indicates that some decline would be reasonable response.

Staff Recommendation. Reject Governor's January proposal. Approve revised request based on BOE and DOF recalibration.

Vote:

Issue 5: County of Los Angeles Measure H - Homelessness (TBL)

Proposal. According to the proponents, the proposed language would clarify that a local sales tax measure adopted by the County of Los Angeles can be collected in jurisdictions that have reached their two percent cap on local sales taxes. The county-wide measure (Measure H) was drafted to comply with the two percent statutory limit on local sales taxes, by taking into account the seven cities within the County which have reached the two percent cap. Under Measure H, transactions in those cities which have reached the two percent sales tax cap are not subject to the ¼ percent additional sales tax. The BOE has requested that the County obtain statutory clarification to implement Measure H.

Background. The County of Los Angeles, in 2015, developed strategies to reduce homelessness. In February 2016, the Board of Supervisors approved a set of strategies that were designed to: prevent homelessness, subsidize housing, increase income, provide case management and services, create a coordinated system, and increase affordable/homeless housing. The board allocated $100 million in one-time funding to support the initial implementation of the approved strategies, while expressing its intent to pursue an ongoing revenue source to sustain and expand the strategies. In December 2016, the board placed Measure H, a 10-year special ¼ percent sales tax to prevent and combat homelessness, on the March 7, 2017 countywide ballot, which was approved by approximately 70 percent of the voters.

Measure H is estimated to generate $355 million annually and enable 45,000 homeless families and individuals to move from homelessness into permanent housing in the next five years, while enabling an additional 30,000 families and individuals to avoid becoming homeless. Measure H will primarily fund outreach, interim housing, rental subsidies, and supportive services, and will leverage efforts to increase the supply of permanent supportive housing, including the State of California's No Place Like Home initiative and other local measures.

Staff Comment. Staff is not aware than this particular method of exempting jurisdictions (which participated in the election that authorized Measure H) from the tax if its collection would result in exceeding the two percent cap has ever been previously enacted. In cases where the imposition of a tax would result in exceeding the cap, local jurisdictions generally submit a request to the Legislature for statutory authority to increase the cap headroom. Nevertheless, the proposed language submitted provides the clarification needed by the BOE, and is specific to Measure H, with no impact on any other sales tax which any city or county has enacted or may seek to enact in the future. This measure was heard in Subcommittee No. 4 and held open; since that hearing additional clarifying provisions have been added.

Staff Recommendation. Adopt placeholder trailer bill language.

Vote:

1701 DEPARTMENT OF BUSINESS OVERSIGHT

Issue 1: Broker-Dealer and Investment Advisor Program (May Revision)

Governor's Proposal. At its March 23rd hearing, the Subcommittee approved the Governor's proposal to add $1.7 million (special funds) and 11 permanent positions to expand the examination cycle as part of the Department of Business Oversight's (DBO's) enforcement and regulatory responsibilities. This additional proposal would approve supplementary reporting language requiring the DBO to report on efficiencies and effectiveness of the program. The proposed SRL is:

> *The Department of Business Oversight shall provide a report on the Broker-Dealer Investment Advisor (BDIA) Program to the Department of Finance, Legislative Analyst's Office, and the relevant budget subcommittees of both houses of the Legislature on January 10 with the release of the Governor's Budget each year. In addition to the information required by the budget bill, this report shall include the following information: (1) identification of potential options for increasing the efficiency and cost-effectiveness of oversight over BDIA licensees. These options shall include, but not be limited to (a) enhanced coordination with other entities providing oversight of BDIA licensees such as the Financial Industry Regulatory Authority and the U.S. Securities and Exchange Commission, (b) options for lengths of examination cycles for various groups of BDIA licenses, and (c) options for prioritizing the examination of higher risk BDIA licensees; (2) a description of any efforts to date to explore these options and any resulting findings or conclusions; and (3) any resulting recommendations regarding how to increase the efficiency and cost-effectiveness of oversight over BDIA licensees.*

Staff Comment. Staff has no concerns with the proposal.

Staff Recommendation. Approve proposed supplemental reporting language.

Vote:

ISSUES PROPOSED FOR DISCUSSION AND VOTE

C.S 1.80 AVAILABILITY FOR APPROPRIATION

Issue 1: Clarify Encumbrance and Expenditure (May Revision)

Governor's Proposal: The May Revision includes a request for budget bill language and trailer bill language that would clarify the ability of department's to expend and encumber funds. The budget bill language would change Control Section 1.80 such that appropriations would be deemed available for encumbrance as well as direct spending without such encumbrance in advance. Similarly, the proposed trailer bill language would make it clear that encumbrances can be initially estimated and then adjusted during the liquidation period when costs become apparent. The language also addresses the reversion of unencumbered balances.

Staff Comment. Staff has no concerns with the proposed language.

Staff Recommendation. Adopt proposed budget bill language and trailer bill language.

Vote:

0509 GOVERNOR'S OFFICE OF BUSINESS AND ECONOMIC DEVELOPMENT

Issue 1: California Small Business Development Center Program (May Revision)

Governor's Proposal: The Governor's Office of Business and Economic Development (GO-Biz) has requested one time appropriation of $2 million (General Fund) as a partial match of federal funds to support the Small Business Development Center (SBDC) network.

Background: The SBDC provides training to small business owners, including in the areas of start-up assistance, planning for growth and expansion, technology and innovation, and access to capital. The funds will be used for competitive grants to the 44 SBDC offices, and require quarterly reports on results. After receiving no funding from the General Fund from 2004 through 2010, the SBDC program received a one-time $6.0 million in 2011 and then $2.0 million in General Fund in 2014 and 2015 and $1.5 million in 2016. No General Fund was received in 2012 or 2013.

The federal Small Business Administration (SBA) provides up to $13.9 million of federal grant funds to California SBDC network, distributed among six regions, if the state can meet the required one-to-one match. Absent this match, any available funds are reallocated to other states. Of the required match, 50 percent of the match can be in-kind match and the other 50 percent must be in the form of a local cash match. Go-Biz administers the SBDC grant, which is designed to assist in providing some of the local cash match needed by local organizations. Although the SBDC competitive grant does not fulfill the entire cash match requirement, the SBDC activities related to the grant are designed to attract additional cash match to the SBDC network.

Staff Comments: The proposal will help with SBDC funding, but there should be additional efforts to stabilize support for the program, especially given the erratic nature of state support. In addition, the proposal will only allow for a partial draw on available federal funds, unless additional resources can be accessed. Funding of $1.5 million was provided in the current year. The subcommittee may want to determine how successful the program has been in accessing other funds, as well as in-kind contributions, in order to maximize available federal funds.

Staff Recommendation: Approve the May Revision request.

Vote:

0984 CALIFORNIA SECURE CHOICE RETIREMENT SAVINGS INVESTMENT BOARD

Issue 1: California Secure Choice Retirement Savings Program Implementation (BCP, BBL and TBL)

Governor's Proposal. The California Secure Choice Retirement Savings Investment Board requests a General Fund loan of $170 million over four years to provide resources for the board and the California Secure Choice Retire Savings Investment Program (CSCRSP), including: funding for staff; funding for external consultants; funding necessary for operating and overhead costs; and, funding necessary to execute agreements with third party administrators to provide record-keeping, investment management and other necessary services to route, receive and invest contributions from program participants. The proposal includes budget bill language (BBL) that would allow for the transfer of $15 million of the loan to the board in the budget year, with additional loan augmentations not to exceed $35 million upon approval by Department of Finance. In addition, trailer bill language is proposed clarifying the implementation of the program with respect to federal requirements

Background. The California Secure Choice Retirement Savings Investment Board and the CSCRSP were established pursuant to SB 1234 (de León), Chapter 734, Statutes of 2012, for the purpose of creating a statewide savings plan for private-sector workers who lack access to an employer-sponsored retirement savings plan. Program costs and revenue will be determined by the number of employers and employees participating in the program, contributions made by participant, and the investment return on those contributions. The General Fund loan will allow the board to administer the CSCRSP under conservative baseline assumptions relating to participation and contributions during the initial years. This proposal was discussed in Subcommittee No. 4 at its March 2 hearing and held open. The proposed budget bill language states:

> *The Department of Finance may transfer up to $15,000,000 as a loan from the General Fund to support the start-up and administrative costs of the Secure Choice Retirement Savings Program. This loan shall be repaid by June 30, 2023, with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer. Notwithstanding any other provision of law, the Department of Finance may augment the loan, for a total loan amount of ~~$50,000,000,~~ $35,000,000 if it is determined that additional funds are necessary for the start-up and administrative costs of the Secure Choice Retirement Savings Program. The loan shall be repaid by June 30, 2023, with interest calculated at the rate earned by the Pooled Money Investment Account at the time of the transfer.*

Staff Comments. As the CSCRSP begins the process of implementation, the necessity of startup funding to make this possible is apparent. Subsequent to the March 2 hearing, the agency and DOF indicated the acceptability of a General Fund loan for the budget year in the amount of $15 million, with budget bill language that allows this to be supplemented by $35 million upon DOF approval.

Staff Recommendation. Approve limited General Fund loan for the budget year, along with budget bill language and placeholder trailer bill language.

Vote:

7730 FRANCHISE TAX BOARD

Issue 1: Voluntary Personal Income Tax Check-Offs (TBL)

Legislative Proposal. This proposal would reduce to zero for the 2016 taxable year, the minimum contribution requirement for voluntary contribution to funds that appear on the personal income tax return. The minimum contribution requirement is the amount that must be contributed to the fund in order for it to remain on the tax return in the subsequent year.

Background. Tax check-offs are listed on the personal income tax return, and provide an opportunity for tax filers to contribute to various organization when filing their taxes. Some voluntary contribution funds are required to meet a minimum contribution test. If a voluntary contribution fund does not receive the required dollar amount of contributions the fund is repealed and removed from the tax returns the following year. For example, if a fund did not meet the minimum contribution threshold in 2016, the fund would be removed from the 2016 tax return, which is filed in 2017. For the current filing season, FTB has seen a sharp decline in the amounts contributed to the Voluntary Contribution Funds included on this year's income tax return. For the period of January through March 2017, it received a total of $1 million compared to $2.3 million last year, and has determined that the decline is due to a change in the tax preparation experience in Intuit's TurboTax product. FTB has contacted Intuit and they are responsive to making changes to their software for the 2016 return and reevaluate the product for the 2017 return. This issue causes two concerns: 1) the majority of funds will not meet their minimum contributions to remain on the tax return for the 2017 tax year, and 2) Some funds may experience ongoing concerns due to lack of tax return contributions.

Staff Comment. Staff has no concerns with the proposed language.

Staff Recommendation. Adopt proposed trailer bill language.

Vote:

0860 BOARD OF EQUALIZATION

Issue 1: Board Member Budgets (BBL and TBL)

Administration Proposal. The Administration proposes to establish a new item within the Board of Equalization (BOE) line item authority for each of the four board members. This represents the Administration's follow-up to the recent evaluation of the BOE by the Department of Finance, Office State of Audits and Evaluations (OSAE). The proposal includes budget bill language and placeholder trailer bill language that would be consistent with this budgetary reorganization and other BOE-related issues.

Background. The OSAE evaluation found significant lapses in management and operations at the agency, including board member involvement in daily activities, violations of state law regarding the use of resources, and inadequate documentation and data evaluation.

Staff Comment. The proposed split of board member budgets from the BOE's administrative functions and activities should add clarity to the use of resources within the agency.

Staff Recommendation. Adopt budget item for board members, budget bill language and associated placeholder trailer bill language for BOE-related issues.

Vote:

Issue 2: Taxation of Vested Property (TBL)

Legislative Proposal. The proposal would exclude from the sales and use tax the transfer of vested property by a pawnbroker to a person who pledged the property to the pawnbroker as security for a loan, under certain conditions. The transfer is to occur no more than six months after the property is vested with the pawnbroker and the person has proof that sales tax was originally paid on the item.

Background. Under current law, if a customer defaults on a pawnbroker loan, the collateral becomes pawnbroker property. After title has vested with the pawnbroker, the customer no longer has any legal right to the property that would distinguish him or her from any pother customer. Thus when the customer subsequently seeks to purchase the collateral, the transaction counts as a taxable retail sale and the sales and use tax applies.

Staff Recommendation. The subcommittee should consider the proposal described above.

Vote:

8880 DEPARTMENT OF FINANCIAL INFORMATION SYSTEM FOR CALIFORNIA

Issue 1: Support for Equipment Purchases (May Revision)

Governor's Proposal. The Governor has proposed budget bill language that would allow for an increase in Department of Financial Information System for California (FI$Cal) for unanticipated customer service costs and equipment purchases. The augmentation of up to would occur upon approval of the Department of Finance (DOF) and notification of the Joint Legislative Budget Committee.

Legislative Analyst's Office Comments. The Legislative Analyst's Office (LAO) questions the need for broad flexibility in the provisional language. LAO identified several questions for legislative consideration, as noted below:

- What is the concern or issue the Administration is attempting to address through this proposal?
- Should the language be more specific regarding the circumstances of its use?
- What is meant by "unanticipated" costs – relative to what?
- Should a monetary cap be added to the language?
- How should this language interact with Control Section 11.00?
- Should the Legislature have an opportunity to review the request prior to the approval of the augmentation?

Staff Comment. Staff is concerned about the open-ended nature of the language and does not recommend approving as proposed. Staff is working with FI$Cal and the DOF to place additional parameters around the magnitude and purpose of any augmentation.

Staff Recommendation. Hold open.

Vote:

9210 LOCAL GOVERNMENT FINANCING

Issue 1: Community Transitional Housing Program (TBL)

Governor's Proposal. The Governor's proposes to add new trailer bill language to the statutory authority regarding the Community Transitional Housing Program (CTHP) that was adopted last year. The proposed language broadens the ability of cities and counties to use program funds including supporting the provision of services to facility residents, or for any other purposes that the governing board determines will enhance outcomes for facility residents or public safety in and around the facility.

Background. The CTHP was created as part of the 2016 Budget Act, and is funded at $25 million, and is administered by the Department of Finance. The program allows cities and counties to apply for grants of up to $2 million so they may partner with a facility operator to provide transitional housing and educational, behavioral, and rehabilitative services to persons released from incarceration, or to any other persons who may benefit. The city or county must provide a conditional use permit or equivalent entitlement that allows the facility to operate for at least 10 years. The city or county receives 60 percent of the grant funds and the facility operator receives 40 percent. Current law states they may use Program funds for the following purposes.

- Discretionary law enforcement services, including efforts to enhance public safety in the vicinity of the facility for which program funding is provided.

- Community outreach efforts that seek to address the concerns of residents and property owners within the one-quarter mile radius of the facility for which program funding is provided.

- Other community-based activities that the board of supervisors or city council, as applicable, believes will contribute to improved community relations regarding the facility for which program funding is provided.

Staff Comments. The program has received three applications to date and one of the impediments to additional interest appears to be the restricted use of the funds. The proposed language would make fund use more flexible while retaining the intended goals of the program.

Staff Recommendation. Adopt proposed trailer bill language.

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

SUBCOMMITTEE NO. 4 Agenda

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

Thursday, May 18, 2017
9:30 a.m. or Upon adjournment of Session
State Capitol – Rose Ann Vuich Hearing Room (2040)

PART B

OUTCOMES

Consultant: Mark Ibele

ITEMS FOR VOTE-ONLY

All Vote-Only items approve staff recommendation except as noted, 3-0

ITEMS FOR DISCUSSION AND VOTE